# The Wages of Militancy:
# Incomes Policy, Hegemony and the Decline of the British Left

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"There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries".

William Shakespeare, *Julius Caesar*, Act IV Scene 3.

## Introduction

Arguably, the most formidable domestic policy problem facing governments in post-war Europe was how to reconcile full employment with stable prices. Already in the 1940s, radical Keynesians such as Kalecki, Kaldor and Joan Robinson were warning that with prices set as a mark-up over unit costs, the achievement of full employment would founder unless some way were found to restrain the growth of money wages. The option of settling for less than full employment was judged unacceptable. It was impossible to predict the precise level of unemployment at which unfettered wage bargaining would yield an acceptable rate of wage and price inflation, but whatever this level turned out to be, it was certain to be too high. There was, therefore, a need for what in those days was unashamedly called a "wages policy". (The more delicate term "incomes policy" was a later invention).

The alternative to some form of direct wage regulation was to have no rules whatsoever – a free-for-all – forcing or inviting governments to prosecute the war on inflation by other means – a classic deflationary purge, say, or measures to deregulate the labour market. This was the route taken by the Conservatives after 1979. Part of the case for an incomes policy was that, however unpalatable to proponents of free collective bargaining, it was the lesser evil. But from a socialist perspective, an even more compelling argument was that incomes policy offered a way out of the ghetto of economism. For in a context where trade unions were strong, no enduring policy could simply be imposed: governments had to negotiate with employers' and workers' representatives about what the rules should be, how they were to be enforced and what inducements might secure their legitimacy. Of course, tripartite policy bargaining in Britain was far less institutionalised and open than its counterparts elsewhere in Western Europe. Nevertheless, by the mid-twentieth century, what Middlemas (1979) calls the system of "corporate bias" had come to be taken for granted by Britain's rulers as the normal way of doing things.

Most of the British left greeted the prospect of a negotiated incomes policy with ingrained hostility. But a minority of Gramscian Marxists saw it as an opportunity for the labour movement to bid for hegemony by offering to accept voluntary pay restraint in exchange for structural reforms aimed at democratising the economy: within the enterprise and workplace as well as at the macro-social level; in private companies as well as in the public sector; and with respect to major policy issues, not just matters of day-to-management. The question posed by this paper is why this strategy was not adopted in the 1960s and 1970s. Of course, this question is only interesting if one believes: (a) that such a strategy could have been pursued; and (b) that if it had been, things would have turned out better, not only for the left and the unions, but also for society as whole. For reasons of space, I do not provide a separate justification for these two propositions, but grounds for believing them pervade my argument.

In the first section, with the benefit of hindsight, I review the history of British incomes policies from 1940 to 1979. In the second, in the light of comparative experience, I review the related attempts of successive Conservative and Labour governments in the 1960s to reform the institutional framework of economic policy-making and industrial relations in Britain. In the third, I describe the attitudes of the left and the unions to the Social Contract in the 1970s. In the final section, I offer a detailed analysis of the inflationary crisis of 1974-5 and argue that this, not 1978-9, was the moment when the fate of the British labour movement, and with it that of the British left, was decided. The demise of incomes policy in the Winter of Discontent was merely an aftershock from the earlier crisis, just as the suicides of Brutus and Cassius after the battle of Philippi are the final act in a drama whose turning point occurs when Mark Antony incites the Roman mob to hunt down Caesar's assassins.

## 1. The age of incomes policy: 1940-79

Britain's first and, arguably, most successful incomes policy emerged during the Second World War, almost by accident. Anxious to prevent an upsurge in food prices that would almost certainly have provoked a general round of wage increases, in January 1940 the government introduced "temporary" food subsidies. These were subsequently maintained, at ever increasing cost, throughout the war. As a result, the cost of living rose by only 25-30 per cent above its pre-war level and in marked contrast to the First World War, "peace reigned almost unbroken in industry" (Taylor, 1965: 466).

Even though trade union claims for higher money wages were modest and infrequent, manual workers and their families were better off than before the war. Earnings grew faster than wage rates thanks to overtime and piecework, and family incomes grew faster still as unemployment disappeared and large numbers of women previously outside the workforce entered it. Labour shortages and production bottlenecks gave workers the edge in workplace negotiations and while few people were confident that full employment would outlast the war, the popular acclaim that greeted the publication of the Beveridge Report in 1942 was a portent of the future. Further signposts on the road to 1945 were supplied by Labour ministers in the wartime coalition, foremost among them Bevin. As minister responsible for the direction and allocation of labour, the pivot of the war economy, Bevin enjoyed wide discretionary power and he used it with skill and tact to resist demands for wage controls, to extract concessions from employers and to maintain working class morale.

To complete the wartime social compact, Keynes returned to the Treasury and revolutionised public finance. In the budget of April 1941, the Chancellor, Kingsley Wood, set out to close the "inflationary gap" between what government, firms and households were planning to spend and what the economy could produce at full capacity. Half the gap was met by raising income tax to 10 shillings in the pound, squeezing salaries and bringing most industrial workers into the income tax net for the first time. The other half, it was hoped, would be met by voluntary saving. This hope was largely fulfilled, mainly because rationing and general shortages made it difficult for people to spend their money. "Wood's calculations were not watertight and the gap was never fully closed. Still, his finance ensured that queues and wage increases – the two symptoms of inflation – never took on threatening size". (Taylor, *op. cit.*: 511-2).

