

Prices and Programmes

Paul Derrick

AFTER the Labour Party Conference had approved *Industry and Society* by a large majority last October, Morgan Phillips told the Conference that the policy statement on "The Control of Industry," which is to be published this summer, would provide the party with a "complete and concrete answer" to the cost of living problem. The back room boys were working on this policy statement last winter and spring; and it seemed from press reports that certain differences had arisen between the experts of the Labour Party on the one hand and the T.U.C. on the other.

Mr. Gaitskell said at Cambridge on February 7 that wage increases under a Labour Government really ought not to be more than about 5s. or 10s. a year. He argued that it would be possible to pay such increases out of increasing productivity, but that greater rises would probably have inflationary consequences. It appears that the Labour Party

expected the T.U.C. to agree to exercise restraint under a Labour Government and resign itself to wage increases of 5s. or 10s. a year; and that the T.U.C. was not prepared to agree in advance to do any such thing.

The Tories have gone out of their way to antagonize the Unions by discriminatory taxation, by the Rent Act, by the cut in surtax, by the change in the profits tax, by pressing the credit squeeze to a point in which it leads to unemployment, and by allowing a continual increase in prices in spite of falls in import prices. The Labour Party apparently expects co-operation from the Unions on the grounds that it would bring back controls of one kind and another; but we must remember that we had a wide variety of price and other controls when restraint in wage claims was repudiated by the T.U.C. under a Labour Government in 1950. We also had price subsidies on a substantial scale, rent controls and heavy taxation of profits. Since that time the Labour Party

has more or less committed itself to the taxation of capital gains; but apart from that the Unions have not really got any more reason to exercise restraint under the next Labour Government than they had under the last one.

The fact of the matter is that the iron law of wages of the 20th century states that wage claims will be pressed to meet rising living costs unless the Unions can be convinced that the earnings of industry are being divided fairly. They were not convinced by the last Labour Government; and it appears from press reports that the party has not yet succeeded in persuading them that the next one will be more successful. It will be recalled that restraint in wage claims was repudiated by the T.U.C. in 1950 "until such time as there is a reasonable limitation of profits" and in 1957 for as long as "prices and profits remain uncontrolled." The workers are simply not prepared to accept a falling share of the national income; and when the Tories attempt to force them to do so by abandoning all restraint in applying the credit squeeze, the result is a stagnation of production which has just as bad effect upon the economy as do the unemployment and the strikes that accompany it.

The last Labour Government attempted to solve the problem in three ways. In 1948 Sir Stafford Cripps imposed a very small levy on capital and appealed to companies to exercise restraint in the distribution of dividends and to Trade Unions to exercise restraint in wage claims. The T.U.C., in spite of a Labour Government being in office and in spite of Sir Stafford's reputation, found great difficulty in accepting his White Paper on "Personal Incomes, Costs and Prices" owing to the "limited and weak" character of its references to profits and dividends. This was not surprising because the voluntary limitation of dividends simply meant that profits accumulated on behalf of shareholders and led to tax free capital gains. It was not surprising that restraint broke down in the summer of 1950.

In the spring of 1951 Mr. Gaitskell raised the profits tax to 50 %; this was followed by a sharp increase in share values and the Unions were not impressed. Dividends continued to increase and in July of that year Mr. Gaitskell proposed to bring in temporary legislation to limit the distribution of the dividends of companies paying out more than £10,000 a year until July 1954. This caused a temporary fall in share values; but the Labour Government did not last long enough to put the legislation into effect. In any case it would probably have had much the same effect as voluntary restraint in 1948 and 1949; profits would simply have accumulated and, indeed, many companies set up special funds in the summer of 1951 for distribution to shareholders at the end of the three-year period.

If the next Labour Government brings in a capital gains tax it is not likely to be much more effective in convincing the Unions that they are getting a fair deal. The Americans have had such a tax for years; but plenty of huge fortunes have been made from capital gains in the U.S. since the war. *Industry and Society* tells us that a capital gains tax of the kind envisaged by the Labour Party would still leave industrial property owners with an income of £370,000,000 or so a year from capital gains.

Would the share buying proposals of *Industry and Society* do anything to convince the Unions that other sections of the community were carrying their fair share of the burden? It is one thing for a Labour Government to acquire *all* the shares of certain companies at the market price on a certain day and pay for them by the issue of compensation stock. But it is quite another for a Labour Government to use revenue from death duties and insurance contributions to buy shares on the market at their "full market value" and without aiming at securing control.

The next Labour Government will need revenue from death duties for plenty of other things—such as improvements in the Health Service and in education—and will not be able to spare very much for buying shares. If it does use revenue to buy shares they will be only too likely to be sold again by a later Tory administration—if there is one. Moreover, the state bidding for shares in the market would be bound to lead to a sharp increase in share values and would add to inflationary pressure; and at the same time living costs would be rising as a result of increased insurance contributions. Under these circumstances a Labour Government would find it more, not less, difficult to persuade Trade Unions to moderate wage claims.

It may well be necessary for the National Superannuation Fund that is to be set up by the next Labour Government to invest in ordinary shares as well as in Government stock; but such purchases of shares can in no way be regarded as an extension of social ownership as the companies concerned would, like B.P., continue to be run for the profit of private shareholders. Workers in the employment of companies operating overseas, like the Unilever subsidiaries, would be especially likely to take the view that the British Labour Government was going into partnership with the capitalists to exploit the workers.

