

B. The horns of inflation

How did the idea arise that the new managerial elite is on the whole "serving the nation well," that their interests are the interests of the nation as a whole? It is clear that this idea underlies much of the "rethinking" of the Left, and in particular it is accepted, with some reservations, as a premise tacit or explicit in many of the arguments in *Industry and Society*.

This picture is the kernel of the argument that "Capitalism has changed." And it has been widely accepted largely because capitalism has changed—but not in the way that it

holds. The get-rich-quick ideology of the entrepreneur of yesteryear is no longer very prominent. Nor does one hear these days the famous phrase of Vanderbilt: "the public be damned!" This reflects a change that is not so new. It has been in process since at least the beginning of the century, and is today a feature of both American and British capitalism. The large monopoly or oligopoly corporation can no longer afford to take a narrow short-term view of market and supply conditions. The "get-rich-quick" mentality is no longer profitable if one can't pull out quickly while the profits are

still high. The industrial empires of today cannot be managed in this fashion. Their watchwords are "stability" and "responsibility" which alone can safeguard the long-term growth in their power. But before concluding that they have undergone a "conversion," we should ask ourselves which of the "robber barons" of earlier years wouldn't have traded his fly-by-night piratical gains for the prospect of ruling such an empire? Wasn't it precisely these "robber barons" Carnegie, Rockefeller, etc., who founded many of the present-day corporate giants?

The second big change that has conditioned the development of contemporary capitalism is the rise in political and industrial power of organised labour. The "responsible" corporation must maintain good "labour relations" or it may lose in profits through a strike or through loss of public good-will, or it may even run the risk of being marked down for public ownership.

The new model

The growth in corporate size and the organisation of labour both tend to produce a new kind of behaviour among industrial leaders. Large scale and prolonged unemployment is no longer favoured. For depression cuts profits and at the same time constitutes a political danger to private ownership itself. Similarly because of its very size the corporate giant must take into account the general health of the economy on a national, and sometimes international scale, to the extent that this affects its conditions of market and supply, as it must take account of the possible political repercussions of economic conditions on the national and international level.

This slow secular change of policy on the part of business has led some to believe, the authors of *Industry and Society* among them, that capitalism, i.e. private ownership of the means of production, has lost its anti-social character, and need no longer lead to conflict between the leaders of industry and the community. But does this conclusion really follow from the change that has taken place? We should examine the way corporate power is held and used a little more closely before we accept the thesis that a "reconciliation" has really taken place.

The thesis usually has two parts which complement each other: (1) that the policy of the big corporations is, with some exceptions, oriented towards the good of the community; (2) that this change is due to the fact that a "revolution" has taken place within the larger firms whereby the "anti-social" shareholder has been divested of power in favour of the "socially responsible" company bureaucrat. We have already dealt with this second thesis in the first part of this pamphlet. In fact, no such revolution has taken place; only the absorption of a new group into the corporate power-elite. But this development, whether one chooses to call it a revolution or not, has nothing to do with the change in the policy of the major firm. This latter change is dictated by considerations of the long-term stability and growth of corporate wealth and power in the social and economic conditions of the mid-twentieth century. It reflects, therefore, a purpose which is common to the power-elite as a whole, and not, as is sometimes supposed, restricted to one section overriding the others. The wealth, power and status of the shareholders is as much bound up in this development as is that of the directors and managers. If the corporations really are "tamed" it is certainly not because of some mythical shift in the power relations within them.

But are they really "tamed"? Has the growth of corporate wealth and power been reconciled with the welfare and social and economic progress of the community as a whole? And can it be reconciled with the building of a Socialist society, a genuine economic democracy? This latter question is the

subject of a separate article. We will only take up the first question here.

In order to answer this question we should perhaps look at how financial and business leaders have dealt with Britain's economic problems during the last six years, under a Conservative Government which has applied what is basically a policy cut to their measure.

The principal economic problem facing Britain is how to combine a high rate of economic growth, essential if the level of exports and hence the standard of living is going to be maintained or increased, with a steady increase in wage earnings and welfare, and how, at the same time, to avoid a harmfully rapid inflation. Besides achieving these aims, Britain must be ready to export more capital to underdeveloped countries, particularly in the Sterling area. The task is a staggering one, and a brief glance at our performance in the last few years may easily lead us to despair. But a closer examination shows that there is more cause to lose confidence in "Tory freedom" than in the British economy as such.