Clegg (1971: 1) attributes the success of Britain's first incomes policy to "… its guile in disguising itself a no policy at all". But then, as Middlemas (1979) pointed out, one of the peculiarities of the British state was the informal role it played behind the scenes in stabilising and directing industrial politics. Very much the modern Bagehot, Middlemas argued that parliament and party politics formed the ceremonial facade of the British state: the fundamentals of economic and industrial policy were settled through an informal process of tripartite bargaining between government and the leading representatives of the two main power blocs in civil society: big business and the working class. The system of "corporate bias", as he called it, had evolved gradually in the first half of the twentieth century as successive governments, wrestling with the problems thrown up by the development of organised capitalism and the death of laisser-faire, invited the TUC and the peak employers' associations to cross the threshold of the state and share in the task of managing the national economy.

The Second World War was the system's finest hour. It worked less well in peacetime. Without the overriding imperative of national survival to temper sectional demands and foster class collaboration, it was difficult for governments to forge a consensus about the proper role of the state, the objectives of policy and the best means of pursuing them. Moreover, in a less deferential, more democratic age, when central planning had given way to market forces, it was open to doubt whether peak industrial organisations spoke for all their affiliated members, let alone the broader classes of employers and employees they purported to represent. And in a society where conflicts over value and distribution were no longer confined to the division between capital and labour, access to the corridors of power could no longer be legitimately confined to their representatives.

Intimations of what lay in store appeared in 1948 when the Attlee government published a white paper pointing out that unrestrained wage bargaining threatened to sink the pound and undermine exports and arguing that there were no grounds for general increases in pay, though increases might be justified in exceptional circumstances. However, curbing wages in order to stabilise prices was a lot more difficult than controlling prices in order to restrain wages. For two years, employers' associations and trade unions managed to maintain a general pay standstill, but they could not stop earnings drifting upwards in the workplace, disrupting established differentials and relativities in the process, and when the outbreak of the Korean War caused a surge in food and raw materials prices, the policy collapsed.

For most of the 1950s, tensions between full employment, price stability and free collective bargaining remained latent, but they resurfaced in the early 1960s as the Macmillan government struggled to fend off currency crises and sustain British exports in the face of a persistent tendency for the growth of money wages to outstrip the growth of productivity. Between July 1961 and July 1978, there were only three years – 1969, 1970 and 1971 – when British governments were not either planning some new form of incomes policy or trying to make an existing policy work. From December 1969 to June 1970, the norm for wage settlements was officially set at 2½ - 4½ %, but by then the Wilson government had effectively abandoned its statutory incomes policy and a wages explosion was under way. The Heath government which took office in June 1970 attempted to do without a formal pay policy altogether, relying on a combination of fiscal and monetary deflation, a voluntary agreement with the CBI to limit price increases to an annual rate of 5% and informal pressure on pay negotiations in the public sector – the so-called 'N – 1' policy. This phase was brought to an abrupt end in January 1972 by the first full-scale national coalmining strike since 1926. Beset by flying pickets and power cuts, the government declared a state of emergency and imposed a 3-day working week across most of industry. In March, the government bowed to superior force, accepted the recommendation of the Wilberforce Commission that the miners should receive pay increases of around 30% and promptly opened talks with the TUC on a voluntary incomes policy.

The age of incomes policy came to an inglorious end in the winter of 1978-9. In July 1978, under Stage Four of the Social Contract, the Callaghan government announced a pay limit of 5%, retaining powers to invoke sanctions against employers who breached the limit. Almost no one supported this policy. In November, Ford settled a nine-week strike by offering its workers a pay rise of 16.5%. In December, the government's attempt to blacklist the company was defeated in a House of Commons vote and in the months that followed, the policy was blown apart by a series of damaging pay strikes in the public sector.

In a last-ditch attempt to prolong the life of the Social Contract and counter the appeal of the Conservatives' pledge to restore "free collective bargaining", the government and the TUC concluded the "St Valentine's Day Pact", a joint agreement that each year before Easter a "National Economic Assessment" should be held, involving both sides of industry and the government. The signatories insisted that this proposal was not an incomes policy in disguise, but were unable to say how set-piece tripartite talks would help to contain or reduce inflation if they did not culminate in some limits on the outcome of wage bargaining and some means of ensuring that these limits were observed, whatever inducements were offered by way of improvements in the "social wage", cuts in income tax, individual and collective employment rights or participation in enterprise decision-making. "Corporate bias" had been a discreet, informal arrangement; what was being proposed here was either an irrelevant exercise in nostalgia or an attempt to formalise corporate policy bargaining and as Mrs Thatcher prepared to take power, it was far too late for that. Thus, although the idea of a "National Economic Assessment" remained part of Labour's policy repertoire for the next decade, on 14th February 1979 incomes policy became a good idea whose time had gone.

## 2. The British system of industrial relations

Sassoon (1997: 368) notes that incomes policies were more necessary in countries where growth was export-led and private investment was financed out of profits. Under a regime of fixed exchange rates, if money wages rose faster than productivity and the resulting increase in unit costs was passed on in higher prices, exports and import-substitutes became less competitive; alternatively, if higher costs were absorbed, profits were squeezed and less was available for investment. Wage restraint was less important in the US where foreign trade formed a much smaller proportion of GDP than in Europe and the government ran no risk of running out foreign currency reserves. It was also less important in Germany where long-term investment was financed by bank loans so that if profits were squeezed by wage rises, there was more scope for sustaining investment. Britain, however, was dependent on international trade and its banking system did little to finance company investment.

