a positive incomes policy
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The British attitude to incomes policies is appallingly negative. They are seen as regrettable necessities, as distasteful final resorts with which to placate foreign creditors and stifle inflationary crises. Little wonder that our governments adopt them reluctantly and drop them with haste; little wonder that any successes are brief. But, with a decade of such efforts behind us, all the signs are that we shall have to live with incomes policies for many years to come. The Social Contract gives us a chance to do so in a more positive way. Incomes policy should be grasped as an opportunity for social reform.

The prospects for such reform have never been so favourable as in 1976. Instead of a policy concerned merely to restrain the growth of money incomes, we have the chance of initiating one which will give a more egalitarian distribution of incomes. By seizing the chance to use the policy as a positive instrument for reform we could begin to establish a machinery of collective bargaining whereby the planning of incomes becomes a habit rather than an aberration.

The distribution of pay in Britain has recently become less unequal than ever before. This has been the result of a combination of circumstances, and it is far from having been planned. But, for those people who would wish to see a more equal society, it is an achievement to be built upon rather than abandoned. In particular, it is an achievement upon which could be built a long term incomes policy committed to the objective of greater equality. Unless the positive advantages of a long term policy are generally appreciated we shall, in the near future, lurch back into a situation of increased inequality and of emergency policies whose apologetic temporisings fail even in their principal objective of suppressing inflation.

The following pages set out the evidence upon which this optimistic view is based. In the first place, public attitudes have become increasingly favourable to the idea of incomes policy. They also appear to favour a move towards greater equality.

Backing up this development is an enduring change in the way in which pay is bargained over in Britain. The key figures in the complex pattern of bargaining are now far more able to take an effective part in the incomes policy debate and to stick by any agreements they reach. The third important area of change is the national pay structure. We analyse the recent compression of pay differentials to see what are the dangers of a backlash. Next we discuss how the tangled problems of "fair" pay comparisons should be accommodated into a long term policy. Finally, a practical programme for a positive incomes policy is proposed: a programme which builds upon the achievements of the Social Contract and maintains a degree of collective bargaining within the framework of an agreed national pay policy.

There is little point in making our society more equal if we all become poorer in the process. The principal reason for an incomes policy will probably always be that it provides a means of restraining inflation in order to reduce unemployment and bring about faster economic growth. The central argument of this study is that, in addition, our incomes policy can be made a potent instrument for social reform.
2. the changing background

Incomes policies may terrify politicians, but they appear to be popular with their electorates. Four people in five felt that the government should take action to restrain the rate of pay increases according to a survey of 1975, and three in five felt this strongly (Daniel, PEP, 1975).

changing public attitudes

Support for the idea of an incomes policy seems to have been growing. Asked whether they thought that an incomes policy was likely to make Britain a fairer and better place to live in, 44 per cent of people surveyed agreed in 1967, while by early 1974 the proportion had risen to 60 per cent. Over the same period it was found that there had been a substantial switch-around in attitudes, with the number of people thinking that an incomes policy would make them better off in 1974 easily outnumbering those that thought it would make them worse off—a complete reversal of the 1967 position.

In analysing this particular study, Fosh and Jackson (New Society, 1974) concluded that we tend to support the policies of our preferred political parties and to become disenchanted with the policies less readily than they do. Thus, now that all major parties have in turn adopted (however reluctantly) compulsory incomes policies, the bulk of the population has come to accept the idea.

While most people are apparently in favour of the idea of an incomes policy at all levels of society, Daniel found that in his 1975 survey this feeling was stronger among manual workers than among the higher paid. Paradoxically, both his own survey and another conducted in Scotland in the same year (by Glendon, Tweedie and Behrend, 1975) found that managers were more committed to incomes policy than trade union negotiators. Despite this, with a remarkable degree of agreement between the two surveys, both found that around eight in ten managers and over six in ten union negotiators were in favour of some such policy. The principal difference between the two groups was that, while half the managers were for a permanent policy, only a fifth of the union negotiators were willing to commit themselves beyond the short term.

The comparison of the New Society surveys of 1967 and 1974 shows that popular attitudes have shifted in favour of incomes policies in many different ways. People have come to see them more as being helpful to the economy and less as an unwarranted government interference with everyday life. Indeed, there is now a much stronger feeling that the government should run the policy rather than anyone else. There is less indication in 1975 than in 1967 that employees wish to breach the pay limits of a policy and a stronger feeling that an incomes policy is likely to help a hard working person to get on.

Of course attitudes are free, and they may change rapidly when an individual finds himself facing a crisis. But the fact that they do appear to have shifted substantially in recent years should be taken seriously. Incomes policies appear to have become much more popular.

equity considerations

Although deserving cautious interpretation, opinion surveys also suggest a fairly widespread willingness of people to make concessions in favour of the less well off. Half of the New Society survey respondents of 1974 agreed that everybody's pay should be held down in order to give the very low paid a reasonable wage. Two thirds of them felt that there was too great a difference between the pay of people in top and bottom jobs. A different survey of early 1973 found that just under half of the employees in the survey expressed a willingness to hold back on their own pay increases in favour of low income earners (Behrend, NEDO, 1974). The force of this finding is greater when it is taken into account that the willingness was considerably greater among the higher paid respondents and that, furthermore, these people did not fully realise just how low paid the low income groups actually were. Even if these altruistic opinions seem too
good to be true, there are other findings
by social psychologists which suggest that
people are willing to act by them, espe-
ially in a time of rapid inflation.

