

PROGRAMME OF RESEARCH AND ACTIONS ON THE DEVELOPMENT OF THE LABOUR MARKET

E E C L A B O U R M A R K E T

S T U D I E S

By : University of
Cambridge

For : the Commission of
the European Communities
Brussels

ST. 81/23

43

PROGRAMME OF RESEARCH AND ACTIONS ON THE DEVELOPMENT OF THE LABOUR MARKET

E E C L A B O U R M A R K E T
S T U D I E S

By : University of
Cambridge

For : the Commission of
the European Communities
Brussels

ST. 81/23

V/621-83-EN

The studies described in this document were financed by the Commission of the European Communities as part of its Programme of Research and Actions on the Development of the Labour Market.

The analysis and results presented do not necessarily reflect the views of the Labour Market or on other policy matters.

Copies may be obtained, stocks permitting, from the Directorate General for Employment, Social Affairs and Education - Division V/A/1 - Commission of the European Communities - 200, rue de la Loi - 1049 BRUXELLES - to whom all enquiries should be addressed.

EEC LABOUR MARKET STUDIES

1. Flexibility in the use of labour and fixed wage-costs
2. Income maintenance
3. Inflation

Jill Rubery, Frank Wilkinson,
Roger Tarling

Flexibility in the use of labour and fixed wage-costs

1. Introduction

The policy discussion of the 1970s has been centered on the control of inflation and the principal point of view which has guided the discussion is the monetarist proposition that there is trade-off between wages and employment, that is high wages 'price people out of jobs' and hence cause unemployment (high wages being equivalent to high unit labour costs). At the same time productivity growth has been slow compared with previous post war trends, even making allowance for 'normal' cyclical movements, and labour mobility has been very low. Increasingly the economic orthodoxy has been attributing both high wages and low productivity to the failure of markets to adjust due to rigidities and there has been growing support for supply-side policies aimed at increasing the efficiency of market mechanisms.

But macro economic analysis of the 1970s has been unsatisfactory. The relationship between employment and output is generally conceived as a derived demand for labour and is postulated for the economy as a whole as if there were a single representative firm. The analysis at the macroeconomic level therefore parallels the analysis of the micro-economic level. There has been little discussion of how macroeconomic aggregates, such as average wages, the level of employment and aggregate productivity, and their interaction, may be influenced by heterogeneous behaviour of the individuals, groups and establishments which comprise the aggregate. The overriding belief is in the view that the economy system should be made to correspond as far as possible with the theoretical model. While heterogeneity and the existence of rigidities in market adjustments are accepted, they are treated as factors in general exogenous to the economic system determined by the social and political system in which they are found.

In this paper we shall discuss the nature of rigidity in the economic system, particularly as it affects the level of employment, and pay attention to the origins of these rigidities. Of particular importance are the interaction between social, political and institutional factors such as collective bargaining, employment legislation and the economic factors to create and maintain rigidities. But there is a perceived need for flexibility in the use of labour, not only posited by economic theory but also strongly felt by management as essential for the preservation and improvement of competitiveness. These needs may arise for cyclical reasons or as a response to a more general decline in the level of activity and may be desired in order to shift the burden of adjustment onto labour or they may have more explicit political motivation. By examining the sources of flexibility and the levels of organisation at which it can be achieved, we seek to show the conflicts inherent in imposing market adjustments in the real world.

Economic development has generally increased the flexibility of labour costs because of the growing size and complexity of methods of production and institutions. However the changing boundary between flexibility and rigidity in the market position of labour has been the consequence of changing social organisation, political attitudes and assertion of managerial prerogative under pressure from real wages, the level and conditions of employment and the system of social welfare. Seen in these terms, the 1970s, when growing uncertainty has increased the risks associated with fixed labour costs, can be regarded as a period of social and political crisis because social attitudes and institutional forms no longer permit the degree of flexibility in the use of labour which is required by individual firms.

Supply side policies to improve productivity, changes in social security systems to increase the incentive to work at lower wages, reductions in the so-called 'monopoly power' of trade unions to undermine

wage levels and lower the costs of hiring and firing labour, measures to reduce employment protection to increase the vulnerability of women in the labour force and work-sharing to lower the incidence of full-time unemployment and spread the incidence of unemployment are all policies which are aimed at improving competitiveness through lowering labour costs and increasing profitability. The belief in the primacy of the profit motive is based on a belief in the success of that motive in achieving growth of real national income and will be misplaced if the level of conflict over the allocation of real national income between wage earners, dependent population and capitalists rises and if the market opportunities for renewed expansion are either not forthcoming or not taken. The question of flexibility in the use of labour or in output levels and product range is central to the debate as to what are appropriate policies in the labour market and the workplace to accompany the macroeconomic policy strategy and, while we shall not be discussing the merits of alternative strategies in this paper, it is important to recognise that the analysis presented here is in conflict with a number of strategies currently proposed and raises major objections to the structure of those strategies: if the normal process of economic development is one in which social and industrial organisation has a significant role to play and a strong interaction with economic conditions, macroeconomic aggregates such as average wages, and price inflation and the level of employment are not well-defined targets whose outcomes are to be supplemented by a package of liberal measures outside the market to ameliorate the social consequences of these outcomes.

Flexibility of labour costs

Economists have traditionally regarded labour as a variable factor of production and would expect unit labour costs to be independent of the level of output. The observation that this is not the case and that when adjusted for trend productivity growth unit labour costs move counter-cyclically have led many economists to conclude that firms hoard labour (). However, despite the attention paid to the labour 'hoarding' phenomenon there is no readily available systematic analysis as to why labour cost per unit of output varies widely.

From the employer's standpoint labour cost would be completely variable if the input of labour effort to the firm was directly linked to the level of output and if the payment for that effort was indexed to the price of the firms product. This theoretical ideal could only be achieved if the firms could continuously adjust its labour force in line with its demand and if the movement of the price of its product was the same as the movement of all other prices. A less extreme definition would be that labour costs were variable if averaged over some normal planning period the firm could adjust its labour force in line with the demand for its services. However an examination of the issue shows that for technical, organisational, institutional and legal reasons at least part of the cost of labour to the firm is fixed irrespective of output so that unit labour costs vary.