This double vulnerability to wage inflation might have led to radical institutional change, but for the fact that corporate bias had enabled Britain to avoid the calamities of revolution and military defeat that had overtaken her European neighbours between 1914 and 1945. There seemed, therefore, no pressing need to rebuild either the British state or the British system of industrial relations. The post-war settlement that ushered in the reign of Keynesian social democracy involved historic reforms in economic and social policy, but left the country's (unwritten) constitution intact. And just as the UK remained a unitary state with a centralised system of government, so voluntarism and legal abstention remained the hallmarks of British employment relations.

Thus it was that successive Labour and Conservative governments after 1945 persisted in trying to solve the country's economic problems by resorting to incomes policies, despite the fact that Britain lacked the institutional conditions that comparative evidence suggested were necessary if such policies were to succeed. This was not immediately apparent from aggregate international comparisons. Between 1945 and 1979, trade union membership in Britain rose from just under 40 to just over 55 per cent of the labour force and, in the latter year, roughly 80 per cent of workers had their wages determined by collective bargaining. These percentages were below the corresponding Scandinavian figures, but above those in Germany and far surpassed the levels achieved by trade unions in France, Italy and the US. Furthermore, British trade unions formed a unitary movement, umbilically tied to the Labour Party and untroubled by the confessional divisions that afflicted some of their European counterparts. Yet the chaotic pattern of trade union organisation in Britain defied any principle of rationality – something that successive amalgamations did little to change – and the movement remained highly decentralised, unlike its counterparts in Sweden, Norway, Austria, and – to a lesser extent

– Germany where social partnership, if not a formal incomes policy, became a permanent feature of the political landscape during the post-war period.

British employers' associations, for their part, were even less encompassing in the coverage and even more fragmented in their structure. They had generally developed in response to the challenge posed by trade unions and were usually separate from trade associations, which dealt with product market issues. They were thus less important to individual firms than unions were to their members and most large and medium-sized employers engaged in company or workplace bargaining, in addition to or quite separately from the corresponding industry-wide procedures. Nor did big firms need to be collectively organised to influence the state: they were perfectly capable of doing this for themselves. Indeed, it fell to the state to bring about the formation of the CBI as the first national employers' organisation that could plausibly claim to speak as "the voice of industry" and this only in 1965 as part of a bipartisan drive to overhaul Britain's governing institutions and revamp its economic performance.

In 1962, the Conservatives established the NEDC as a tripartite economic forum which, it was hoped, would tackle the now familiar list of obstacles to faster economic growth – low productivity, lack of investment, poor education and skills, and a hands-off tradition of economic management. Parallel efforts were made to develop a negotiated pay policy. In 1965 Labour went further, launching the National Plan under the auspices of the newly created Department of Economic Affairs, which was to work *in tandem* with the newly created Prices and Incomes Board in a bid to speed up economic growth and close the gap between the growth of earnings and the growth of productivity. This latter task was to be approached from both sides, for the Board's job was not simply to ensure that wage and price decisions conformed to productivity-based guidelines, but to promote changes in working practices and bargaining procedures so as to raise productivity. At the same time, it was envisaged that, after due deliberation, the Royal Commission on Trade Unions and Employers' Associations (the Donovan Commission) would produce a blueprint for reforming Britain's dysfunctional system of industrial relations.

In the event, these ambitious plans were derailed by the very interaction between wage inflation and competitive weakness that had prompted the government to pursue them in the first place. In part, the government itself was to blame. One mistake, later acknowledged by Labour ministers when they looked back on this period, was the decision to rule out devaluation, either when the government took office in October 1964 or in July 1966 when it might have helped to legitimise the emergency deflationary package and associated pay freeze that were then introduced. As it was, these measures not only destroyed any prospect for the "planned growth of incomes", but gave incomes policy a repressive image that it never subsequently lost.

The government was also remiss in failing to co-ordinate the work of the Donovan Commission with the development of economic policy. The Commission was effectively hijacked by Hugh Clegg, Alan Flanders and Otto Kahn-Freund, luminaries of the Oxford school of industrial relations, who directed its research and dominated its findings. This, as Jenkins (1970) points out, had several unfortunate consequences. When it was appointed in April 1965, the Commission had been expected to complete its work in 18-24 months. In the event, it took three years and by the time it produced its report, incomes policy had already gone through several stages. Under the tutelage of the Oxford school, the Commission concentrated on the conflict between the formal and informal systems of industrial relations, though curiously its account of informality was confined to workplace relations between management and shop stewards: it failed to mention the system of "corporate bias". It also said very little about the connections between industrial relations and the control of inflation and nothing at all about the relationship between collective bargaining and industrial democracy. There was a related problem of tempo and responsibility: the Oxford school favoured evolutionary change, implicitly assuming that there was plenty of time and that company management would be the agent of change, with government playing a supportive role as broker of agreements and disseminator of good practice. But by 1968, the problem of reconciling full employment, low inflation and collective bargaining had become acute. Hence, stung by opposition taunts that the Donovan report was a "blueprint for inaction", the government felt impelled to do more than the Commission had proposed and to do it quickly.