There is a general feeling that inflation
hits the lower paid hardest. This pre-
sumably arises from the fact that a higher
proportion of their budget goes on what
are widely seen to be the necessities of
life. The higher paid have more flexibility
with which to adapt to declining real in-
come. Perhaps more important is the
finding that people think about their pay
increases in money terms rather than per-
centages. This also applies to the differen-
tials which are seen as fair between the
pay increases going to different levels of
skill. One result is that a differential be-
tween the pay increase for two different
jobs of, say £1, may continue to seem
fair to those concerned even when their
general levels of pay have increased with
a consequent narrowing of percentage
differentials. In this way, during inflation
a narrowing of differentials may be ac-
cepted with equanimity.

It will be shown later how the recent in-
flation has seen an unprecedented com-
pression of pay differentials. This is most
likely a reflection of the attitudes out-
lined here. It will be argued that they are
not merely transitory but could form a
valuable scaffolding for the construc-
tion of a lasting incomes policy.

the changing pattern of
bargaining

During the 1970s there have been two
changes in the conduct of bargaining
which make things simpler for incomes
policy. Firstly, it has become much
easier to influence the pay bargainers.
Secondly, the industries which are now
making the running in the inflationary
process are themselves more accessible to
policy makers than the ones they have
supplanted.

It is useful to look back for a moment to
the state of affairs in the 1960s in order to
appreciate the major change which has
occurred. Ten years ago, when Aubrey
Jones’ Prices and Incomes Board was

starting to analyse inflation, their
diagnosis of the problem so far as pay
was concerned could be summed up in
the single phrase “wage drift in private
industry”.

What this meant was that the leaders in
the race of wage inflation were a com-
paratively small number of workplaces,
notably in the engineering industry, where
the key pay increases emerged quite out-
side the reach of official agreements. The
national agreements were totally unable to
provide the levels of pay which either
employers or workers considered reason-
able, but their existence inhibited both
sides from replacing them or from adding
to them through open and explicit negoti-
ations. Instead pay was padded out by a
myriad of fragmented and furtive bargains
far from the negotiating table. There was a
host of ways in which pay could be jack-
ed up: through dirty money, overtime,
lieu rates and so on, but un-
doubtedly the most important was that of
payment by results. With crude tech-
niques for calculating job prices, this gave
rise to countless anomalies and unfair-
nesses which spurred the men working
with them into ever more vigorous bar-
gaining. Far from orchestrating this in-
cessant haggling, the shop stewards were
able to do little more than ride the whirl-
wind of grievances and strikes. As those
involved so often said, wages grew “like
Topsy”, beyond the control of any agree-
ment, person or committee.

Small wonder that the Prices and Incomes
Board saw that these wellsprings of infla-
tion could not be brought under any
incomes policy without radical reform at
the workplace. At the same time Lord
Donovan’s Royal Commission was
coming to very similar conclusions. It
urged that British industrial relations
could best be improved, not by passing
laws, but by persuading employers to
reform their methods of payment and to
give authority to both managers and shop
stewards to negotiate at the place of
work in an orderly and open way. From
being beyond the control of anyone at all,
pay would then come under the joint
control of shop stewards and manage-
ment. Pay increases would thus be made
accessible to reasoned argument where hitherto they had been generated through a brainless process wholly impervious to debate.

Private industry took action on these conclusions with surprising alacrity as the changing economic climate gave more meaning to them. From the late 1960s onwards there has been a surge of reforms in workplace bargaining. Degenerate payment-by-results systems have been ousted in many factories by methods of payment less likely to inflict arbitrary fluctuations and inequalities upon workers' pay. There has been a widespread use of job evaluation techniques to rationalise and clarify wage and salary differentials. Much more is now decided around the negotiating table and much less is left to be muddled out through the chance precedents and customs of the shop floor. Agreements are increasingly written down rather than left to memory. Fresh disputes procedures clarify who is entitled to settle which issues and permit closer co-ordination of shop stewards. Accompanying these reforms has been an increase in the professionalism of both management and shop stewards, with the number of stewards who devote all their time to industrial relations matters doubling and redoubling in the last decade.

There have been two important consequences for incomes policy. The first is that the inflationary pressure of wage drift eased off. In engineering, for instance, the earnings of payments by results workers have fallen back closer to those of workers paid by time alone. The second consequence is that at long last there are workers' representatives who are in a position genuinely to influence the rate of increase of pay.

These newly authoritative shop stewards are not industrial Uncle Toms. Their bargaining strength is, if anything, greater than before because the workers they represent are less divided by fragmented bargaining and ramshackle pay structures. Because they are much more in control of the pay determination process, they are better able to fulfill the commitments of their negotiations. As politicians they can, in a way they could not before, undertake responsibilities and deliver the goods.

A vivid illustration of the changed situation is provided by the contrasting experience of the West Midlands engineering industry under the incomes policies of the 1960s and 1970s. While wage drift proceeded with barely a check under Harold Wilson's first policy, under the three stages of Ted Heath's the very same factories were able to abide by the pay limits with remarkable rectitude (Brown, Bois, 1976).

the public sector takes over

But if in private industry wage drift has become domesticated, in the public sector pay has gone wild. Throughout the 1950s and 1960s pay in the public sector moved closely in step with that of private industry. The average manual worker in public employment was paid slightly less than his private sector counterpart throughout the period, with private sector pay tending to take the lead when the pace of wage increases speeded up. In the 1970s, however, as Dean has shown (Nier, 1975), the two ceased to move together so closely. Public sector earnings moved ahead with gathering speed so that by 1974 their lead over private industry was substantial.