Reason for labour fixity

a. Technical

Labour is essentially a complement to capital rather than a substitute as generally assumed by conventional theory. This is not to say that labour is completely invariable with respect to capital equipment but that there is a minimum level of labour input associated with a given technique and so unless capital equipment can be adjusted easily to

output then neither can labour. The extent to which capital equipment can be varied with output varies widely both in terms of the vintage of the machine and its output. In a clothing firm it is quite easy to reduce direct labour in line with output as one person operates one sewing machine. On the other hand, in a textile factory where one person operates a high speed loom capable of a large quantity of output and in a steel works operating a large blast furnace with a wide range of outputs but a fixed minimum crew, labour costs to the firm are less flexible. But fixity of costs is not confined to direct labour. The size of the maintenance (fitters, electricians etc.) and ancillary (crane drivers, transport etc.) labour force is only partly dependent on the level of output.

b. Organisational

Organisational factors which operate at the level of individual companies or establishments include managerial and other staff costs. In the operation of any business activity, there are a number of tasks which are not directly related to production. These will include finance, marketing, personnel and stock control, both of raw materials and finished goods, all of which are in some part related to the size of the establishment as a business venture rather than to its day-to-day level of activity. Management, and its associated office staff, are generally part and parcel of the establishment unit and are only likely to change with major decisions on the 'normal' level of activity. Other non-manual staff, such as catering and cleaning employees and secretarial services, and manual workers who are not direct production workers, such as those in despatch, may be regarded as overheads in relation to production but may be more closely related to through part of the number of direct production employees, and hence more variable in numbers as the level of activity alters.

c. Hiring and training

The cost of hiring and training staff depends on the net acquisition to the labour force and its training and retraining, both of which can be regarded as related closely to output, and labour turnover, which is not. A high percentage of the training a firm provides will be in specific skills and this investment will be embodied in the labour force. The need a firm has to recover its investment in training and secure a reasonable rate of return means that it has motives for retraining the labour force which are independent of current output levels (). This quasi-fixed factor status of labour is enhanced by the fact that workers also embody the benefits of learning by doing and that the firm is a social as well as a technical organisation. Investment in specific skills enhanced by experience and knowledge of the firms technical and social organisation places a premium on long service staff which is independent of current output levels.

d. Fixed labour costs

Firms also face expenses associated with employing labour which are independent of its productive activities. These include the cost of social security contribution (both state and private), insurance, the maintenance of health and safety standards, statutory right to minimum periods of notice of dismissal and other measures to protect employment and redundancy and other forms of severance payments. It is also possible to include in this category fringe benefits such as sports and social and other welfare provisions (for example medical and dental service).

e. Institutional

The institutional constraints on the flexibility of labour costs are usually associated with collective bargaining between employers and trade unions. Parts of the agreements are concerned with minimum conditions, such as minimum time rates and piece rates, guaranteed working weeks and guaranteed weekly earnings. Other parts of the agreement impose such terms as agreed manning levels, demarcation between skills, holidays (with holiday pay agreement), the normal working week and guaranteed payments for non-productive time for payment by result workers. Agreements may also specify sick pay and occupational or company pension schemes. Finally agreements may impose restrictions on lay-offs, provide for a guaranteed working week to limit short-time working and lay down procedures for agreeing and implementing redundancies.

These agreements therefore limit the flexibility that individual employers may have over their total cost. Agreements are also made over rates of pay, the make-up of pay (including various payment-by-results schemes, other incentive schemes, bonuses and attendance allowances) and prices for overtime and shiftworking. The type of shifts to be worked, such as night shift, twilight shifts, double day shifts and 'continental' three-shift systems, are also likely to be the subject of negotiation.

Collective bargaining is about the distribution of income but it also embodies the conflicting attitudes of employers and their workers to employment. Within the constraints of the need to maintain an efficient workforce which, for the reasons discussed above, may necessitate a certain fixity of labour costs, an important concern of employers will be to maintain a flexibility of labour costs with respect to both output and product prices. By contrast labour organisation will include amongst their objective securing and maintaining job security establishing 'property rights' to skill and to the operation of certain

machines and the working of particular materials; and income security in terms of the cost of living. Collective agreements will necessarily be a compromise between the objectives of employers and those of the employed.

In general terms the more effective the organisation of labour the greater will be the fixity of labour costs. However it is unlikely that trade unions will be able to establish terms and conditions of employment completely independently of product market circumstances and more general economic conditions. Specific examples of the response of trade unions to different economic and institutional environments will be cited in the next section. Here our attention will be concentrated on the more general question of the impact of the institutional determination of wages and conditions of employment.

The impact of collective bargaining depends partly on the level at which negotiations take place and the effectiveness by which agreements are implemented. Traditionally in Britain in manufacturing industries and other areas minimum wages and other conditions of work have been fixed by national bargaining. The implementation of these minima, the extent to which they have been exceeded and the successful imposition by workers of working rules (demarcation, seniority etc.) have depended on local bargaining. This two tier system is in sharp contrast with the collective bargaining structure in, say, the US where company bargaining is the norm.

However in Britain there has been a general movement towards company and plant bargaining and agreements with more comprehensive coverage and, in particular, a more formal establishment of working rules and pay and employment structure more closely tailored to the firms needs. The tendency therefore has been an increasing separation between the firms labour force and the external labour market and the growth of 'internal labour markets' whereby workers advancement

depends more on their position in the firms than in the external labour market.

The development of internal labour markets has been variously interpreted. Doeringer and Piore explained the structuring of markets in terms of the specific skills and construction of employment required for modern technology. Radicals saw such developments as ways by which capital controlled labour (). Other authors have emphasised the importance of labour organisation in securing control of entry to secure privileged access to employment opportunities and to form a basis for effective organisation. In this latter case the vertical divisions in the labour market from plant, company and industrial organisation serve a similar function to the more traditional horizontal craft divisions.

However the existence of internal labour markets are explained, it is generally recognised that a secondary labour market exists where wages are low and employment systems unstable. This is explained by Doeringer and Piore and the Radicals in terms of quality of the labour. However institutional explanation of labour market structures emphasise the importance of restriction of entry on the demand side and non-competing groups on the supply side in explaining the existence of low paid sectors. By this latter argument low pay measures the relative disadvantage in the labour market rather than relative quality.

The different explanations for the structuring of labour market provide alternative answers to questions about the fixity. Fixity of wage costs are explained by Doeringer and Piore by the use of modern technology and the higher degree and specification of associated skills. Radical explanations explain internal labour market organisation in terms of successful capitalist strategies and hence argue that these are methods by which fixity of labour cost are exchanged for enhanced labour control. The trade union control explanations suggest that the

cause of wage rigidities lies in collective agreement but also suggest that the existence of sections of the labour force excluded from the primary sector not by their quality but by the lack of organisation provides ways by which labour costs can be made flexible if firms can shift their labour market location towards the secondary sector or sub-contract a part of its production there.

Control of wages and conditions in the secondary sector of the labour market poses special problems. In Britain the switch towards company bargaining has been accompanied by the collective agreements specifying minimum earnings levels for a normal working week. Wage increases are awarded only to those workers with earnings less than their minima. However these minima are considerably lower than average earnings and only apply in those areas which are most weakly organised. It is also to be expected that these are the areas where trade unions find it least easy to impose other forms of control and consequently where labour costs are most flexible. The pattern of low minimum wages and conditions of work and little active organisation is repeated in those areas covered by legal minimum wages in Britain but here the minima are generally significantly lower than those established by collective agreement and unions play no significant role in enhancing the minima or establishing other forms of control.

There can be little doubt that institutional factors are important in increasing the fixity of employment cost. However this effect is not universal and it is possible to rank firms and industries ranging from the most effectively organised in which labour costs are fixed almost entirely by agreement to those where there is no effective organisation and, subject to very low minimum, labour costs are unilaterally determined by management.