Quite apart from the additional unnecessary shock resulting from the Suez escapade, Britain has been bringing together all the elements of a long-term economic disaster. Our rate of growth has been disastrously slowed down. The first years of Conservative Government saw, apart from the first months, exceptionally favourable conditions. A fall in primary product prices—an improvement in our terms of trade—was accompanied, unusually enough, with a continued rise in exports. The lower import bill alone, resulting from the improvements in the terms of trade was saving us some £500 millions a year. At the same time, with boom conditions at home, production continued to rise. Between 1951-5 home output went up to £1,300 millions.

This unexpected windfall was senselessly squandered in a bonanza of increased consumption whose main result was to aggravate the already existing inequalities in living standards. The years after 1952 saw a dividend boom, a spate of capital gains, largely cashed in increased consumption, and a second and definitive bonfire of controls and of food subsidies. Investment lagged dangerously behind, particularly in the essential sectors. In 1954, for instance, investment in public utilities, housing and goods and vehicles increased, but net fixed capital formation was some £20 millions lower than in 1951.

War on plenty

But the lucky conjuncture of favourable conditions could not last. By 1955 the terms of trade had worsened, the balance of payments position was steadily more unfavourable, and the boom was beginning to touch off a dangerous inflation as import prices rose. The inadequacies of the Conservative Government's response to this long-term crisis is too well known to dwell on at length here. The policy of dear money, coupled with a cut-back in essential investment in the public sector, and the ending of the main fiscal inducements—the investment allowance—to the private sector amounts to a mortgaging of Britain's future for the sake of a shaky equilibrium in the present.

Not that the total of investment has been greatly reduced—except during the last year. It is mainly that the Government has given up all attempt to direct investment to the vital sectors. In spite of repeated exhortations to the banks it has been unable to stop business making socially unimportant but profitable investment wherever it sees an opportunity.

Thus the battle against inflation also began to demand a reduction in consumption. But the way that the Government and business leaders chose to "mop up" the excess purchasing

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power was to effect a rise in the price of necessities and hence to lower the margin of working-class income which could be spent on anything else. Hence the Rent Act and the ending of milk and bread subsidies. In these conditions "wage restraint" would mean for the unions that they stand with arms folded while the standard of living of their members steadily declines. The Government can, therefore, only succeed in its policy of reducing working-class consumption by means of a massive deflation and a good measure of unemployment.

It is politically impossible today to throw the burden of belt-tightening on the least well-off members of the community by a "healthy slackening in the labour market," but the policy followed by the business leaders, and that which, through the City, they advised the Government to follow, has brought us to a point where this is their only solution to the problem of inflation. Whatever form the policy takes, whether that of a National Wages Board or the slashing of subsidies, the aim is always the same: reduce consumption by a regressive redistribution of income.

The emphasis of the last few years on private savings reflects another aspect of this basic tendency. If everyone saved more and, therefore, spent less, our inflationary problem would be solved. But, in fact, it is the higher income brackets who can save most. Therefore if we believe, with the City and the Tory party, that there is something inherently more virtuous in private saving as a solution to inflation, we can advance the cause by giving more to the rich and less to those who are just making ends meet and cannot save.

This policy and the state of affairs resulting from it must not simply be laid at the door of the Chancellor of the Exchequer or even of the Tory party. The structure of private ownership itself tends to make it a policy pursued by the industrial and financial oligarchy. Since the chief aim of industrial and financial policy is the growth of corporate wealth and power, it is only natural that one of the results should be a rise in the income and hence consumption of the corporate elite, and in that of their more-or-less sleeping partners and political allies, the propertied classes as a whole. Another result is in many cases a fairly high rate of investment. But this investment is directed to the sectors with the highest rate of profit, and this has meant a drop in investment in the essential sectors in favour of the inessential ones. Above all, the major firm must guard against the possibility of over-production, even if the economy as a whole may suffer in a number of years from a disastrous shortage.

A combination of these developments will bring us to a balance of payments crisis, which will require an urgent and drastic cut in effective demand. It is only natural, in view of the above, that the solution put forward by the spokesmen of big business should be a reduction in working-class consumption. Since a cut of any appreciable size in the workers' standard of living is politically impossible to effect, our difficulty is really that business leaders have no viable solution at all to the problems of inflation and a deficit in the balance of payments.