The reasons for this remarkable reversal are doubtless very mixed, but an important one must be the greatly increased propensity of public employees to take industrial action. Teachers, power workers, civil servants, nurses, gas workers, miners, dustmen and doctors are some of the more obvious groups who have in the last five years taken unprecedently severe action against their employers. For the manual workers an important influence lying behind the development has been the recent introduction of incentive payment schemes which have encouraged workplace initiatives and grass-roots organisation. The significance of the development for future incomes policy is that the pay of
The changing pay structure

Pay in Britain is becoming less unequal. Although the development has been particularly sharp in the last three years, there has been slow progress in the same direction for many decades. As the first report of the Royal Commission on the subject has shown, the distribution of income and wealth has moved against the interests of the richest members of the population. Taking into account income that comes not only from direct employment, the share of the top 10 per cent of people declined substantially over the 1940s, that of the top 5 per cent continued to decline over the 1950s and, since then, it has been the top 1 per cent who have lost most.

By contrast, the scatter of income from employment alone (that is, excluding rent, dividends and the like) has generally been remarkably static for many decades. The scatter of male manual workers’ wages in 1970 was much the same as it was in the days of Queen Victoria. But the last three years have seen a change. The adjacent table shows how the scatter of gross weekly earnings of men and women (both manual and white collar) has changed since regular surveys began in 1970. It expresses as percentages of the pay of those half way up the distribution (the median) that of the people one tenth from the bottom and top (lower and upper quartiles). Over the period from April 1972 to April 1975 the difference between the highest and lowest deciles (the interdecile range) has, for men, fallen from 95.4 to 90.6 per cent. Furthermore, the Royal Commission’s third report has shown that the top 1 per cent of employees have seen their relative position deteriorate particularly sharply over the same three years.

This compression of the pay distribution may not appear particularly significant in itself; if we had the figures for earlier years they might show similar occurrences in the past. But two further developments suggest that the current contraction is far more profound. The first is the form of the present pay policy, with its £6 limit which has been paid in full throughout much of industry. The last line of the table estimates what would happen if all full time employees were to receive the £6 and nothing else by August 1976.

Obviously this is a crude assumption and the continued rapid contraction of the earnings distribution (down to an interdecile range of 82.0 per cent for men) is over stated in the table, but it does indicate that the current policy has very sub-

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<tr>
<td>(1976)</td>
<td>(72.4)</td>
<td>(84.3)</td>
<td>(121.4)</td>
<td>(155.2)</td>
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WOMEN'S EARNINGS AS A PERCENTAGE OF MEN'S (MANUAL GROSS WEEKLY)

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<td>58.5</td>
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<tr>
<td>median</td>
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<td>49.3</td>
<td>50.0</td>
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<td>upper quartile</td>
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<td>49.2</td>
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<td>51.9</td>
<td>51.4</td>
<td>53.8</td>
<td>57.5</td>
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*Source: G. Routh (1966), New Earnings Survey*

...stantial consequences for the distribution of income.

The second development is the movement towards equal pay between men and women. The above table shows how women in manual jobs have fared relative to men over the last 70 years. Until 1970, for all the social reforms that might have occurred, there is an uncanny consistency in the way in which women's earnings have stuck at one half the level of men's. Since the Equal Pay Act of 1970 we have begun to see a change which, with gathering speed, is moving women's pay into a more favourable position. Britain may still be far from true equal pay, but in the context of our history the progress made in the last three years has been remarkable. Those who decry incomes policies must recognise that in the Equal Pay legislation we have a form of statutory incomes policy which has achieved more in five years than collective bargaining has achieved in 70.

The claim that pay in Britain is now less unequal than ever before (at least in peacetime) is based upon these three observations. The first is that (for reasons to be discussed later) the distributions of earnings for men and women separately have been compressed in the last few years. The second is that the current 6% limit policy is almost certainly continuing the compression. The third is that the earnings position of women (who make up roughly one third of the labour force) is at long last rapidly beginning to improve relative to that of men. We now consider more detailed aspects of the changing pay structure.

**white collar workers and women**

For both men and women, the position of white collar workers has deteriorated relative to manual workers since 1972. In April of that year, manual men had average earnings 75.4% per cent those of non-manual men. By 1975 this had risen to 81.4, and by August 1976, on the assumption that everyone gets a £6 a week increase, it will rise to 82.8 per cent. Within the white collar area, differentials have been similarly compressed. Jackson has shown (New Society, 1976) that, taking the average of a wide range of industries, managers who were paid 50.5 per cent more than clerical workers in 1973 saw the differential fall to 44.0 per cent in 1975. By mid 1976 they can expect it to be around 39.2 per cent.

The narrowing differential between men and women is explored further in the table below which shows how things

**PROGRESS TOWARDS EQUAL PAY IN DIFFERENT INDUSTRIES**

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<td>72.7</td>
<td>76.0</td>
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*Source: New Earnings Survey.*
have altered in a selection of the industries for which there are adequate statistics. From this it is evident that the pattern is uneven between industries and that the public sector has progressed farthest. Not only was private industry later in beginning to move towards equality; in some cases progress has been slight.

**Compression of skill differentials**

Unfortunately for policy makers, some of the most important differentials remain undisclosed by official statistics. The differentials between different skill levels in particular industries are of acute importance to the individuals concerned but are only accessible for the engineering industry. The table below shows how skilled fitter's earnings have fared as a percentage of unskilled labourers since 1968. The steady compression of the differential is clear, and it has been proceeding throughout the 1970s. How typical this experience is of other industries is less certain, although there are indications that in construction, for instance, the compression has been less marked.

**What happens after tax?**

It is becoming increasingly unsatisfactory to consider an incomes policy in terms of earnings alone; taxation is more and more eating its way into the average worker's pay. The man with average manual earnings and two children paid no income tax at all until 1955 and only met the full rate of tax in 1967. Since then his loss has increased so that at the moment one fifth of his earnings are deducted in tax. Well over 90 per cent of all manual workers in this family position are now taxable. How has this erosion influenced the dispersion of pay?