Thus it is to be expected that at any one time a firm will have a fixed complement of workers more or less independent of the level of output. The proportion of labour costs which are fixed will depend on the technical, organisational, legal and institutional factors discussed above. But the operation of these factors are not independent of the product and labour market environment in which the firm operates and the incidence of the various factors fixing labour costs varies widely between firms, industries and through time. These differences are explored in the next section and the following section considers ways by which flexibility of labour costs is increased.

Variation in the flexibility of labour costs

The extent to which a firm will require flexibility in its labour force will depend on the type of product, scale of production, the division of labour and the degree of specialisation of the labour force. A simple example will illustrate the importance of these variables. Suppose a firm produces a 1000 pairs of sock per normal working week in an equal number of 10 different styles using 10 machines each capable of producing 100 pairs of complete socks in a week. If each operative is completely specialised in the production of one style the firm would need 100 workers working 1/10 of a week each. If, however, the firm produced one style or if the workers could produce any style 10 workers could be employed full time. An alternative form of organisation would be to design machines to specialise in one stage of production. If it is assumed there ^{were} / 10 stages of production and each stage was capable of 1000 components per week of any style the firm could meet its output target with 10 workers working full time.

If the assumption of fixed output is dropped and we suppose that output falls to 900 it can be shown that the method adopted by the firm to adjust its labour force will differ according to the degree of specialisation and the division of labour. To reduce direct labour costs in line with output the firm could: reduce the hours worked where workers were specialised in the production of one style of complete socks, and where division of labour had been applied to the sock production but would have the choice of short term working or reducing the labour force by one in the case where non-specialised workers produced complete socks or where the firms specialised in one style of socks.

However it is unrealistic to assume that the division of labour would yield no benefits in the form of increased efficiency. If this was the case the firm would reject this form of production whenever there were any fixed costs of production and where demand was uncertain - because as the division of labour fixed the size of the labour force unit costs would be inversely related to the level of output. If we assume that with a higher degree of division of labour the firm would use less labour then the firm would trade off the increased risk of the fixity of labour costs against a lower cost of production at full capacity operation.

The introduction of production line methods also increases the inflexibility because unless production is increased sufficient to operate the new method at full capacity labour costs would rise unless the firm could hire labour on terms other than a fixed normal week and without fixed costs.

So far the discussion has been confirmed to process workers but the argument advanced above apply with equal force to ancilliary, service and administrative staff. The potential fixity of cost will vary inversely with strength of the link with output and directly with the degree of specialisation of skill in terms of the firms total demand for different types of skills. The rest of this section will illustrate the operation of the various factors contributing to the fixity or otherwise of labour costs.

a. types of products and systems of production.

There are many products where specification and design vary considerably. Construction is an important example where the range of activity varies from custom built housing in bulk to special civil

engineering projects such as dams, power stations and even office building. Firms tend to specialise (for example, some firms are solely concerned with repair and maintenance) but, particularly for those firms dealing with large scale projects, jobs will be one off and the production side transitory. To maintain continuity of employment would require a careful scheduling of projects even if the building industry employed workers with generalised building industry skills. In fact some considerable degree of the division of labour has been applied to building and the labour force is characterised by a wide range of highly specialised crafts and loosely integrated production stages. The process of production consists of the planning, site preparation, main construction and finishing and each stage is subdivided into specialist tasks each of which is required for a short period of the total construction period. Consequently construction activity is frequently a set of fragmented tasks so that the major problem may be one of co-ordinating the production process in terms of a sequence of tasks often carried out separately by independent contractors. On the other hand, there is sufficient overlap between projects for firms to maintain a core of permanent employees and the tendency to do so has been reinforced by the growth of standardised components. Nevertheless the nature of construction industry products and the process of production requires a high degree of labour force flexibility which is achieved by temporary employment or the employment of specialised sub-contractors who can only permanently employ their workers by carrying out construction tasks on a succession of sites.

Shipbuilding provides an example of a system of labour organisation with problems analogous to those of building and construction. Ships

are large one off products with a long planning and gestation process and the process of production is typified by specialists in skills. However shipbuilding is localised in shipyards and the extent of continuous employment depends on the size of the yard - i.e. the number of ships which can be constructed at one time - and the degree of specialisation.

One important difference between shipbuilding and construction is the higher degree of unionisation in the former. In Britain the structure of unionisation in shipbuilding reflects high division of labour typical of nineteenth century shipbuilding methods. This and the temporary nature of shipbuilding employment led to a system of vigorously enforced demarcation rules which has reinforced crafts specialisation and hence the temporary nature of employment and the problems of labour inflexibility. Other countries employ less specialised workers with general shipbuilding skills and their greater inter-change-abilities between tasks makes labour costs more flexible and employment more permanent.

Mechanical engineering provides a useful contrast to construction and shipbuilding. Mechanical engineering consists of both long runs of standard products and a considerable number of short runs on one off products and generally components are produced for assembly into a wide range of products. But here the components are relatively small and both the components and the machine tools used for their production are versatile and so the problem of adjusting the labour force to demand is less acute than in shipbuilding and construction.

Steel production and oil refinery stand at the opposite end of the spectrum producing a continuous flow of homogeneous products on a very

large scale with closely integrated processes. In this case the labour force, at least that part directly involved in production, is largely independent of the level of output.

Adjustment to changes in demand and competitive conditions.

Differences in products and processes of production may therefore necessitate flexible access to skills from the external labour market, have differential impacts on occupations within the firm and require individual operators to be capable of a wide variety of tasks even if the level of output remains constant. But through time demand will change and may fluctuate widely and in competitive conditions faced by the firms will also vary. Adjustments to such changes can take the form of changes in the size and structure of firms and industries in which case the effect on labour costs would be more indirect or firms could directly effect labour by adopting for example, new forms of labour organisation, changing payments systems and adopting different techniques of production.

a. Changes in structure of firms and industries

Over an industry as a whole, where different firms specialise in products with different cyclical patterns of demand, the number of firms may vary or the allocation of demand between firms may change. Large firms may be also able to subcontract peaks in demand to smaller firms who become increasingly vulnerable to closure when demand declines. The effect of subcontracting is to permit the large firm to operate at a generally higher and stable level of capacity utilisation by putting out excess demand and concentrating production on its own plant as demand declines thus avoiding the cost of adjusting its capacity to fluctuations in demand. However sub-contracting is one of many ways by which a firm

may externalise the costs of adjusting to changed demand. In the product market, firms may seek to produce only to order, thus translating the costs of carrying stock into uncertainty of supplies for wholesalers or retailers and waiting time for the final buyer. Firms with a sufficient degree of monopsony in markets for components may order only to need, thus eliminating stockholding and reduce the speed of payment, thus transferring costs and uncertainty to the suppliers.

A firm might also achieve considerable flexibility in operation by producing a wide range of products. A diversified product range, for example spanning mass produced standard products and quality products produced in small batches, provides the establishment with the opportunity to cross-subsidise its activities and remain in operation. In general, such an organisation of production would require flexibility in the use of labour of the types discussed but where the products require common tasks, such as a range of different quality footwear, diversification of products may be a way of utilising inherent flexibility in the labour force.

