Productivity Pay in Britain

by SYDNEY MAYERS

AMONG those who advocate Georgist principles as a remedy for economic (and social) ills, there are a sizable number who fervently believe that the ultimate adoption of these principles is inevitable—for one specific reason. The reason, they confidently assert, is that when every other scheme that can possibly be conceived by economic planners has been tried, and has failed, there will be no alternative but the free economy advanced by Henry George. In desperation, say the patient optimists, George's proposals will *have* to be applied, if only as a last resort!

Whether this concept is valid, time alone will tell. One cannot deny there is a certain persuasive logic in it. Moreover there can occasionally be discerned, though perhaps very vaguely, an indication that, other efforts having floundered, the planners do in fact turn to authentic political economy in their search for an effective answer.

One such indication appears in a recent dispatch from London, reporting that the British government, notwithstanding its current ban on wage increases, has experimentally put into effect a system providing for certain pay-rises. The new regulation establishes higher productivity as the essential basis for higher wages. Further, pay increases will be considered not on a nation-wide or industry-wide basis, but at each individual factory. For example, if it is conclusively determined that a particular plant is producing more goods with the same labor, or as much with less labor, or if production costs are lowered or labor standards raised—then the so-called "productivity pay" can be allowed. In short, if the worker produces more, he will get more pay. As an offshoot of this arrangement, it is anticipated that consumers will benefit via lower costs or better quality, or both.

The intriguing aspect of this newly developed wage procedure is the tacit acknowledgment that wages come from production—a principle that George has constantly emphasized. Once this great lesson is learned by the British government and by Britain's workers and their unions, a long step will have been taken toward an awareness of one of the most fundamental (and least understood) economic principles: that the true and only source of labor's wages is the wealth that it produces.

Another noteworthy facet of Britain's productivity-pay experiment is that it has been adopted primarily as a deflationary measure. Inflation occurs when the supply of money is increased without a corresponding increase in goods and services. Britain is to be credited for realizing this generally ignored fact-of-economics, and for endeavoring to curb it, at least in one area. If the policy of making higher pay dependent on increased output is successful, as it should be, everyone concerned will gain: consumers will enjoy more and better goods, workers will receive more for their labor, and the United Kingdom's chaotic monetary problems will be proportionately alleviated.

It is only a step, to be sure; but it *is* in the right direction. Other steps can and will follow. And if "productivity pay" does succeed, as The New York Times correspondent says: "Britain may find itself setting an example for other countries."

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Frank Chodorov, a former director of the HGS, died in New York late in December. See next month's HGN for more about this long-time Georgist.