It is not easy to square the long term interests of business with those of the community. Exceptional circumstances—such as prevail in war or in a period of reconstruction—can bring them closer together. For instance, in the years after 1945, every one could agree that reconstruction was required, e.g. the nationalisation of the worn-out, unrationalised and unprofitable public utilities, also it required some controls to safeguard the balance of payments during the critical period. We might add that the Labour victory of 1945 shook the self-confidence of private business and induced for a time a

more co-operative attitude. But once this period was over, business policy took another turn. The basic fact underlying this is that the responsibility of "responsible" business leaders is ultimately to themselves and the other major owners of corporate wealth.

Inflation and social structure

The minimum social and economic conditions necessary to combat inflation while safeguarding economic growth and social welfare are: (1) a progressive redistribution of purchasing power so that the burden of consumer restraint can be borne with some semblance of equality by people in different income brackets, (2) a rationalisation of certain industries so that they can compete in present market conditions, (3) an increase in investment directed towards the essential sectors, (4) a national wages policy allowing for a planned increase per annum, keeping pace with the rise in productivity.

It is highly doubtful that these conditions can be fulfilled with the present pattern of ownership. *Industry and Society* seems to assume that a large redistribution can take place without any adverse reaction from business. This is because, since ownership is supposed to have nothing to do with control and management of industry, an attack on the shareholder's consumption would not, on their theory, affect business policy in any way. But this separation between ownership and control is mythical. The threat of redistribution might easily lead to a flight of capital more severe than that which helped to bring down the Labour government in 1951. As a matter of fact, the slump on the equity market that would result from the reimposition of dividend control or a capital gains tax would naturally incline people to invest abroad.

The direction of investment is also very difficult to affect in the present structure. Physical controls can sometimes provide negative checks, although of a cumbersome and inefficient kind, and the Capital Issues Committee can exercise a marginal influence to the extent that investment is not self-financed. But the problem is how to effect an increase in essential sectors. Fiscal incentives such as the investment allowances can be used as well as direct subsidies and Government guarantees. But these are all insufficient in the case where the corporations wish to play safe and avoid the risk of over-production, as with the steel industry today.

The difficulty can only be overcome by a guarantee against loss on an impossibly large scale. The Government certainly cannot undertake anything of the kind under present conditions, particularly when the existing public sector which might be used to back such a guarantee can provide nothing like the level of profit required.

A progressive wages policy requires a commitment from industry which amounts to a voluntary partial abdication of control on the part of the business leaders. It also demands a commitment to increase productivity by a certain minimum amount each year—or else to accept a cut in profits. It is difficult to see how an agreement of this kind could be reached between government and industry with the present structure of ownership, unless the wage increases called for were of a purely symbolic nature.

The idea that business "serves the nation well" arose from the "honeymoon period" of the immediate post-war years. Since 1951 it has become less and less true. But this is not only the result of the attitudes of a particular group of people. It stems mainly from the structure of ownership itself. It is true that big business today has to take account of the health of the nation's economy as a whole, because its markets are nation-wide, or wider, but this does not mean that it sees

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economic health in the same terms as the community does. The history of the last few years shows the opposite.

Economic health may mean a condition where: (1) its markets are stable and growing, (2) its profits are not too much threatened by the wage increases it feels forced to grant, (3) its supplies are assured at stable prices, and (4) where there is comparatively little inflation. For the top capitalist stratum economic health may mean an exorbitant amount devoted to advertisement to influence consumer choice, and to influence it in a direction that is of little benefit to the economy as a whole, and the fourth has meant that working-class consumption must be held down while it has not prevented companies passing on wage increases to the consumer in increased prices. The third requirement often has sinister ramifications for colonial policy.

The fact that business and the nation are both interested in economic growth does not, therefore, automatically end all major conflict between them. The rate and direction of this growth—questions of vital importance—remain contentious issues and there is no coincidence of view on who should bear the costs of growth. The price that has to be paid for a high rate of economic growth without inflation under private ownership is a high level of consumption among the propertied classes, and hence a comparatively reduced level of working-class consumption. Once this price is paid, the managerial elite will be "responsible" and will "serve the nation well." But unless we want to forego both welfare and equality, not to speak of socialism, this is a price we cannot pay.