An indication of the distribution of net income is given in the table below, with the simplest of assumptions, estimates the scatter if all male employees were married with two small children. If this dispersion is compared with that of the table on page 5, it will be seen that even after tax there has been a narrowing in the dispersion of income since 1970, but that the narrowing has been moderated. While the inter-quartile range of post-tax male earnings fell from 95.4 to 90.6 per cent between 1970 and 1975, that of post-tax earnings (on our simple assumptions) fell from 73.7 to 71.9 per cent.

### Dispersions of All Male Gross Weekly Earnings After Income Tax

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<td>74.0</td>
<td>85.1</td>
<td>120.2</td>
<td>145.9</td>
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*Note: the table assumes all employees are married with two children under 11 years.*

The picture is similar if we look at a specific pay differential before and after tax. That between the average earnings of skilled and unskilled workers in the engineering industry, for instance, can be seen from the table below to contract from 139.2 per cent in 1970 to 131.1 per cent before tax in 1975. After we deduct the tax payable by average earners with two small children the contraction in the net differential over the same period is from 128.8 to 123.1 per cent. Taxation has the effect of moderating slightly the contraction in differentials.

### Skill Differentials in Engineering

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<td>132.4</td>
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*Source: Department of Employment Gazette.*
Our present unprecedentedly equitable scatter of earnings has arisen more by chance than by design. Apart from the Equal Pay legislation there has in no sense been a strategy for a more equal society. What are the causes?

causes of the compression

Much of the explanation rests with recent incomes policies. Both Stages Two and Three of Edward Heath’s policy had a redistributive element. They included a flat rate element to help the lower paid as well as a maximum increase to hinder the top income groups.

The voluntary Social Contract which followed under Labour was only redistributive insofar as it encouraged union negotiators to aim at a minimum wage of £30. Much more important was the impact of the Threshold Agreements which had been encouraged by the old Stage Three and came into effect in the latter part of 1974, providing substantial flat rate pay increases for over ten million workers. Finally, the current compulsory second stage of the Social Contract is having a very strong redistributive effect with its combination of a £6 a week limit and a total exclusion of increases to those on an annual income greater than £8,500. But this is not a sufficient explanation. Why should governments have started to sweeten their incomes policies with a redistributive element in the 1970s in a way that they did not in the 1960s? And why should skill differentials in engineering have contracted during the 1970s to an extent unexplained by the policies alone?

The answer lies in the way in which, as we discussed above, people are more willing to accept flat rate pay increases in times of unprecedented inflation, partly to help the lower paid and partly because they perceive “fair” differentials in absolute terms. The same thing happened in the two previous sharp inflations of the century which occurred during the World Wars.

That incomes have become less unequal in Britain in recent years has not been the achievement of so-called “free” collective bargaining. It has come primarily from government initiated action. Incomes policies have given preferential treatment to the lower paid and held back on the high paid. Incomes policy of the most involuntary sort has improved the relative pay of women where collective bargaining alone has failed. While rapid inflation would undoubtedly have led to a narrowing of pay differentials within particular areas of employment without an incomes policy, a narrowing across the whole economy could never have been achieved by collective bargaining alone.

Of course, our society still contains gross inequalities, not the least being the huge number of unemployed. But insofar as income contributes to these inequalities it is hard to escape the conclusion that we shall not achieve and retain a fairer distribution of pay unless collective bargaining takes place within the framework of a long term incomes policy.
3. differentials and pay comparisons

At what point must the shift to greater equality of income cease? Is the current compression of differentials building up explosive pressures in our economy? Unless we can answer these questions we can say little about the future of incomes policy.

how far can differentials be compressed?

Little help in answering comes from a consideration of economic factors alone. The economic theory of skill differentials is weak, and the evidence supporting it is weaker still. Whether at the level of the manual worker or of the top-most manager we are unable to say how large differentials “ought” to be to induce people to undertake extra training or responsibility.

There are some honourable and important reasons for this ignorance. The first is that there is far more than pay that makes a more skilled or responsible job attractive to a worker. The higher a job is up the ladder of skill and responsibility, the greater, generally, are the non-monetary attractions that go with it. It is likely to have greater job interest, better career prospects and looser supervision quite apart from better fringe benefits such as pensions. Perhaps of growing importance now that we are having to get used to higher unemployment is the fact that such jobs have much greater security. People are likely to forego a great deal in terms of pay differentials before these inducements lose their allure.

The second reason for our being undogmatic about the “correct” size of a differential is provided by the considerable variation of experience of different countries. Economies as similar as Britain, Sweden and France vary substantially. Whether we take the differential between skilled and unskilled manual workers, or that between manual workers and top managers, France is much more unequal, and Sweden less unequal, than Britain. If income tax is taken into account the differences are even greater. There is, it appears, nothing innate about industrial society which demands incentives of a particular size to induce employees to train and worry themselves at work. Pay structures are a part of social structures and they both shape and are shaped by them.

Here the third reason for agnosticism is relevant. Pay differentials are in part reflections of the distribution of power, and whether at the level of the workplace or that of the society as a whole, the more unevenly it is distributed, the wider differentials are likely to be. We find this in occupations where a skilled group can control the promotion of trainees—steel workers and doctors are examples where an elite holds down the pay of the less experienced. It is noticeable also in countries where training for top jobs is restricted, such as France and many less developed countries.

the myth of rigid differentials

Even if these arguments are accepted, even if it is agreed that pay differentials are determined principally by social and political factors rather than economic ones, some authors would still maintain that, within any particular society, the differentials to which people are accustomed, for whatever reason, are remarkably durable. You are playing with fire, the argument goes, if you tamper with established differentials, because the employees involved will take action to re-establish them.

This is a myth. The extent to which there is some truth in it we shall consider below when we discuss the use of pay comparisons. For the moment it is enough to demonstrate that pay differentials can and do change and to outline the circumstances of that change.