The stage was thus set for Barbara Castle's ill-fated White Paper, *In Place of Strife*, which brought the government into open confrontation with the TUC, split the Parliamentary Labour Party and ultimately divided the Cabinet itself. Ironically, the proposals set out in the White Paper were designed as a balanced package, comprising four elements: support for the reform of collective bargaining, as recommended by Donovan, together with experiments in worker representation on company boards, which went beyond Donovan; measures to assist and strengthen trade unions, including a procedure for dealing with disputes over recognition or the failure of employers to engage in genuine negotiations; safeguards for individual employees against unfair dismissal; and discretionary reserve powers for the government to impose a "conciliation pause" in unofficial strikes where the effects were likely to be serious and where normal methods of conciliation had failed, together with similar power to order strike ballots before major official strikes.

However, implementing this package was going to require major legislation at a time when the government "no longer had the strength or authority for bold experiments and was too far gone in its troublesome term of office to embark on long-range institutional reforms of a controversial nature." (Jenkins, *op. cit.*: 50). Hence, in a bid to restore its rapidly fading political authority, the government decided to go for a short bill in which the balance of the original White Paper was lost and public attention came to focus exclusively on the proposals for "penal" powers to regulate strikes. The cabal of ministers which took charge of the bill also failed to perceive its symbolic importance for the unions, which were prepared to stomach temporary restrictions on the *proceeds* of collective bargaining, but were dismayed at the prospect of permanent restrictions on the *process* of bargaining, for this clearly necessitated a fundamental reappraisal of the historic division between the "political" and "economic" wings of the labour movement. The subsequent debacle ensured that the task of reforming the unions and the legal framework of industrial relations passed to the Conservatives, who lost the opening battles of the ensuing war, but went on to win the war itself, emasculating trade unionism as a political force and ending its status as an "estate of the realm".

## 3. Incomes policy and the British left in the 1970s

The turbulent period from 1969 to 1975 when inflation accelerated into a dangerous zone well above the low, predictable, safe and, in some respects, invigorating range to which Britain had become accustomed from 1945 to 1965, might not have mattered as much it did if the British left and trade union movement had shared the view of the Swedish social democrats that "inflation is a deadly threat to socialism" (Meidner, 1993: 214) and had been ready to meet this threat with all their force and all their intelligence. Tragically, many people on the British left failed to appreciate the dangers posed by rampant inflation and of those who were alert to the dangers, only a few perceived the correlative opportunities. This latter group included a handful of politically marginal intellectuals – "unarmed prophets" – most of them members or ex-members of the CPGB.[1]

Revisionist social democrats who broadly shared the theoretical outlook and political positions formulated by Crosland in the 1950s and who occupied key posts in the Wilson and Callaghan governments were out of sympathy with the wave of working class militancy that swept across Europe in these years and found it hard to understand what was happening. As Wickham-Jones (1996: 115) observes, some of them accepted that Keynesian social democracy faced deep problems, but this did not lead them to endorse the Alternative Economic Strategy (AES) advocated by the Labour left. On the contrary, throughout the entire period from 1973 to 1983, the revisionists were locked in mortal combat with the left and, in government, sought to ride out the storm by adopting short-term pragmatic expedients. Dennis Healey, Labour's Chancellor from 1974 to 1979, was the arch-exponent of this approach. Of course, as Keynes famously warned in the 1930s and as we know from more recent experience of New Labour, "practical men" who consider themselves quite exempt from any intellectual influence and claim to be interested only in "what works" are usually the slaves of some economic or political theorist, living or dead.

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[1] The debate within the CPGB was initially confined to the party's Economic Committee, an advisory body chaired throughout the 1970s by Bert Ramelson, the party's National Industrial Organiser. From 1972 onwards, amidst mounting acrimony, the controversy spilled over into the party press. The editors of *Marxism Today*, the party's monthly theoretical journal, and of *Comment*, its fortnightly internal bulletin, colluded with critics of the official party line; the *Morning Star*, its daily newspaper, was a cheerleader for militant economism. Prior and Purdy (1979) provide the key text setting out the views of the party's Gramscian wing. This short book deals with questions of Marxist theory and political strategy as well as the policy issues raised in the debate about wages and inflation. Ironically, the editors of the publishing house that eventually produced it had Trotskyist leanings and regarded the Communist Party with deep suspicion, but shared the authors' enthusiasm for workers' control. 500 copies of an earlier *samizdat* version had been circulated informally in the summer of 1977, chiefly at the *Communist University of London*. Technically, this action was in breach of party rules stipulating that pre-Congress debate should be confined to the party press, but the two authors were merely reprimanded by their respective District Secretaries and told not to repeat the offence. The main business of the Congress in question, held in November 1977, was the revision of the party's programme, *The British Road to Socialism*.