Product innovation on a major scale generally requires a flexible use of labour but the ability to innovate through the modification of existing designs may well be a source of operating flexibility not requiring changes in employment. Organisation of production geared towards this process of product modification may be accompanied by a technology (for example, numerically controlled machines or computer aided design) which facilitates a flexible use of labour by achieving the flexibility through mechanical means and limiting the flexibility required of the labour employed.

The firm may also increase flexibility in operation by retaining machinery even after it has been technically superceded. The co-existence within the firms of machinery of different vintages provides flexibility in the boom, the firms using the relatively obsolete machinery as reserve capacity, or even in the slump, because the cost of operating less efficient plant at full capacity will be lower than operating more efficient plant below its full potential. In footwear firms reduced the costs of operations by buying obsolete machinery at very low prices and ending leasing arrangements for more modern equipment thereby eliminating high overhead costs. The transfer of individuals between machines of different vintage may lead to lower average weekly earnings, and hence the benefits of such change may require flexibility in pay systems.

For an industry, the mix of firms using high and low level technology may provide a flexibility in the use of labour not possible within individual establishments. Firms employing high level technology are generally large and have well organised labour forces covered by a number of collective agreements on pay and conditions. The existence of a secondary tier of firms requires either the availability of low cost labour (generally unorganised) in order to compete in the same product market or a complementary product market dependent on subcontract work from large firms or specialised products such as high quality ranges. Levels of skill and productivity may be as high in the low technology firms but their survival frequently depends on the ability of the employers to operate with lower rates of labour cost. One way of achieving this would be to subcontract highly skilled work to avoid the necessity of employing workers on a full time basis at skilled rates but

only utilising them part-time on skilled work.

Flexibility in operation can therefore be secured by large firms using the small firms sector to provide flexibility in the production of final products and the supply of components thereby maintaining more stable levels of production and shifting risk. The achievement of similar results is allowed by changes in the mix of products and productive techniques. The primary sector therefore in practice uses the secondary productive sector as a hedge against uncertainty and this is made the more effective if the core sector has access to groups in the labour market not covered by employment legislation or collective agreements, either directly - by changes in the pattern of hiring and firing - or indirectly by sub-contracting to firms employing such workers. By exploiting the labour market disadvantage of groups such as women, immigrants, young people and pensioners, firms may achieve more flexibility in the level of employment, particularly in relatively unskilled occupations, when faced with risk and uncertainty shifted to them by other firms.

The advantages of the availability of groups in a weak bargaining position is not necessarily confined to employers. Primary workers can retain their status in an uncertain world if the cost of adjustment is mainly carried in the secondary sector. Indeed the existence of a secondary sector may be an important element in securing primary employment conditions. The securing of agreement between well organised workers and their employers is made all the easier if it is possible to displace some or all of the cost of the agreement to a third party. In this respect one of the most significant features of the development of the German labour market in the 1970's in conditions of growing

unemployment is the increasing expulsion from primary employment sectors of immigrants, women, the disabled, the young and the old. This has been partly achieved by raising hiring standards by insisting on higher levels of qualification but there is no evidence of a proportional increase in the skill contents of jobs. (Sengenber, Kuhl 1981).

However although the existence of an unorganised and disadvantaged sector of the labour market may provide a sponge to absorb risk and the effects of collective bargaining, the continued existence of a large secondary sector poses a continuous threat to the organised sector, particularly in a period of prolonged unemployment when the benefits to the firm of primary employment conditions which guarantee labour supply are reduced. Firms can exploit the secondary sector by systematic sub-contracting or by interregional or even international relocation of production. Moreover the existence of a low paid readily exploitable sector provides the basis for successful competition by small firms (or both a national and international basis) which undermines the primary sector. This process is enhanced in periods of prolonged recession and growing uncertainty when the fixed costs of large scale organisation and associated employment systems are becoming increasingly risky. As a result the 1970's have seen a growing casualisation of the labour force throughout the advanced industrial economies despite the growth in the previous two decades of legal and organisational support for job protection (Wilkinson 1981). The changing industrial and labour market structure resulting at least partly from the growing crisis in advanced industrial capitalist economies provides the background for the discussion of more direct ways of increasing labour flexibility.

Sources of increased flexibility in the use of labour.

New technology.

Technological change within establishments may provide the opportunity for redefining job content or for restructuring tasks to be performed. Although this may amount on occasion to deskilling work or to increasing the division of labour, much of the gain (to employers) comes from the opportunity to alter the terms and conditions of employment and increase control. A redefinition of job content may require an increase in skills to perform the task or raise the productivity of the job but the renegotiation of rates of pay and bonus may permit the employer to settle at pay levels which, although higher than previously, may provide lower labour costs per unit of output. Restructuring tasks can similarly lower overall unit labour costs and may also regroup employees under different bonus/incentive schemes. One example of such a change is the division between the check-out function and customers service effected in retailing. The job of a retail assistant is effectively deskilled but with modern technology, the check-out machines may perform many increased functions through the transfer of information, such as stock control and financial control. The job of a check-out assistant, though possibly deskilled, may actually contain much greater responsibility for the handling and transfer of information.

Information technology is an increasingly important factor in altering the structure of tasks and changing the relation between operatives and machines. Electronic transfer of information can increase the part of the production process which is routinised, for example through robotic operations, and the ability of instructed

machines to produce perfect copies to precise specifications increases quality control for many operations. A consequence of this type of technology is that it tends to polarise workforces into design and technical groups, concerned with setting up and initiating production, and those concerned with assembly, packaging and despatch. The latter jobs may be highly routinised and require low skill levels, thus allowing easy transfer of labour between tasks, and the former group mostly comprises individuals with general qualifications and training who are therefore capable of dealing with task variations and whose jobs are surrounded by an ethos which expects them to do so. The consequence of such a polarisation of tasks is a much increased flexibility of the employed labour force, once the technology has been introduced. However, technology can introduce its own inflexibility if tasks are not completely deskilled and if successful operation of the new methods is dependent on the very high skills of a small group of workers.

Information technology is also capable of relocating control and responsibility. Within an establishment, efficient collection of information provides data on quality and rate of throughput which can be used to provide a more efficient use of available labour: job times are better measured and the sequence of operations can be more easily manipulated to allow full utilisation of labour and reduce waiting time. Between establishments, information transfer can allow some relocation and centralisation of the supervisory function as well as the management function. Such methods are usually capital intensive and raise the minimum efficient scale of production requiring some sacrifice of the flexibility benefits of smaller scale operation.

a) organisation:

A more rapid and accurate transfer of information can improve decision making on the benefits of centralising or decentralising production. The improved co-ordination of activities afforded may, for example, allow a production process which can be easily divided to be dispersed to different locations to utilise different sources of labour or to maintain the volume of work at different establishments. Allocation of work, particularly between establishments, may be an important way in which enterprises improve their use of labour and increase the degree of control over their workforce. Some establishments, as some machines, may only be effectively utilised for peak production levels. If these establishments are located in areas with a captive labour force (for example, where the establishment is a major employer or requires firm-specific skills), employment levels may be varied in line with production, so that a particular establishment bears the brunt of variation in production levels for the enterprise as a whole. Such a method of organisation is becoming increasingly common among multi-national companies who site plants in low cost countries and create jobs which may be more cyclically vulnerable than jobs in indigenous firms. Alternatively a firm can shift production, or threaten to shift production to overcome restrictions imposed by trade union organisation.