It is true that the overall distribution of male manual workers’ earnings has remained remarkably constant for many decades, but within that distribution there has been considerable movement. The relative pay of some industries and occupations has moved up the distribution, while that of others has moved down. Skill differentials have generally narrowed
although at times they have widened out again. The fact that the overall distribution appears to be fairly static is largely fortuitous.

Few skill differentials have been more jealously guarded than that between skilled fitters and unskilled labourers in the engineering industry. Yet it has fluctuated considerably over the years. Before the First World War the average skilled man earned 65 per cent more than the unskilled labourer. By the end of the War and its accompanying inflation, this differential had fallen (for the reasons discussed earlier) to 38 per cent. It then rose gradually to stand at 49 per cent at the start of the Second War only to fall once again to 25 per cent at the end. The differentials slowly increased during the 1950s and 1960s to a maximum of 42 per cent in 1969. Since then the 1970s have seen it decline sharply to its present level of around 30 per cent.

We can draw three conclusions from this experience. The first is that the skill differential is far from rigid. The second is that, when inflation slackens, differentials do tend to widen out again, though with much less haste than they were previously compressed. The third is that the old differentials do not fully reassert themselves. It is as if the shock of the compression had weakened the force of custom and permitted workers to accept a more egalitarian relationship between skill levels.

These movements in differentials, we have argued, are primarily a response to unprecedented levels of inflation. But there are other changes which result from direct political action touching on the social and power factors mentioned earlier.

Within workplaces in the engineering industry and elsewhere, the development of joint steward committees has tended to narrow differentials. In order to maximise their bargaining strength, these committees have often held back those groups of workers who might otherwise have used their strategic position to extort particularly high earnings, and have helped up the earnings of weak groups such as the unskilled. As the workers have become welded into a common political unit they have, despite their varied interests, developed a more equitable pay structure (Brown and Sisson, British Journal of Industrial Relations, 1975). The same applies in many industries; where trade unions have come to encompass the unskilled worker they have improved his earnings relative to his more skilled workmates.

Even at the level of a whole economy there is a similar example. The Swedish "wage solidarity" policy has been a deliberate practice whereby, their rough equivalent of the TUC, has sought to narrow differentials throughout the economy. They have been able to do this because they operate a national incomes policy through negotiations with the Swedish equivalent of the CBI. Although this policy leaves considerable scope for negotiations at the level of individual industries and workplaces, it has, for two decades now, succeeded in bringing pay throughout the economy into greater equality.

The Swedish experience suggests that the scatter of pay can be compressed considerably further, and (at times) faster, than we are presently experiencing in Britain. For example, in the Swedish engineering industry, the inter-decile range of earnings for manual men shrank from 48 per cent to 36 per cent between 1961 and 1972. In Britain the comparable figures for the period from 1970 to 1975 are from 64 per cent to 55 per cent. If the Swedish example is anything to go by, the British compression of differentials has a long way to go before the economy will suffer.

**Conclusions**

The evidence suggests that if the incomes policy were to end in the near future, there would not be an explosive reaction as traditional pay differentials were re-established. One can expect that they would begin to widen again when inflation slowed down, but that they would do so slowly and that they would not regain the
size they had before the current inflation got under way.

In principle there is no reason why the compression of pay differentials should not continue for a long time to come without damage to the economy. In practice the main restraint appears to be the way in which we bargain over pay. It was noted that a lasting compression of differentials could be achieved when the employees within a given bargaining unit created their own united political structure. This applies at the level of the workplace and also at the level of the industry. With the continued growth of trade unionism in Britain, helped on by the Employment Protection Act, we can expect this phenomenon to continue. For our central argument, what is important is that a lasting compression of incomes in Britain is only likely to be achieved when the whole workforce is united, albeit loosely, into a single bargaining unit. Not surprisingly, that is another way of describing a long term incomes policy.

**How to cope with pay comparisons**

We judge the "fairness" of our pay primarily by comparison with other people's pay. This has presented an abiding problem for incomes policies. The Prices and Incomes Board attempted to overrule the use of pay comparisons and to emphasise instead the importance of gearing pay rises to productivity increases. This failed. The underlying force of comparability won through and may even have gained in strength as continuing incomes policies gave more and more publicity to pay settlements. Aware of this, the Pay Board devoted much care to defining what sorts of comparisons might be considered legitimate.

A valuable distinction was drawn between two fundamentally different types of pay relationship. The first, which the Pay Board defined as "differentials" concerned the relationship between pay levels within the same bargaining unit, whether it be a whole industry (such as, say, mining) or a single workplace. Because differentials came under the control of a single set of negotiators they could, in principle, be adjusted by negotiation. The second sort of pay relationship, however, could not be altered in this way. The relationship between the pay of different bargaining units, called "relativities", comes under no overarching set of negotiations and is open to fickle and fortuitous variation.

In assessing the fairness of their own pay, people make use of comparisons using both differentials and relativities; that is, they compare both within and beyond their bargaining unit. But, importantly and fortunately for incomes policy, the strongest felt notions of fairness attach themselves to differentials. In particular they are associated with differentials at the individual's place of work. The individual's self-esteem within the social setting of work makes these very local comparisons have a particular meaning to him. If workplace differentials are disrupted they are likely to provoke extremely bitter grievances.

It is thus of particular importance that an incomes policy does not rupture differentials. Any provision which imposes some sort of absolute limit on the level of income is liable to do this. The £30 a week "target" of the first Social Contract, and the £8,500 a year restriction of the second Social Contract are examples of unnecessarily provocative limits which it would be foolish to repeat. As was argued earlier, it is perfectly possible to negotiate a compression of differentials within a bargaining unit in a way that is acceptable to the workers concerned, so long as their rank order is not upset and as long as the relative gaps between different groups do not go awry. For instance, if there is a 10 per cent differential between the unskilled and semi-skilled, and between the semi-skilled and skilled workers in a factory, they are likely to tolerate a uniform compression to say 7 per cent between each, but not one that is uneven.