The Labour left, which in the early 1970s gained control over the NEC, the party conference and party policy-making, never understood the causes and significance of recurrent inflation. Many on the left shared the eclectic "common-sense" view that inflation resulted from various contingent events that, somehow, just kept on happening. A more systematic, though no less erroneous idea was that inflation reflected the exercise of monopoly power and would be checked once a Labour government brought big business under control by extending public ownership and instituting planning agreements. But whatever its preferred explanation, the left was adamant that workers and trade unions played no part in generating or sustaining inflation and were not obliged to take any responsibility for controlling it. This disclaimer was repeated at every opportunity, both by intellectuals such as Stuart Holland and the members of the Cambridge Economic Policy Group, and by Tony Benn, the principal parliamentary leader of the left and a Cabinet Minister from 1974 to 1979, initially at Department of Industry, a key position for supporters of the AES.[2]

The CPGB, whose industrial department was at the forefront of campaigns to defeat anti-trade union laws and destroy the Social Contract, insisted that incomes policy was an attempt to force the working class to pay for the "capitalist crisis". In part, this militant rhetoric was intended for internal consumption: the party leadership was seeking to bolster its increasingly fragile hold over two distinct, though overlapping groups: its dwindling band of trade union activists and officials – the "industrial comrades", as they were sometimes known – who were pretty much a law unto themselves; and the party's vociferous pro-Soviet minority who demanded a return to "class politics" and harboured deep suspicions of the party's incipient "reformism".[3] But opposition to incomes policy was also intended to stiffen the backbone of the Labour left and discourage it from compromising with the right.

The official party line was condemned as intellectually bankrupt and politically irresponsible by a small group of economists on the party's economic advisory committee who advocated a "socialist" social contract in which pay restraint would be traded off against structural reforms aimed at democratising economic decision-making, in private firms as well as in the public sector. These views provoked widespread and often

[2] After the condign defeat of the left in the EEC referendum of May 1975, Benn was transferred to the Department of Energy in a ministerial reshuffle. This move was widely regarded as marking the end of any serious prospect for a radical industrial strategy, though in truth Benn was isolated within the government and his announced intention to introduce 100 planning agreements under the auspices of the National Enterprise Board was effectively blocked in August 1974 when the government published its White Paper, *The Regeneration of British Industry*.

[3] This was the significance of what, to outsiders, must have seemed an arcane dispute over the precise formulation of the party's strategy in *The British Road to Socialism*. At the 1977 Congress, the pro-Soviet faction fought hard to retain the phrase "anti-monopoly alliance" in opposition to the concept of the "broad democratic alliance" favoured by the leadership which, on this issue, was broadly supported by the dissidents. Even in the latter formulation, however, the precise relationship between class and other dimensions of social division remained unclear. For example, was class struggle – over wages or anything else – in some sense more important than, say, conflict rooted in the sexual division of labour or divergent views about humanity's relationship with nature?

rancorous debate within the party. Students, feminists and other dissidents welcomed them as a creative example of how to conduct the war of position, which should be emulated in other areas of the party's work. The leadership and its allies had no time for Gramsci and, conveniently forgetting their Lenin, contended that trade union struggle was the royal road to the awakening of socialist consciousness, the election of a "left government" and the capture of state power. Meanwhile, the CP's enemies on the far left, who denounced the delusions of parliamentary socialism and were bitterly opposed to the party's efforts to contest union elections under the banner of the "broad left", nevertheless shared its enthusiasm for the old syndicalist idea that, sooner or later, if only the workers remained united, refused to be co-opted by the state and screwed up the tension to breaking point, the capitalist system would be brought down and a new age would dawn.

With certain exceptions, trade union leaders themselves were suspicious of the left and sympathetic to the Labour leadership, but they were cautious and conservative in their approach to policy and politics. They might respond to calls for voluntary wage restraint as an emergency measure, but were unlikely to support permanent participation in a social contract, socialist or otherwise, let alone follow the pioneering example of the Swedish LO which, having experienced an upsurge of inflation and a government-imposed wage freeze in the late 1940s, devised and campaigned for its own "solidaristic" (originally "socialist") wages policy. Though it took several years for this policy to gain acceptance, by the early 1960s it had become an integral part of the Swedish model. No comparable initiatives were ever undertaken by the TUC. Even its most free-thinking General Secretary, George Woodcock – in his own words "an incomes policy man since 1939" (Taylor, 2000: 159) and a firm advocate of "industrial unionism" – believed that British trade unions would never move on pay, or anything else, unless subjected to external pressure. Indeed, it seems to have been this conviction that led this normally morose and taciturn leader, when shown an early draft of the White Paper, *In Place of Strife*, to welcome it as a way of galvanising reforms in trade union structure after his own efforts in this direction had failed. His successor, Vic Feather, who led the TUC campaign against the proposed "penal" legislation and played a key role in getting the government off the hook, was more genial, but less thoughtful and like many leaders facing potential schism, concentrated on holding the labour movement together rather than trying to resolve its underlying problems and charting a new course.

The only trade union leader who came anywhere near to measuring up to the needs of the hour was Jack Jones, General Secretary of the TGWU from 1969 to 1977. A tough, but idealistic Liverpudlian, Jones was a veteran of the International Brigade who, from 1939 to 1945, had served as TGWU district secretary in Coventry, a city at the heart of the British car and engineering industries, then producing munitions. In the 1950s and 1960s, he had gained a reputation as an apostle of shop-floor power and by the late 1960s had begun to advocate industrial democracy, which he envisaged in organic, bottom-up terms, starting with joint control between management and shop stewards over workplace issues such as effort standards, overtime working, hiring and firing and health and safety – a form of workers' participation that already existed in many firms – and gradually building up to the representation of workers on company boards responsible for strategic issues such as product development, investment plans and the design of the labour process, (Taylor, 2000: 203-8).

