# Inflation: unions not guilty

By PAULA JAMES

WILL IT be necessary to link a programme of economic recovery with an incomes policy?

The general assumption, which is challenged here, is that intervention in the wage bargaining process is crucial for sustained growth.

This issue is pre-occupying Britain's political parties. For now that inflation appears to be well under control, the next step is to help the economy to recover without generating a new prices explosion.

Conventional wisdom has it that a neo-Keynesian reflation must be undertaken in tandem with an incomes policy. For without controls – we are told – unions will force up wages and fuel a general rise in prices.

The evidence discredits this assessment, but in the debates on incomes policy the historical facts are rarely allowed to intrude.

● The Tories, through the Chancellor, Sir Geoffrey Howe, reject a formal incomes policy. Their position is that the realities of the marketplace (coupled with low pay norms for the public sector) are sufficient to curb expectations.

● Not so clear is the position of the Labour Party, which is hiding its intentions behind some vague notion of a "national economic assessment" which is intended to enlighten shop stewards and guide them to realistic pay settlements.

● The Liberal-SDP Alliance, after an initial burst of enthusiasm for a statutory incomes policy, has now clouded its views. The Liberals seem to be weakening on their intention to penalise – through the tax system – firms that agree to high wage increases.

But the SDP leader, Roy Jenkins, has firmly staked the credibility of the Alliance's strategy for economic recovery on the need for legally-enforceable wage controls.

The one point on which all parties agree, however, is that employees can and do affect the rate at which prices rise.

*This conviction can only be the result of an examination of the entrails of a chicken!*

IF UNIONS were responsible for initiating price rises, the share of the annual output of goods and services appropriated as wages and salaries ought to be on an increasing trend.

In fact (see the table), employees' take-home pay has declined consistently from the mid-'50s to 1972, when Tory Chancellor Anthony Barber dramatically increased the money supply and triggered off record levels of inflation in the mid-'70s.

The total cost of labour to employers did rise, as a percentage of their net revenue, but employees cannot be blamed for this: the rise is attributable to acts of government.

There was a marked increase in taxation – what Mr. Ron Burgess calls the "pay bargain tax wedge". This more than doubled between the mid-'50s and the early 1970s.

Mr. Burgess, the 59-year-old Director of the Economic Study Association, points out that the take-home pay of employees was on an increasing trend up to 1955. This movement then terminated: "Some force – I know not what – started working the other way."

But of one thing he is certain: the full post-war wages cycle cannot be explained in terms of aggressive unionisation or unemployment trends.

But the pay bargain tax wedge was significantly and positively related to the rate of unemployment. The increase in the government-imposed costs of employing labour generated unemployment as employers sought labour-saving alternatives.

"There has been an underlying trend in unemployment since the mid-'50s, and the persistent increase

## MP exposes tax 'looting'

● Jeff Rooker

SINCE 1979, the competitiveness of British goods has deteriorated by 22 per cent, according to the government's chief economic advisor, Prof. Terry Burns.

About 17 per cent of this was due to labour costs rising faster than those of competitors' costs, and 5 per cent to movements in the pound.

This assessment appears to support the government's view that trade union power has to be mitigated if there is to be a recovery in industry.

The facts, however, are open to an alternative view that conforms to reality, if not to Conservative ideology.

Since the Tories came to power in 1979, workers on average and below average wages have enjoyed a real increase in net earnings of only 0.5 per cent – because of the rise in the tax burden.

Government fiscal policy, not militant unions, is responsible for the rise in labour costs.

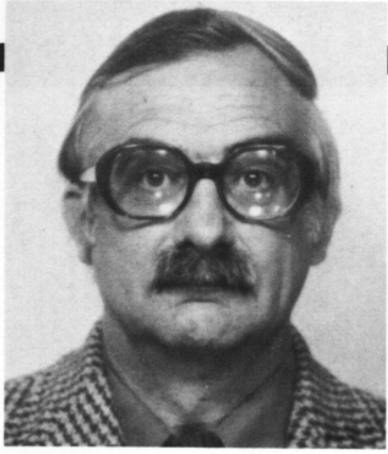
LABOUR MP Jeff Rooker elicited from the Treasury the facts contained in the table. These reveal that:

● A married couple with four children, receiving two-thirds of the nation's average wage, suffered a tax increase of 45 per cent since the Tories came to power early in 1979.

● A man with two children earning the average wage of about £160 suffered a tax increase of 12 per cent.

● The rich, however, enjoyed tax cuts amounting to a fifth of their earnings, if these were ten times the average.

Mr. Rooker condemns the tax shifts as the "looting" of the earnings of the poor.



● Ron Burgess

● Roy Jenkins

● Sir Geoffrey Howe

in the tax wedge is a major cause of this," Mr. Burgess told *Land & Liberty*.

He is equally certain that employees do not cause inflation. They may be conductors of inflation but they are not responsible for generating the inflation in the first place.

At best, politicians can object to the fact that employees have resisted the effect of inflationary pressures; but that success was a partial one.

Incomes policies, then, are bound to fail: "There is no evidence that they would affect the trend, because it would seem that the trends are stronger than the government incomes policies that have been tried so far.

"What you usually find is that the incomes policy breaks down after a year or two, and the take-home pay cycle tends to re-establish itself. The policies just muck it about for a year or two – causing a kink in the trend."