A long term incomes policy would, however, have to be more positive than this. The increasingly sophisticated workplace organisations of British industry are
creating tightly knit bargaining units. These have their own special traditions and requirements of their pay differentials and they must be given flexibility to negotiate over them. The last Conservative policy recognised this by giving a measure of flexibility and by basing the pay limit, in part, upon the pay bill of the whole bargaining unit. What evidence there is suggests that this was generally successful. It deserves further use.

A positive incomes policy would have to provide sufficient flexibility to encourage bargaining units to reform their pay systems and to introduce job evaluation. Most pay systems require periodic overhauls if they are not to become distorted and generate grievances which day-to-day negotiation cannot cope with. Job evaluation is simply a way in which, by any of a number of techniques, the employees in an organisation can be brought in to sort out a consistent and comprehensive pay structure which they accept, at any rate for the time being, as reasonably fair.

**the problem of pay relativities**

Although incomes policies in Britain have recently been forced to acknowledge the importance of pay comparisons, there is a serious danger of their being carried away with the idea. Because, within the overall distribution of pay, different groups of employees do move around as time passes, a slavish reliance upon comparisons will not remove the conundrum of what might be "fair" relativities.

The first point to emphasise is that the "spontaneous" comparisons which individuals make in assessing the fairness of their pay are generally based upon parochial questions of differentials and not broader notions of "fair" relativities—although the latter may bulk larger for trade union negotiators. Furthermore, perhaps surprisingly, there does not seem to have been much change in the extent to which individuals draw adverse comparison with what they believe people to be earning in the country as a whole. When, in 1975, Daniel repeated survey questions which Runciman had used in 1962, he found no evidence that people had grown any more dissatisfied with their pay. Indeed, attitudes were remarkably unchanged, and people's estimates of what they thought was a "reasonable" income were more modest in 1975 than in 1962.

The part of our income-fixing institutions which makes more mechanical use of comparisons between bargaining units than any other is that covering the non-industrial Civil Service. For 20 years now the official Pay Research Unit has conducted painstaking surveys of the pay of employees who are judged to have comparable jobs with different sorts of civil servant. But, despite the undoubted care of these surveys, the pay levels that have resulted are far from satisfactory from the point of view of incomes policy. The Boyle Report on Top Salaries demonstrated clearly that top civil service pay has risen seriously out of line with plausibly comparison groups both nationally and internationally. There is also evidence that, while pay structures elsewhere have generally been compressed in recent years, those covered by the Pay Research Unit have remained relatively extended.

One reason for the inadequacy of a total reliance upon comparisons is that our society uses very inconsistent principles in valuing different jobs. For instance, in some jobs we pay people extra for dirty working conditions, while in others we unthinkingly treat them as an inevitable concomitant of low paid work. Another example is the way in which in most manual work we expect the worker's earning capacity to decline with increasing age, whereas in much white collar work, even where the accumulation of experience is far from evident, workers are compensated for growing older. Payment involves value judgements which are the more troublesome because we apply them unequally and yet take them for granted.

Nowhere are these inconsistencies revealed more starkly than in the reports of commissions and courts of enquiry which are established from time to time
in order to make judgement on the pay of a particular group of workers, Policemen, doctors, teachers, nurses and many others have received this sort of attention in recent years. Each time the doubtless fair minded commissioners have immersed themselves in evidence about the occupation in question, and each time they have emerged to recommend pay increases which are subsequently seen to be excessive. In future we cannot allow this individual treatment. The only way in which intervention by third parties can make judgement on the pay of an occupation in a way which is not discordant is by having the same machinery to judge on all such cases. Only in this way will the judgements come to terms with the very varied value systems which apply to different groups of workers.

It is partly the inconsistencies in our society's values which render the idea of a nationwide job evaluation scheme impossible. Job evaluation works successfully within the particular social setting of a bargaining unit where there is likely to be a measure of agreement over what is "fair" and where their is also scope for settling disagreements over the question through negotiation. A national job evaluation scheme that tried to draw upon universal notions of "fairness" would fail because no such things exist. It is notable that where incomes policies have tried to use them, such as when there was extra payment for extra productivity or for "unsocial hours", the results have tended to be disruptive.

There is a deeper reason why we cannot eliminate arguments about relativities simply by using national job evaluation or systematic comparisons. It has to be recognised that relative incomes are to a considerable extent influenced by relative power. As the relative power of different groups in society shifts, so we must expect their position in the "league table" of incomes to shift also. A clear example of the process at work is provided by the miners, whose relative pay declined steadily from the time when petroleum began to undermine the competitive position of coal, only to rise sharply when the trend was reversed. The mistake that Heath made with the miners was to fail to see that they needed to negotiate an adjustment to their pay position to reflect their changed power position. Pay determination is a political process like any other.

A long term incomes policy must recognise that pay relativities cannot be divorced from power relativities. They cannot be settled through the conflict-free operation of a job evaluation formula or a committee of wise men. The aim of the policy must not be to eliminate the bargaining process but to provide a framework within which it can proceed without generating inflation and without denying compassion for those who are powerless. It is to this framework that we now turn.
4. an outline of a positive incomes policy

The objectives of a positive incomes policy, it must be emphasised, are not simply economic. At best, an incomes policy can only make a contribution towards getting to grips with inflation. It is not a panacea. The major objectives of a positive incomes policy are social and political; the idea is to develop an instrument of social change which also makes it possible for groups from different bargaining units to resolve conflicts over the allocation of scarce resources.

the framework

It was a desire to exclude the government from interference in collective bargaining which caused the Swedish employers and unions to come together and develop their own independent long term incomes policy. We believe that the centralised bargaining which is the institutional framework of that policy is equally essential here. In Britain, however, it is difficult to see the employers or the unions willing or able to exclude the government from any central bargaining process. Indeed, we should argue that the government must take the initiative. The deliberate avoidance of state intervention which was the hallmark of British industrial relations for many years is no more. Both employers and trade unions seem to be engaged in a rush for legislation. On redundancy payments, equal pay, safety, training, trade union recognition and unfair dismissal, to mention some of the more obvious, the government is being asked to provide laws to do what hitherto the TUC and CBI might have expected their members to achieve through collective bargaining. In other words, neither is displaying the independence to run an incomes policy independently of government, just as neither is showing as much confidence in the possibilities of "free" collective bargaining as might be supposed.