Reallocation of work within establishments is not accomplished so readily. It frequently depends on establishing multi-task job definitions so that individuals can be easily transferred between jobs, and needs to be supported by a suitable payment system. Multi-task jobs do not however have to be filled by experienced highly skilled older

employees. An internal training scheme based on job rotation is capable of providing the necessary workforce, although there then needs to be some effective constraint on the turnover of the labour force.

At the opposite end of the scale, highly fragmented production processes where the tasks are easily defined and quite separate can be divided between establishments and/or groups of workers. Construction is probably the best example where the tasks are well-defined but necessary only for a part of the production activity (e.g. bricklaying) and the whole activity is at a fixed site for a relatively long period of time. It is then far easier to sub-contract various parts of the production activity to gangs who are employed on a number of different sites by a number of different contractors over a period of time. The system of subcontract labour therefore shifts the costs of inactivity from the contractor to the employee but, to be effective, it is necessary that subcontract labour be readily available either because the whole industry is organised in this way or because there is a captive labour force available. Many other forms of subcontracting are to be found in the early stages of production, for example design shops or manufacturing components, or at the end of the process, usually in assembly or packaging. The early stages are generally subcontracted to other firms whilst the latter stages are more likely to be put out to particular labour groups, such as immigrants or married women who may be organised into gangs or subcontract individually.

There are however limitations to subcontracting other than the availability of suitable firms or groups of individuals. Components may need to be produced to detailed specification or high precision in which quality control may force in-house manufacture. Assembly work depends

on the ability to separate the task, especially given the spread of automated methods, on the suitability of the task to a piece rate system of pay, and on the ease of transporting parts and finished products. Much of the assembly work subcontracted will be to homeworkers. But a number of industries, for example cutlery, provide examples of inwork by groups on piece rate and of outwork organised at independent establishments ('the little masters') where individuals do not have contracts of employment but are provided with a place of work (usually for locating the employees own machine) and a gang leader who subcontracts for the work. The piece rate system of pay is however a fundamental component of this organisation of production since it relates costs to activity levels and increases the employee's share of the risks of unstable demand.

However the possibilities for sub-contract are not confined to industries where the stages in the production process are not closely integrated and to putting out work to separate establishments. Even in oil refining and steel production many ancilliary operations and services can be readily separated from the main processes without loss of operating efficiency. Obvious examples are maintenance, road and other forms of transport and the provision of services such as catering, clerical, financial and legal. It is usual for a firm to employ independent firms of accountants and lawyers for, apart from legal and tax requirements, the firms demand for those services are discontinuous and it is therefore efficient to buy the services in discrete amounts. The possibility for subcontracting to obtain specialised services also extends to such technical skills as design, draughtsmanship and to manual skills such as tool making. The firm obtains many advantages

from separating specialised workers from its main labour force. The supply can be more closely adjusted to demand and so the firm avoids paying specialised workers their skilled rates when employed on less skilled tasks. The skills of a directly employed labour force become more homogeneous and therefore more flexible and possibly, easier to control. Moreover the possibility of sub-contracting provides the basis for increased control of the directly employed labour force. For example, the British Steel Corporation secured a significant degree of increased productivity from its engineering and electrical maintenance departments by insisting they compete with outside contractors for both regular and emergency maintenance. The use of contracting provides the firm with methods of breaking the link between the rates of pay and conditions of ancilliary services and the main labour force. An important example is the employment of outside contractors for catering, cleaning and routine clerical tasks (typing). Such tasks have usually little connection to those of the main labour force and are usually secondary forms of employment. By separating them from the primary sector it is possible to significantly reduce costs and increase flexibility even in the most highly organised firms.

d. Pay

A firm can adjust its labour cost directly by changing the level of pay; ideally in line with output and price. This raises two major issues, the system of wage payment and the methods of its adjustment. The question is made more complicated, however, by the fact that labour services are not purchased directly; the firms needs to extract these from the worker it employs. The securing of a wage effort bargain can

be facilitated by linking pay directly to output but this raises problems when it is difficult to measure output or when output varies independently of worker effort (e.g. with changed technology). Therefore time rates may be preferred although this raises problems of different interpretation by employers and workers of the terms of the bargain.

The employers main concern is with the average unit labour costs so that whilst he may have to negotiate with subsets of his labour force at different times he has the possibility of changing averages (either of pay or productivity) by altering the composition of his workforce or the technology employed. On the other hand, employees will be aware of the possibility and will see maintaining internal wage differentials as important and will seek negotiated rather than imposed modification of technology and work organisation. The labour force will see control of output as an important part of wage bargaining fearing, for example, cuts in piece rates if output increases. They will also be concerned to maintain stable earnings and will want fall back rates, guaranteed working weeks and other forms of income security. Moreover workers will not be directly concerned with the relationship between their earnings and the price of products which they produce: they are more concerned with the movement in the price of wage goods. Insofar as the two sets of prices move differently, the aims of each party to negotiations will not necessarily be compatible.

Traditional forms of wage determination which permit wage flexibility include the individual bargain (paying each employee according to his merit or paying him as little as possible), paying by the piece (directly relating earnings to output) without any guaranteed earnings, or subcontracting. Piece rate systems are not appropriate for

many forms of production, particularly where the process cannot be fragmented into well defined tasks or the contribution to output or cost valued, and hence time rated work has always existed in certain industries for specific jobs. Piecework also has the disadvantage to the employers of linking wages to increases in output resulting from technical progress and learning by doing. Therefore the ability to easily change the rate will be an important consideration in the choice of payments systems and this will depend at least partly on the strength of workers and union control - itself a function of the level of activity. The degree of flexibility of unit labour costs offered by piece work will therefore vary inversely with the degree of workers organisation and directly with the level of unemployment. An important aspect of the choice of time or piece-rated work will also be the disincentive effect of each method, either on the throughput of time rated work or on the quality of piece rated work.

The emergence of collective bargaining brought with it limitations on the possibility of striking individual bargains, guaranteed weekly earnings and a more specific relationship between time rated work and movements in retail prices. The resulting structure of guarantees and minimum rates did not mean that earnings moved with retail prices, only that there was more force for them to do so. Employers have retained an element of wage determination, admittedly bounded below, which continues to allow some flexibility in pay levels. Common enough in the late 19th century was the practice of relating wages to product price by sliding scales: however, the variability of rates of pay, whether fixed through time or piece rates, which resulted from product price changes of highly competitive products (such as coal and steel) relative to the price of

food had been a major feature in bringing about a system of collective bargaining and minimum rates to restrict the full impact of the sliding scales. Technical change which broke the link between individual effort and output and increasing union control reduced the attractiveness of piece rates to employers. More recent forms, including different payment-by-results schemes and bonuses, were framed as incentive schemes but, over a range of pay, had the effect of introducing fluctuations into earnings in line with prices and shifting some of the cost of low levels of activity onto the employees. Flexibility is also secured through productivity bargaining by which workers sell control exercised through working practices for higher wages.