If the next Labour Government is to acquire shares, it should buy all the shares of specified companies at the market price on a certain day and pay for them by the issue of stock. *The Insiders* listed quite a number of industries in which a Labour Government might, after careful enquiry, find that the public sector should be extended. Among these were the banks, insurance companies and investment trusts; the larger firms in building and civil engineering where it is so important that public control should be exercised; the aircraft industry, mining machinery, heavy electrical equipment and locomotives; machine tools, radio, marine engineering, shipping, motors, heavy vehicles, chemicals, Pharmaceuticals and the chain stores. It is a list that includes most of the industries that have been proposed as suitable for nationalization in resolutions at Labour Party Conferences and there can be little doubt that such a significant extension of social ownership could do much to help stabilize prices and bring inflation under control.

All the same a considerable part of manufacturing industry would remain unaffected. *The Insiders* speaks of the place of co-operative and municipal ownership in a socialist society and suggests that some of the distributive oligopolies might be "endowed with a co-operative structure." Detailed proposals of this kind were indeed put forward by Professor Cole in his book *The British Co-operative Movement in a Socialist Society*; and the Labour Party itself proposed in 1949 that certain insurance companies should be "mutualized" or organized on a co-operative basis like the mutual insurance societies.

But if it is a good thing to "mutualize" a few insurance companies and the chain stores, why not other companies too, as proposed in the Wood Green resolution at last year's Labour Party Conference? What exactly would this involve? What are the distinctive features of co-operative ownership? Surely the basic principles of the Co-operative Movement are two. In the first place the return paid on capital by a co-operative society is limited whereas in a company it is unlimited: in the one case production is for use while in the other production is for the profit of private shareholders. And in the second place a Co-operative Society is controlled democratically by its members who each have one vote irrespective of the number of shares held whereas companies are controlled by a few financiers or a managerial oligarchy.

If, therefore, we want to extend social ownership by the

direct application of co-operative principles to industry, we must do two things: firstly limit the return paid on capital by companies and secondly arrange for the democratic control of companies by workers and consumers. And it is important to recall that the limitation of dividends was one of the measures proposed by the last Labour Government as a way of bringing inflation under control and was also mentioned by several contributors to the *New Fabian Essays*.

Now the *temporary* limitation of dividends as proposed by the Labour Government in 1951 might not have been very effective as a measure against inflation because profits would have continued to accumulate on behalf of shareholders. But the permanent limitation of dividends is a very different matter. The shareholders would be expropriated; they would cease to be owners and would become creditors as preference shareholders and the stockholders of nationalized industries are creditors. Indeed, *Towards Equality* reminded us that the *vital* change brought about by nationalization is the replacement of equity share capital by fixed interest compensation stock.

If we want to bring inflation under control in a full employment economy it is no use tinkering with capitalism—as by bringing in legislation to *delay* the distribution of profits to shareholders. If we are to convince the Unions that the earnings of industry are being distributed fairly it is essential to alter the whole basis of the ownership of industry. The nationalization of a large number of companies in a variety of industries, as proposed by *The Insiders*, or of a few large key companies in several industries as proposed by *Socialist Union*, may well be needed sooner or later. But it seems probable that it would place the Labour Party at an electoral disadvantage if included in the party programme at the next General Election.

On the other hand the extension of social ownership by the direct application of co-operative principles to industry would be electorally popular. Polls have shown that the idea of workers' participation in ownership is popular both with active Labour Party workers and with liberal minded voters. So also the idea of limiting dividends as a measure against inflation is popular with the public as well as with Labour Party people and has been repeatedly demanded by the T.U.C. As the Cohen Report reminded us, ordinary dividends

have been rising "substantially faster" than wages since the Tories were returned to power and they have risen more than wages since any date since the end of the war. They are still rising today in spite of the credit squeeze; and many liberal minded voters recognize that this profiteering has inflationary consequences. If all large companies were "mutualized" the return paid on capital would be limited as permanently and effectively as if they were nationalized. The policy could be put over in the name of partnership and price stabilization and the Tories would be quite unable to denounce it as State Grab.

There is a strong political case as well as a strong economic case for the next Labour Government to bring in legislation for the permanent limitation of the dividends of all larger companies without delay, making it clear that it would, be reintroduced on the same basis later if any Tory Government attempted to modify or reverse it. The Labour Party should take advantage of the Robert Owen centenary next autumn to place a new emphasis on the co-operative side of socialism.

The Labour Party constitution declares that it is the purpose of the party to secure for workers by hand and brain the full fruits of their industry upon a basis of common ownership, to secure "the most equitable distribution" of the earnings of industry that may be possible and introduce the "best obtainable system of popular administration and control." The *Victory for Socialism* Manifesto talks about the rapid extension of social ownership in all the centres of financial, commercial, industrial and landowning power, about workers' and consumers' participation in management and about the elimination of the gambling functions of the City. Surely we can go a long way towards achieving these aims by incorporating the co-operative principle of a limited return on capital in company law, by dividing the surplus earnings of industry between the workers, consumers and the community, and by issuing shares carrying equal votes to both workers and consumers. If we are to achieve a significant extension of social ownership within the lifetime of a single Labour Government it will surely be necessary to proceed not only by nationalizing certain companies after thorough enquiry but also by replacing capitalist forms of ownership by socialist ones right through industry by the direct application of co-operative principles to industry.