On reflection, this state of affairs is hardly surprising. Despite the major part it has has played in previous incomes policies and in the development of the Social Contract, the position of the TUC is much weaker than it seems. Paradoxically, one of the TUC's weaknesses is the broad extent of its membership. Unlike its Swedish counterpart, it covers many higher paid occupations which have made little secret of their opposition to a further compression of differentials. Furthermore, the decentralisation of collective bargaining and the growth of workplace power make the task of pursuing an incomes policy more difficult for individual unions than in the Swedish case. A purely voluntary policy would impose severe strains upon the internal government of trade unions in a way that one backed by a measure of government involvement would not.

The CBI is in a still weaker position despite the successful price restraint policy of 1971-2. Although its membership is increasingly dominated by a small number of large organisations, these organisations are sufficiently independent to want and be able to maintain their freedom to manoeuvre. More significantly, the CBI was formed relatively recently largely as a response to government initiatives. Essentially, it is a pressure group and has not yet developed the political structure that would permit it to hold its membership to a firm line of policy.

The final reason for the government's having to be involved is simply that it is by far the largest employer. It employs one quarter of the total working population of approximately 24 million and almost one third of the total number of employees. Equally important is the fact that it employs a half of total TUC membership. Whether they like it or not, governments have to be involved in incomes policies from the start and they are being irresponsible if they continue to base their policy upon employers upon a slavish use of comparisons with private industry.

The responsibility for running a positive incomes policy has been given to the government and the two major representative organisations, the TUC and the CBI. It is difficult to see how it could be otherwise and the institutional framework already exists in the NEETC. But there is a case for having an institution whose job
it would be to monitor the policy and to carry out inquiries in detail. It would be important to check on key negotiations, particularly the "stage three" agreements discussed later, so that problems could be identified, and carried forward for consideration at the next tri-partite discussions. Companies and unions seeking to take advantage of the proposed flexibility payment could be required to submit details for approval. However, such a body would need to be permanent, if there is to be continuity in the policy. It would be a waste to repeat the farce of previous incomes policies under which institutions such as the NBRP have been disbanded only to be replaced later by similar ones with different names.

Before outlining the three stages of negotiation we envisage for the policy, there are two further points. It would continue to be necessary to have a prices policy centred on the Prices Commission or a body like it. Furthermore, it would not be necessary to lay great stress upon the use of sanctions to enforce compliance to pay limits. Experience suggests that the success of incomes policy depends primarily upon consensus. A statutory prices policy would assist this, as also might reserve legal powers such as we have under the current "Attack on Inflation" policy, but the events of February 1974 suggest it is unrealistic to rely heavily upon statutory force to sustain any long term incomes policy.

stage one

The starting point would be annual negotiations between the government and representatives of the TUC and CBI. In this first "leg" of the policy the three parties would decide what scope existed for wage and salary increases. To arrive at an agreed figure there should be centralised bargaining about the allocation of resources between manufacturing industry and the rest of the economy, between investment and consumption, and between public and private expenditure. Thus it would not simply be a matter of relating general pay increases to the average increase of productivity or to the index of retail prices as in previous incomes policies. We envisage that far more would be involved. The negotiations must be concerned not only with money incomes during the next year but with real incomes. They should also be concerned with net incomes after tax. Taxation has become so important to the great majority of working people that it cannot be left out of the calculation without creating absurd and expensive anomalies. More positively it is through the tax system that the position of the low paid worker can best be improved without repercussions from higher paid groups. The budget of April 1976 has shown how fiscal policy can become an integral part of a positive incomes policy and should be included in the bargaining process from the very start. Finally, the fact that pensions are a form of deferred income cannot be ignored and they should be made part of the negotiation package.

One point in particular needs emphasis. We see this first stage as a bargaining process. We do not see it simply as a technical exercise in which econometricians supply figures from pre-determined models. The planning and forecasting techniques which are now available give some guidance on the constraints within which realistic bargaining must take place in an economy so dependent upon manufacturing industry and so open to international competition. They are in any case necessary if industrial planning agreements are to be more than manifesto rhetoric. But, even if the major British forecasts showed greater agreement with each other, such techniques do not and cannot remove the need for debate about social and economic priorities. Swedish experience suggests that even within the limits of an agreed forecast there is still considerable scope for genuine negotiations about the size and distribution of pay increases.

stage two

The second stage would be for the three parties to decide how the share going to wages and salaries should be distributed between people of different pay levels. If,
as we have argued, a central purpose of a positive incomes policy is to bring about a more equal distribution of income, then to express any general pay increase in percentage terms would not be enough by itself, even though it would achieve some improvement for those in the weaker positions. We have maintained that there is still considerable scope for a further narrowing of pay differentials, so long as it is carried out uniformly across the economy and so long as they are narrowed and not reversed—a distinction, incidentally, which some people choose to ignore. Accordingly, there should continue to be a certain proportion of the general pay increase expressed as an absolute amount per person. Alternatively, the general pay increase could be expressed as a percentage increase with a minimum absolute entitlement. The 7 per cent or £2.25 formula of Phase II of the 1972-74 policy is an example.