The attractiveness of various systems of wage determination moves cyclically and in different directions for employers and employees. Methods of wage payments linking output to wages are more attractive to workers when output is increasing rapidly and when high employment strengthens their bargaining position; in such times income security will be of less importance because alternative employment opportunities will be plentiful. By contrast firms might be expected to move away from payment by result to control wage drift and to offer more income and job security to reduce labour turnover. In a recession workers will look to the greater security of time rates whilst firms will attempt to link wages to output by reintroducing payment by result, by productivity bargaining and by attempting to negotiate fall back rates and guarantees of earnings and hours of work. However certain forms of wage payment systems may be difficult to renegotiate although they fix pay independently of output. Merit payments are based on the quality and reliability of the worker and are not usually variables with respect to

output. Age related incremented scales may also introduce inflexibility - and even unplanned wage increases - as recruitment slows with recession and as consequently the average age of the workforce increases. Merit payments and increment scales are frequently introduced in booms as a means of retaining labour. In this respect they lose their relevance in recession particularly if the downturn is prolonged.

The conflict between employer and employee interests in the wage determination process is therefore crucial to understanding the role of pay in the flexible use of labour: In periods of boom, the employer may be willing to compromise, allowing labour a larger share of his additional profits, which meets employees minimum claims but in recession his survival may depend on his ability to achieve a cut in the average level of pay relative to product prices or productivity. However, in recession, a position of compromise for labour is less easy to establish since they would frequently be asked to take a cut in real pay relative to recent levels rather than reduce their share of additional real income. At the level of the establishment (although not for the economy as a whole), the issue might be put as a trade-off between pay and the level of employment.

In large and/or well organised industries, the content of collective agreements and legislation has only a limited impact in reducing the available flexibility in pay levels: of much more importance is the workplace organisation, and its custom and practice, as an opposition to employers. There are agreed procedures for dispute, conciliation and arbitration and the machinery and resources for strike action or lockouts which limit the range of options open to an employee

to achieve flexibility but also which provides him with a means of effecting a compromise. In smaller firms, the content of collective agreements and legislation, setting minimum rates and conditions, impinge more directly on the feasible range of pay but the absence of disputes procedures and less likelihood of strikes allow the employer to use a wider range of methods of achieving flexibility in average pay.

e) employment practices:

One course of action is to minimise the coverage of collective agreements by employing labour not covered by agreements. This, together with seeking a structure of employment which minimises average levels of pay, very much depends on the availability of an appropriate source of labour. Because of the restrictions and costs of hiring and firing labour, strategies by employers are likely to be longer term, not for example to be used only to meet cyclically low demand.

Recruitment of operatives for most jobs in small firms is possible and costs may be quite low, advertising taking place mainly by word of mouth in the local community. Firing labour may also be relatively cheap but is more damaging to the image of the firm as an employer in the workplace and in a small community. In larger organised firms, however, recruitment is more limited in that only a restricted range of jobs are agreed to be filled from outside: firing is also more difficult to achieve selectively since there are agreements on the shopfloor as to the incidence of redundancy (for example, last in first out rules). Taken together with the additional costs and resistance imposed by organised labour, the level of employment tends to be less variable.

Training is however a source of potential flexibility in the use of labour in all firms. In combination with agreements (official or

unofficial) over promotion (that is, by open or closed chains), specific training can be used either to limit the internal mobility of employees, thus dividing the workforce into separate groups, or through job rotation and experience to increase their internal mobility.

Productive labour input is in principle variable since the number of hours worked by each employee is variable. However the existence of guaranteed weeks, guaranteed weekly earnings and payment for waiting times, together with other overhead costs such as social security contributions by employers, means that each employee has a minimum cost per week irrespective of hours worked. Whilst it may be possible to find employees for whom these costs are avoidable, they may not be regarded as suitable or acceptable for employment. Then employers may have recourse to flexibility in hours worked among the labour force subject to the minimum cost constraint. Thus, it is common to find short-time working (defined here as working less than normal hours), overtime as an option to increased employment levels despite the premium rates, employment of part-time labour, an increase in shift work or a reorganisation of shift work to exclude shifts bearing premium rates of pay.

Short-time working is (within a large firm organisation) not a long term option: it raises the average unit labour cost and does nothing to reduce the costs of firing the labour. Overtime, however, is a long term option. Despite raising the unit labour costs, it can be offset against the current overhead costs of an additional employee and is payment to an experienced employee, thus avoiding the costs of training of new recruits. Furthermore, it is an element of flexibility in the working day which allows delivery dates to be met and daily work

schedules to be kept, especially where the output of one group feeds directly into the workload of another group, hence avoiding waiting time during the normal working day. For similar reasons, it is useful for maintenance and repair of machinery and for tooling machines and setting up production runs. Part-time working is attractive because it normally involves unorganised labour and, being outside the scope of collective agreements, is paid at lower hourly rates. It allows divisibility of labour input (for example, where the workload per day is low or to add a twilight shift) and is particularly useful for some ancillary activities such as canteen work or cleaning, where these are not contracted out and for retailing to meet seasonal, lunchtime and weekend peaks. There is however a certain amount of legislation, such as over minimum pay rates or maternity leave, which may be restrictive. However some labour legislation does not apply to part-time workers. Finally, shift working may be technically based or cost based. Many continuous plants operate with equipment which must remain in permanent operation: not only are the costs of halting work prohibitive but frequently the equipment is damaged. For other equipment, there is no technical need but, given acquiescence by the employed labour force (for current or traditional reasons), the machines can be efficiently run at a high level of utilisation and the use of shift times can when manipulated significantly reduce waiting time.

The important features of all of these sources of flexibility are that their usefulness to different firms depends on the product and technology employed, that they sometimes require avoidance of collective agreements, that they tend to impose the costs of adjustment on labour rather than capital, that this falls disproportionately on a captive

supply of labour or unorganised segment of the labour force, and that workplace organisation is not solely dependent on social organisations so that economic interests can be used to reduce resistance to change. In the next section we briefly reiterate some of the aspects of flexibility insofar as they can be achieved by establishments, enterprises and the industry as a whole.

5. Flexibility at different levels in an industry

a) at the establishment level:

Within an establishment, flexibility in the use of labour is desired to achieve flexibility in labour costs per unit of output to maintain or improve competitiveness in product markets. Certain product markets require flexible methods of production to cope with frequent changes in product design (or market advantage can be gained by having this flexibility) or to meet considerable variation in the level of demand. The methods by which labour costs can be varied per unit of output to meet these needs are however not simply concerned with changing a single rate of pay or the level of employment of a homogeneous workforce or supply of labour. Unit labour costs in an establishment can be varied by changing the wage bill in relation to output by altering average earnings or the level of employment or the level of production. But, because individuals and jobs differ, there is a range of individual or job-specific unit labour costs so that the composition of the workforce is an important consideration. Furthermore, different individuals can be employed at different rates of pay on jobs which have different productivities but with individual productivity varying less than the productivity of different tasks:

firms therefore may also choose how they match individuals and jobs. Thus the forms of technology available (which change the productivity of jobs) and the forms of organisation of production available (easing the setting up of production runs) can both be permissive factors in improving firms ability to compete.