In the public mind, Jones was usually twinned with Hugh Scanlon, a former Communist shop steward at Metro-Vickers (later AEI) in Manchester, who in 1968 was elected President of the AEU (later AUEW) on a “broad left” platform. But though both men had much in common, Jones was the more flexible and charismatic leader. If anyone could weld Britain’s spirited, but unruly shop stewards movement into a disciplined force with a high moral purpose – the industrial equivalent of Cromwell’s new model army – it was he. Sharing the general dismay of the left at the failures of the 1964-70 Labour government, but seeking to repair the rift between party and unions rather than supporting the efforts of the left to change the party’s policy, Jones was instrumental in creating the Labour Party-TUC Liaison Committee, which met for the first time in January 1972. The Committee rapidly became an important policy-making forum and an effective counterweight to the NEC. (Taylor, *op. cit.*: 209). It had eighteen members – six each from the Shadow Cabinet, the NEC and the TUC General Council – and its prime concern was not just how to avoid a repetition of the breakdown over *In Place of Strife*, but how the next Labour government was going to tackle Britain’s burgeoning crisis. What, in particular, was it going to do about the three interconnected problems that had resisted every attempted cure since 1962: the control of inflation, the regeneration of industry and the reform of industrial relations? If there was any hope of developing a democratic programme capable of winning popular support and resolving the crisis, this was where it was likely to originate.

**4. The crisis of 1974-5**

The elements of such a programme lay ready to hand, but lacked any effective political voice and agency. Why was this? Undoubtedly, a large part of the explanation lies in the various factors that have already been discussed: the legacy of Britain’s history, the character of its institutions and the ideas of the various political actors in the drama that unfolded during the crucial period of eighteen months or so, from the winter of 1973-4 to the summer of 1975, when the crisis came to a head. Nevertheless, it is not sufficient to leave matters there, for historical, institutional and cultural forces are always at work in shaping events and while they may leave more or less room for actors to make choices and decisions, it is mistaken in principle to suppose that what actually happened could not have turned out differently. What needs to be considered is the way in which the crisis was handled by the principal protagonists: the Labour government; the left, both inside and outside the Labour Party; and the trade union movement.[4]

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[4] In a more extended treatment than space permits here, greater attention would need to be paid to other key players, including – notably – the opposition parties and the CBI, who make only a fleeting appearance in my account. It is, however, worth noting that for most of these critical months the Conservative Party was preoccupied with the aftermath of its narrow and unexpected electoral defeat in February 1974 and the protracted leadership struggle that then ensued. Ultimately, of course, the emergence of Mrs Thatcher as leader in February 1975 and the new course on which the party then embarked were of decisive significance, but these developments played only a minor part in shaping the course of events down to the summer of 1975.

The situation in which Labour took office in March 1974 was dire. UK inflation had risen from an annual rate of between 6 and 7 per cent in mid-1972 to over 10 per cent by late 1973, and the fourfold rise in oil prices decreed by OPEC in October 1973, compounded by the steady depreciation of sterling – which had been floating, or rather sinking, since June 1972 – meant that substantial further price increases were already in the pipeline. To make matters worse, the profits of non-oil corporations, net of stock appreciation, fell from 13.5 per cent of GDP in 1973 to 10.5 per cent in 1974 and 9.1 per cent in 1975. Such a sharp fall to such a low level was unprecedented. From 1950 to 1973, the share of profits ranged between 12 and 16 per cent, but was mainly above 13. Thus, the danger of social mayhem was joined by fear of business collapse. To avert this double disaster, the government needed to bring inflation under control, halt the slide in profits and shore up business confidence. The implication was that workers, on average, would have to accept a temporary fall in real wages: that is, agree to let prices rise by more than money wages, at least for one year, perhaps followed by a real wage standstill in the next year and the resumption of "normal" real wage growth in the year after that.

This would have been an unpalatable option at the best of times. In the circumstances of early 1974, it seemed unthinkable. The country had been deeply divided by the second confrontation over pay between the Heath government and the NUM and although Heath had lost his gamble in calling a snap election on the question, "Who governs Britain?", he had lost by the narrowest of margins. The Conservatives polled 300,000 more votes than Labour (1 per cent of the total), but Labour was the largest party with 301 seats – 5 more than the Conservatives, but still 17 short of an overall majority. The Liberals won 6 million votes (20 per cent of the total), but only 14 seats (2 per cent of the total). This was barely enough to sustain a coalition government, though if Labour had been less hostile to the SNP and Plaid Cymru, which between them had 9 seats, a small, but viable parliamentary majority could have been mustered. However, Labour's leaders never seriously contemplated a coalition or even a pact with the minor parties that might have sustained them through a full parliamentary term or at least for a couple of years, for they were not prepared to pay the requisite price: a commitment to electoral reform. Instead, they chose to form a minority government and take their chances in a second, "winner-takes-all" election. Once this decision was taken, ministers were bound to frame their policy in the knowledge that they would soon be fighting another election. Their time-horizons, therefore, were more than usually short and their mindset more than usually partisan, a disposition that is hardly conducive to responsible policy-making. In the event, in October 1974, Labour won an overall majority of 3, which was soon lost in by-elections, forcing the government to reach an accommodation with the Liberals, after all.