Later we suggest that there should be scope for some flexibility within bargaining units under the umbrella of centrally agreed pay limits. But a long term policy must also allow for flexibility between bargaining units. In other words, it must allow for the adjustment of pay relativities in the light of general changes in productivity, profitability and labour market conditions. Furthermore, to continue with the same general wage increase for each and every bargaining unit assumes that the relative position from which different groups started is acceptable to them. Patently this is not the case. A major problem which previous incomes policies have experienced is the difficulty of dealing with those groups who regard themselves as special cases at the outset of the policy.

There is no simple answer to this problem, partly because its solution depends upon the form of prices policy being pursued at the time. For example, productivity increases which are absorbed into price reductions cannot be passed on to employees. The changing of relative pay between bargaining units is ultimately a political matter and cannot be divorced from considerations of relative power. It might be thought that an agency such as the National Board for Prices and Incomes can clarify disagreements through investigations and, if it has a constitution like ACAS which ensures it a measure of independence, can come to be accepted as an arbitrator over incomes policy disputes. But ultimately, like every good arbitrator, it cannot be blind to the dynamics of power behind a dispute and can be expected to take these into account in reaching a decision. Where a demand for treatment as a special case is made, such as we saw with the miners in 1974 it is foolish to seek to smugle a pay increase through by fudging the policy's principles. It would be far better to provide for explicit negotiation of the claim in a way that involves the representatives of the TUC and CBI in their role as custodians of a long term incomes policy. As well as a general increase, then, Stage two should be concerned with deciding which industries or major groups, if any, shall receive exceptional treatment in any year, bearing in mind that the cost must be borne by the overall sum which the parties have agreed should be allocated to wages and salaries.

Experience of previous incomes policies underlines the need to promote flexibility in working practices in order to increase productivity. The continued application of a general pay increase whether percentage or flat cash inevitably makes for rigidity; workers are reluctant to make changes involving more demanding methods if they are not going to receive anything more than everyone else. Another possibility, then, would be to consider making provision for an additional increase related to significant changes in working arrangements which would be paid over and above the general pay increase. In view of the abuses of the exception for productivity which were thought to have taken place under the 1966-69 policy, however, it would be sensible to make any increase under this heading a standard amount of relatively small proportions which would be applied in every case fulfilling the requirements.

We envisage that in practice the main responsibility for formulating proposals under the second stage would devolve
upon the TUC. Indeed, it could be argued that the TUC should have the formal responsibility for doing this under a positive incomes policy. The issues involved are of crucial importance to the trade union movement as a whole and individual unions can be expected to maintain close relationships with the respective managements of bargaining units during this stage of discussion. The evidence suggests that the TUC is the only possible forum in which differences between individual bargaining units and unions can be resolved about such matters as the form which the general pay increase should take or whether one particular industry or group is to be regarded as a special case. Clearly, this would place a great strain on the democratic processes within trade unions; but there is no reason to believe that they would be incapable of meeting the challenge.

stage three

In the third stage it should be left to the negotiators in the individual bargaining units to decide how they in turn are going to distribute the total package resulting from Stage two within the bargaining unit. The significance of this stage cannot be emphasised too much. Although centralised bargaining can determine the total sum which is to be available to each bargaining unit, it is unrealistic to deny decision making on pay to the powerful workplace organisations which have developed in private industry in recent years. More positively, we have argued earlier that it is important to allow a measure of flexibility to workplace, company and, where appropriate, to industry level negotiators if they are to shape their working arrangements and pay structures to their own particular needs. It is consequently essential that the increase resulting from Stage two should be applied to the total wages bill of the bargaining unit. With the exception of any flat rate component in the increase, this total sum should be distributed as the local negotiators see fit. Experience of this approach under Phases II and III of the 1972-74 policy and over many years in Sweden suggests that it is perfectly feasible.

The process which is envisaged would be facilitated if there was some synchronisation of the timing of negotiations. There would be problems in achieving this but they are not insurmountable and the benefits would be considerable. On every occasion the introduction of a period of incomes policy has left some groups feeling that they have been disadvantaged by comparison to others—a grievance which they quite understandably seek to make good as soon as they can. By conducting annual negotiations in three stages, and by integrating them with the Chancellor's income tax proposals, we could expect the synchronisation of pay negotiations to develop fairly naturally.

conclusion

Our sketch of the machinery of a positive incomes policy has been deliberately brief. The history of incomes policies in Britain has been one of continual experiment and, despite errors, much has been learnt from it. We should expect this process of experiment to continue under a long term policy. A long term incomes policy would be continually open to renegotiation and alteration as social values and economic circumstances altered. The essential pre-condition to its success would be the commitment of the employers and trade union movement to the idea of the policy as an instrument for economic stability and social change rather than to any particular set of measures.

Finally, and most importantly, it is a mistake to see these proposals as contradictory to the objectives of free collective bargaining except insofar as they make positive steps to help those who are too weak to bargain. The government has been intervening in pay determination for over a decade now and it is unlikely to stop doing so for the foreseeable future.

To be really effective, collective bargaining must concern itself with net real incomes and not just gross money incomes; it must consider the distribution of income throughout the whole economy and not just within a bargaining unit. This is only possible if collective bargaining takes
place within the framework of a central negotiation.

This study has concentrated upon current changes in attitudes, bargaining methods and pay structures, and has argued that these are working in favour of a positive incomes policy. It has also analysed the underlying forces of pay determination and suggested that these can be accommodated within such a policy. To say that we are optimistic is not to say that there are simple solutions, for the problems are both puzzling and complex. But the opportunity to attempt a positive policy should be seized before it slips away.
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## Tracts

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## Young Fabian Pamphlets

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