Flexibility in the use of labour may be facilitated by these technical and organisational factors but their existence does not guarantee flexibility. Other conditions required may include the ability of the workforce to satisfy changing job definitions, perhaps for individuals to have multi-task jobs or for pay (either through rates or a PBR type scheme) to be frequently adjusted or for there to be low barriers to hiring and firing labour at will. It is likely therefore that, where technical and organisational factors facilitating a flexible use of labour are absent, there needs to be limited or circumscribed application of voluntary collective agreements and/or a supply of labour who can be employed on terms and conditions of employment less favourable than the main labour forces. Even when technical and organisational factors are present, their usefulness may well depend on the existence of vulnerable groups in the labour force.

b) at the enterprise level:

Enterprises have potential methods of flexible organisation over and above those open to individual establishments. Work can be transferred between similar establishments, for example away from those establishments where the workforce can be rundown by natural wastage or more cheaply made redundant : there can be more cross-subsidisation of activities through a wider range and diversity both of products and

final buyers: the location of control over the organisation of production can be removed from the workplace if desired: horizontal and vertical integration can be achieved for the enterprise but not for individual establishments if it is desirable to keep different activities separate without losing control of quality and delivery: the workforce is not spatially concentrated and drawn from the same community so that there can be some dilution of collective response. By divorcing management responsibility from the actual workplace, enterprises can more easily make use of opportunities for the flexible use of labour in particular establishments.

c) at the industry level:

Comparable to the variations in employment level in establishments, employment levels in an industry can also be varied by the births and deaths of firms. However, empirical evidence shows that, although births of firms (particularly small firms) do account for the bulk of gross job creation, the bulk of net job creation is accounted for by large establishments because of the high incidence of closure among small firms. On the other hand, it is also apparent that workforces in many establishments are actually remarkably stable. However, births and deaths of establishments may have a more important role than varying the overall employment level in that they provide additional specific productive capacity required in an industry over relatively short periods. These additional elements of productive capacity will be needed to meet subcontracts offered by established firms: firms may subcontract for production to meet peak demand, thereby retaining the link with the customer without increasing their productive capacity:

manufacture of components may be subcontracted, particularly where there are no benefits of scale or integration, so that turnover in component suppliers might be high: and the production process may be such that certain activities can be subcontracted, particular to individuals or groups, who therefore bear the costs of inactivity or low utilisation themselves. The primary function of subcontracting is therefore to transfer from an establishment or enterprise the responsibility for varying productive capacity and to let this, and its attendant costs fall directly on the immediate producers.

This is not to say that all small firms are vulnerable, bearing the risks of a large firm, operating with small profit margins and volatile demand, and being forced to employ labour on poor terms and conditions. Many small firms exist in their own right as producers of quality goods, low volume orders and specialist products: their labour forces may be as well paid and as well protected as those in large firms. Even contract labour may be satisfied with the working arrangements, although with the exception of industry wide organisation of contracting groups (as in Construction) rates of pay do not compare favourably with those for contractual employment. But these small firms are not the ones which tend to come and go and which are exposed to volatile demand. Exposed firms, who must depend on cheap and flexible sources of labour, do not necessarily face the final buyers in each market but are at the mercy of other firms in the same industry.

There is of course a third group of small and medium sized firms in an industry, those seeking to break into existing markets or attempting to establish new products. These firms do account for quite a high proportion of births and deaths in a number of industries, predominantly

those where major product innovation is taking place, but these firms tend to develop into quality or specialist producers or grow into (or merge with) large enterprises if they are not forced to close.

d) Collective behaviour:

In economic terms, flexibility in the use of labour is generally associated with lower earnings, at least for some groups, or with more unstable employment and hence a greater incidence and duration of unemployment. There is in fact considerable stability to be found in employment in larger firms but the security of employment of some workers may depend either on the employment of vulnerable groups in the same establishment and through outwork or a sub-strata of firms which are significantly more exposed to the forces of competition.

Collective organisation is an important factor in protecting pay and employment conditions and evidently has an important role to play in limiting the conditions for and instruments of flexibility in the use of labour. In the workplace, it provides an opportunity to restrict the frequency of renegotiation and perpetuates custom and practice and, at the industry or national level, provides a floor through minimum and guaranteed terms and conditions. However the conflict of interest between capital and labour does create a number of occasions on which collective organisation can be weakened by playing on the interests of different groups within the labour force and reducing resistance to change.

Legislation on employment and for dependent populations provides only limited protection against the working of the market. Management frequently object to legal rules and regard them as a restriction on

their prerogative and hence consider protection best achieved through voluntary collective agreements. For those not in employment, and those not protected in employment, legislation is intended to provide minimum safeguards to standards of living. But it is then regarded as social policy, distinct from economic conditions and necessary to offset some of the anti-social effects of competition. As such, it can be undermined by a belief that social transformation is required or that behaviour will only change if the full economic effects are borne by individuals who are not compensated by social legislation.

Methods for achieving flexibility in the use of labour have been restricted by collective responses, both voluntary in the workplace and on broader social fronts. But neither forms of limitation is independent of economic let alone social conditions and hence may change under pressure from capital demanding more opportunities to preserve profitability at the expense of labour.

Conclusions

As labour costs become increasingly fixed, employment decisions are influenced by factors similar to those determining investment decisions. The inability of firms to shed labour and its associated costs lengthens the time period relevant to the employment decision. If the fixity of employment costs increases or if economic uncertainty grows, firms will be expected to be less willing to increase employment⁽¹⁾ or will look for alternative forms of labour organisation.

An increase in the fixing of wage costs or uncertainty will shift the balance of comparative advantage away from technical and administrative forms of industrial organisation which are complex towards more simpler forms, and might bias technical progress by favouring certain forms of innovation. In this respect it is to be expected that growing fixity of labour costs or growing uncertainty or both, would tend to offset the benefits of improved organisation and technology and to favour small at the expense of large firms. On the other hand, growing fixity of labour costs associated with individual job security - redundancy rules, unfair dismissal legislation, maternity leave etc - raises more difficulties for a firm with few workers than one with many who could therefore spread the risk more thinly. An important reason for the growth in labour only subcontracting in construction and elsewhere is the shifting of responsibility for social provision to the employee and the avoidance of health and safety regulation.

(1) and, indeed, to invest because the relevant capital cost of an investment project is the cost of building and equipment plus any fixed labour cost.

Institutional arrangements and legislation affecting the fixity of labour and its costs can also be expected to have important effects on the level and structure of employment particularly in periods of economic crisis. Firms might be expected to casualise the labour force either by employing more temporary workers - women (part-time and full-time), immigrants etc - or by subcontracting. A longer term effect might be the shift of industry to areas away from the centres of trade union organisation and a restructuring of industry in favour of small firms where union and statutory rules are more difficult to enforce. The consequent competitive pressure on the organised sector could result in its further shrinkage.