Clearly, in order to secure re-election, Labour's leaders needed to find some way of rewarding and motivating their core supporters without antagonising the business class. The second part of this balancing act was easier than the first. In 1973 the Labour left had managed to swing the NEC and party conference behind a radical programme of industrial intervention. However, for the sake of presenting a united front to the electorate, this had been watered down. The commitment to nationalise 25 leading companies was dropped from the February election manifesto and although the proposal to establish a National Enterprise Board was retained, the details of planning agreements were left vague. Thus, the government merely needed to keep signaling to the CBI that its intentions were benign and its policy malleable. This was accomplished by the White Paper, *The Regeneration of British Industry*, published in August 1974, which was modest in ambition and conciliatory in tone, in marked contrast to the aggressive anti-capitalist speeches of Tony Benn. The *Industry Bill*, published in January 1975 was even more reassuring to business.

Wilson found it comparatively easy to outmanoeuvre Benn on industrial policy. Benn was isolated within the Cabinet and the left's control over party policy counted for less than it used to, since the party's membership and votes were declining.[5] As Wickham-Jones (*op. cit.*: 155) points out, its programme received little support from either union leaders or rank and file activists to counter the hostility it aroused in the CBI and among government ministers. Wages policy, by contrast, was a nightmare, for despite the alarming prospects for prices and profits, on this front ministers were doubly constrained: by the undertakings they had given to the Liaison Committee under the terms of the social contract; and by their inheritance from the outgoing Heath government.

From the outset, incomes policy was a taboo topic in the Liaison Committee. For six months, from March to October 1972, Heath made extravagant concessions to the TUC in an attempt to get them to agree to a voluntary policy, but the TUC held out for total repeal of the Industrial Relations Act and this Heath could not concede without being totally humiliated. Accordingly, in November the government announced a statutory incomes policy, starting with a 90-day wage freeze. The TUC responded by refusing to nominate members to the two agencies that were established to administer the policy – the Pay Board and the Price Commission[6] – and the wider labour movement went on the warpath. In March, the Labour Party divided the House of Commons on a motion stating that "the problems of inflation now require the adoption of socialist policies democratically controlled by Parliament". On May Day 1973, the TUC organised a one-day stoppage against statutory wage controls while food prices continued to rise. The Liaison Committee issued a document insisting that that rising wages had little to do with inflation and demanding controls over rents, fares and food prices, a fairer tax system, the phasing out of charges for social services, higher pensions, industrial democracy, new investment by public enterprise and cuts in defence spending. Even as late as January 1974, the most the TUC was prepared to concede was that if a Labour government introduced strict price controls, food and rent subsidies together with measures to redistribute income and wealth, it would urge affiliated unions to "take this into account" in their wage bargaining strategies. This remained the position right up to the February election.

[5] Between 1964 and 1974, Labour Party membership fell from 830,000 to 692,000. In the three general elections held between 1964 and 1970, Labour's average share of the vote was 45.1 per cent. In February and October 1974, it received 37.2 and 39.2 per cent, respectively. By contrast, the membership of UK trade unions rose from 10.2 million in 1964 to 11.7 million in 1974, or from 44.1 to 50.4 per cent of its potential.

[6] The old Prices and Incomes Board, a unitary body, had been wound up in March 1971.

After the election, the Liaison Committee became a forum for regular negotiation between Labour ministers and the TUC over the terms of the social contract. At the time, this arrangement occasioned much excited comment in the weeklies about corporatism – a mode of governance that was almost unheard of in Britain and which people vaguely associated with Mussolini – but it was, in truth, a bastard form of policy dialogue since the employers were not directly involved. Rather, the government conducted separate, parallel talks with the leaders of the big battalions. (Significantly, the European term "social partnership" never caught on). As a result, each party's commitments to the others remained uncertain and public confidence in the process remained fragile.

A critical case in point concerned the guidance issued by the TUC on pay claims and settlements over the twelve months beginning in July 1974. Negotiators were enjoined to limit increases in money wages to what was required to compensate for changes in the cost of living. But what changes were meant: those that had occurred since the last settlement, those that were expected to occur before the next settlement or some combination of the two? No one was sure, but in a situation where the rate of inflation was accelerating, any union which set its wage target by reference to the past rather than the future was liable to lose out. Moreover, given that there was great uncertainty about the future, no one held single-valued expectations and everyone hastened to insure against the worst-case outcome, especially once they started to suspect that a tougher pay policy was in the offing. In the circumstances, therefore, the TUC was effectively saying: "Everyone for himself". It is hard to imagine a clearer example of individual rationality leading to social pathology. A parallel co-ordination failure nullified the TUC's promise, endorsed by all affiliated unions, to treat the miners' pay claim as a "special case".

The government, by contrast, felt bound to honour its predecessor's pledge to operate a form of wage indexation over the twelve months starting in November 1973. Under so-called "threshold payments", all workers were entitled to receive automatic pay increases amounting to 1 per cent of the average wage (40 pence a week) if the Retail Price Index rose by more than 7 per cent above its November 1973 level. At the time it was given, this guarantee was seen as a way of forestalling overkill in pay bargaining. In effect, the government was saying that it expected prices to rise by only 7 per cent over the year to November 1974, but if this expectation turned out to be an underestimate, average real wages before tax would be protected against erosion. In the event, eleven threshold payments were triggered before the guarantee expired. This made a bad situation worse, for automatic threshold payments calculated at monthly intervals eliminated the normal one-year lag between price increases and wage increases and, since real wages were more or less protected against erosion for the time being, they may well have served to stimulate efforts to anticipate future inflation. As a result, the annual rate of increase in average earnings accelerated from 12.5 per cent in the fourth quarter of 1973 to 25.5 per cent in the fourth quarter of 1974.