**"And this is at the same time that the government admit to cutting over £1.4bn from the social security budget in 1982/83, half of which has been taken from pensioners," says the MP for Birmingham Perry Bar.**

**Equity considerations apart, the government needs to drastically rethink its analysis of what causes the prices of British goods to be at a competitive disadvantage in the international markets.**

**Income Tax and National Insurance as a percentage of earnings at different levels in 1982-83 compared with 1978-79 for different families.**

| | $\frac{2}{3}$Av | Av | 5xAv | 10xAv |
|---|---|---|---|---|
| Single | +10% | +5% | –12% | –22% |
| Married, couple, no children | +16% | +8% | –12% | –21% |
| Married couple, 2 children | +25% | 12% | –11% | –21% |
| Married couple, 4 children | +45% | 19% | –9% | –21% |

MR. BURGESS, a former advisor to Sir Keith Joseph (the first Minister of Industry in Mrs. Margaret Thatcher's Cabinet), has few doubts about the cause of inflation.

"The underlying pressure for inflation is the slice of the cake appropriated by government as tax revenue, plus the excessive borrowing requirement.

"If the government is trying to take too big a slice of the cake, the main way to do it is out of the share that goes to employees. But if employees won't play, then the government's only answer is to print money. This reduces take-home pay by unexpected inflation."

Official policy, then, has two choices only: either

● Adopt a centrally planned economy, in which economic considerations do not dictate decisions; or

● Leave the free market alone (or limit interference to *improving* the lot of employees, who are wealth-creators, after all).

Unfortunately for the Prime Minister, however, the tensions in her strategy arise from an ambivalent analysis of the causes of inflation.

On the one hand, the government blames employees: hence the attack on trade unions and newly-legislated controls over their power and rights.

On the other hand, her monetary policy is predicated on the theory that inflation is caused by profligate government spending financed by the simple expedient of increasing the money supply faster than the output of goods and services.

Analytical confusion was bound to lead to a mish-mash strategy with no coherent end in view: hence the government's inability to present Britain with a convincing programme for rescuing the economy from the slump.

Will policy be any more coherent after the next election? *It is doubtful.*

U.K. LABOUR COSTS AND TAXES, 1938 to 1981

% of employers' net revenue[1]

| | Employers' labour cost[2] | Employees' take-home pay | Pay bargain tax wedge[3] |
|---|---|---|---|
| 1938 | 55.6 | 52.6 | 3.0 |
| 1946 | 59.1 | 52.3 | 6.8 |
| 1947 | 59.2 | 52.9 | 6.3 |
| 1948 | 58.1 | 51.5 | 6.6 |
| 1949 | 59.0 | 51.7 | 7.3 |
| 1950 | 59.2 | 52.2 | 7.0 |
| 1951 | 60.2 | 53.0 | 7.2 |
| 1952 | 60.5 | 53.6 | 6.9 |
| 1953 | 60.1 | 53.6 | 6.5 |
| 1954 | 60.4 | 53.9 | 6.5 |
| 1955 | 61.8 | 54.9 | 6.9 |
| 1956 | 62.7 | 55.5 | 7.2 |
| 1957 | 62.8 | 55.4 | 7.4 |
| 1958 | 62.7 | 54.3 | 8.4 |
| 1959 | 62.3 | 54.1 | 8.2 |
| 1960 | 62.5 | 54.2 | 8.3 |
| 1961 | 63.4 | 54.4 | 9.0 |
| 1962 | 63.7 | 54.1 | 9.6 |
| 1963 | 63.0 | 53.8 | 9.2 |
| 1964 | 62.9 | 53.4 | 9.5 |
| 1965 | 62.9 | 52.4 | 10.5 |
| 1966 | 64.1 | 52.3 | 11.8 |
| 1967 | 63.9 | 51.2 | 12.7 |
| 1968 | 63.2 | 49.8 | 13.4 |
| 1969 | 63.1 | 48.9 | 14.2 |
| 1970 | 64.7 | 49.6 | 15.1 |
| 1971 | 63.7 | 49.1 | 14.6 |
| 1972 | 64.1 | 50.3 | 13.8 |
| 1973 | 63.3 | 49.6 | 13.7 |
| 1974 | 66.2 | 50.4 | 15.8 |
| 1975 | 69.4 | 50.8 | 18.6 |
| 1976 | 67.2 | 48.5 | 18.7 |
| 1977 | 65.7 | 47.5 | 18.2 |
| 1978 | 65.8 | 48.2 | 17.6 |
| 1979 | 66.4 | 48.8 | 17.6 |
| 1980 | 67.8 | 49.4 | 18.4 |
| 1981 | 66.7 | 47.8 | 18.9 |

SOURCE: Calculations by Ron Burgess of the Economic Study Association from the CSO's annual 'Blue Books' and *National Income and Expenditure of the UK 1946 to 1950*, London: HMSO, Cmnd. 8203, p.40, Table 27.

1. Excludes capital consumption and stock appreciation.
2. Employers' labour cost is income from employment plus Selective Employment Tax or National Insurance Surcharge.
3. Pay bargain tax wedge is the sum of income tax on wages and salaries and pay of HM Forces, employees' and employers' social security contributions, Selective Employment Tax or National Insurance Surcharge.