Ormerod (1991) suggests that the decision to continue the system of threshold payments was the key decision of the 1974-79 Labour government. In the short term, it prevented the fall in real wages warranted by the oil price shock, even on a temporary basis. "If the normal practice of annual wage settlements had obtained instead of immediate indexation under the thresholds, some temporary erosion of real wages could have taken place as increased raw material costs were passed on in higher prices" (Ormerod, *op. cit.* 58). The wages explosion of 1974-5 also intensified the profits squeeze and this almost certainly affected firms' investment production and decisions, causing unemployment to rise from 650,000 in the final quarter of 1974 to 1,125,000 one year later. In the private sector, the rapid rise in unemployment served to check the growth of earnings. A similar short, sharp shock was administered a few years later during the government-induced recession of 1980-1. The only difference was that by then the Conservatives, having repudiated incomes policies, were engaged in the economic equivalent of carpet-bombing.

The political consequences of the wages explosion took longer to materialise, but were no less damaging. Britain was spared a violent counter-revolution, but the great inflation of 1974-5 undoubtedly prepared the ground for the Conservatives' election victory in 1979 and the bloodless civil war that followed. To be sure, the rate of inflation peaked at an annual rate of 26 per cent in the summer of 1975 and thereafter declined to 8 per cent by the winter of 1978-9. But the earlier experience was a prime cause of the decline in Labour's electoral fortunes from 1975 onwards. And as Ormerod (*op. cit*.) notes, sustained unpopularity erodes the confidence of politicians, impairs their judgment and saps their will to carry on. By the winter of 1978-9, the government was clearly exhausted. Hard pounding, from truculent workers as well as currency speculators, took its toll on the government's supporters too. In the summer of 1975, Jack Jones briefly became a national hero when he persuaded the TUC to call a halt to the wages free-for-all by agreeing to a flat-rate pay limit of £6 a week for everyone earning less than £8,500 a year, with zero for everyone earning more. Two years later, as he fought to persuade his own union to support Stage Three of the Social Contact at the TGWU's biennial conference, Jones was rejected and reviled by the very "shop steward delegates whose freedoms he had championed all his trade union life. Afterwards, [he] confessed that his heroic task had been impossible, 'like trying to make a river flow uphill'", (Taylor, *op. cit.*: 228-9).

For 1977, this judgment is surely correct. But what if the Liaison Committee had pressed for a radical social contract back in the winter of 1973-4, before inflation was allowed to get out of hand? By definition, any answer to this question is an exercise in counter-factual history in which everything depends on assumptions about other factors and forces that determined the actual course of events. Suppose, for example, that instead of spending all their time on inner party struggle, the Labour left had joined Jack Jones and other in building the movement for workers' control. And suppose that instead of trying to smash the Social Contract, the CPGB had set out to emulate one of the more creditable episodes in its own history when, following the Nazi invasion of the USSR, it swung behind Britain's wartime coalition government and lent its industrial muscle to the drive to maximise industrial production. The comparable response to the crisis of 1974-5 would have been a campaign for a social contract comprising two main components: an agreement by the unions to accept a temporary cut in real wages for all workers earning more than some specified threshold, with measures to protect the real incomes of everyone below the threshold, including recipients of social security benefits; and an agreement by employers to accept an extension of workers' participation in enterprise decision-making from the shop floor to the company board-room, via a system of elected worker directors, along the lines that were later recommended in the Bullock Report. One might envisage the terms of the contract being negotiated within a formal, multilateral forum, with representation extended to other social interests besides employers and employees. It would also be essential for agreed rules to be applied and monitored by a unitary Pay and Prices Board run jointly by representatives of the social partners and government appointees.

In the mid-1970s, an inspiring, yet practical programme of this sort would have appealed to a wide cross section of British society, including – notably – revisionist social democrats and collectivist liberals, for it held out the prospect of controlling inflation and reducing inequality without threatening to destroy the capitalist system. It would also have opened up real opportunities for driving democracy into the heartlands of industry. Naturally, this would have generated new conflicts as business corporations sought to defend managerial prerogatives and resist changes in the hierarchy of control. But such is the nature of positional warfare in which victory is never "final" and nothing is guaranteed.

None of this could have happened unless the ground had been prepared beforehand. The CP would have had to pursue a completely different industrial strategy for the previous twenty years. Likewise, the shop stewards' movement would have had to acquire the outlook and expertise required to make the most of advances in industrial democracy. The fact that these preconditions were not met goes a long way towards explaining why the British left is now an endangered political species and why people like me are reduced to thinking about what might have been. Nevertheless, I suggest, reasoned speculation about the possible "past" is a valid tool of social inquiry, every bit as valuable as the kind of thought-experiment about possible "futures" that has always been part of the socialist tradition. As someone said, those who do not learn from history are doomed to repeat it.

7th July 2006

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