Thus the long term effect of the introduction of improved working conditions and job security based on the individual firm could be a reduction in such protection particularly in periods when that protection was most needed, an increasing problem of policing union and statutory rules, and higher levels of unemployment. Many economists welcome this development seeing it as evidence of an increase in the competitiveness of the labour market and hence its allocative efficiency. However where the underlying assumptions of neo-classical theory do not hold - that the system tends to full employment and that competition in the labour market is atomistic - the decline in living standards and the deepening of divisions between labour and capital and between different segments of the labour market will have disruptive social and political consequences in addition to the enormous waste of increasingly high levels of unemployment.

On the other hand, it is impossible to deny that the ability of a firm to adjust rapidly to changed economic circumstances and, in more

general terms, the efficient use of labour requires increased flexibility in adjusting labour to the level of output. Establishment and enterprise specific forms of job protection and systems of social security and welfare provision by increasing the fixed cost of employment have the effect of increasing the fixity of labour independently of any technical or organisational factor which can be explained in terms of efficiency. Moreover such forms of job protection and social security provision are counter productive. Trade union and other rules based on limiting entry to the place of work reinforce the division within the labour market increasing the degree of disadvantage in the secondary sector. However the existence of large secondary sectors provides the basis for alternative forms of industrial organisation which undermine the effectiveness of job control in the primary sector. The existence of trade union imposed job controls and high employment related social security levies provides additional inducements for firms to relocate in the secondary sector. Growing crisis and increasing uncertainty increase the incentive to firms to externalise their risk which further weakens the primary sector and increases the uncertainty of employment. Thus a sort of Gresham law operates in which bad employment conditions drive out the good.

This discussion suggests two major areas for further discussion and research which whilst separate are necessarily complementary. More information is needed on systems of work organisation and the relationship between work organisation and the flexibility of response by firms and industries to changing the technical and market environment. Such an investigation necessarily raises the related question of job security and income maintenance and how schemes for improving both, and hence removing much of the resistance to change can be organised and financed.

Income Maintenance

Economic recession has inevitably resulted in a reduction in income levels for a significant proportion of the population. This paper examines the impact of reductions in income and critically examines orthodox economic theories that advocate such reductions as a necessary adjustment to the current economic conditions. An alternative analysis is presented in which low levels of income are considered to result from the disadvantaged position of certain groups in the labour market rather than their economic worth. In our view a reduction in income in such circumstances might have a damaging effect on employment and the social and political stability of the system.

Trends in low incomes

In Britain and other advanced countries the 1960s and early 1970's saw an improvement in the absolute and relative level of low incomes. During this period the male/female, adult/youth and low paid/high paid adult wage differentials generally narrowed. This trend in growing equality in earned income was accompanied by a more diligent effort to ensure that the recipients of social welfare did not fall behind in the general upward movement in living standard. Changes in tax and benefits introduced earnings linked sickness, unemployment and retirement benefits and governments committed themselves to index-linking social welfare benefits to prevent the erosion of their real value by inflation.

The fiscal effect of this income redistribution was a growth of the real tax rate and an extension of the tax net to include lower and lower levels of income. In countries with a fast rate of income growth and in

periods of rapid economic advance governments could increase the share of transfers in national income relatively easily. In Britain with slow growth and more widely as the rate of increase in national income slowed down in the 1970's, fiscal drag met growing resistance with inflationary consequences.

In the second half of the 1970's as economic crisis deepened with rising levels of unemployment, accelerating inflation and an increasing threat of a return of mass poverty to Western Europe the broad consensus in favour of an egalitarian policy of incomes distribution has broken down. Economists are increasingly arguing that Government attempts to maintain full employment are counter productive. Moreover the consensus amongst economists is swinging towards policies designed to cut social welfare provision, reduce real wages and remove minimum wages control in the interests of raising the level of employment and generating economic growth. What is being proposed is a less equal distribution of income in the interest of economic progress. On this view, in the short run at least, the maintenance of individual incomes may be detrimental to the maintenance of aggregate income. This argument is in flat opposition to the general opinion held recently by economists and policy makers that high growth, egalitarian income distribution and humane social provisions were essentially complements.

The new orthodoxy

The new orthodoxy has returned to a pre-Keynesian analysis in several important respects. This view holds that the level of employment is determined in the labour market and that unemployment is essentially frictional or voluntary. The implicit reassertion of Say's Law and the explicit reassertion of the quantity theory of money carries

with it the implication that government expenditure crowds out public expenditure and, moreover, deficit financing increases the money supply and hence is inflationary. Following directly from this is the view that redistributive government policies by raising taxes reduce both saving, and hence investment, and the incentive to work, and hence productive effort. In addition it is argued, the provision of unemployment benefits and other forms of income support raises the supply price of labour (and hence voluntary unemployment) and increases the length of the job search (and hence frictional unemployment). The conclusions of this line of reasoning is that redistributive policies reduce income, not least of all for those with low incomes. Policies which reduce taxation will have the opposite effect.

Redistribution to the rich will raise savings and investment, a reduction of tax on earned income will increase incentive and the lowering of the social wage will encourage employment and thereby reduce "non-productive" consumption. The overall effect of a reduction in income redistribution by the government, the new supply siders argue, will, by increasing the inequality of income distribution, increase its absolute level at each point in the distribution. Moreover the additional taxable income so generated which will increase government revenue.

There is little real evidence that a reduction in taxation will, or has, had the effect of raising the level of investment by increasing savings or that a cut in tax will directly lead to an increase in labour input. In this latter respect the historical trend of a progressive reduction in hours worked as real incomes rise suggests that a reduction in tax could lead to a reduction rather than an increase in productive

effort. On the other hand, it is to be expected that a cut in taxes might increase the level of investment by increasing post tax profits. However if the intention is to induce investment directly by increasing its attractiveness rather than indirectly and uncertainly through encouraging savings, then a cut in profit tax and tax relief related directly to investment would be more effective than a cut in the general level of taxation.

But perhaps the most convincing evidence against the simple argument that a cut in taxation financed by a reduction in the social wage will increase national income and the level of employment is the evidence from Britain that three years of experiment of such policies has had the opposite effect; GDP has fallen and unemployment has risen steeply. Moreover the tax burden has increased rather than fallen with the reduction in the tax base as earned incomes fall and with the growth of social security payments as unemployment rises. The explanation for the failure of the Thatcher experiment is that any incentives to the supply side have been swamped by the collapse of effective demand resulting from restrictive economic policies. This experience reaffirms Keynes' view that the level of employment is determined by the level of effective demand and that policies operating at the micro-economic level to stimulate economic activity, for example by a reduction in real wage costs, will only be successful if it can be assumed that the level of effective demand will be unaffected by the micro-economic stimulants - i.e. that Say's Law operates. In this respect policies designed at redistribute income from the poor to the rich are particularly suspect. Not only does the incentive effect have to be large enough to offset the negative impact on effective demand of the redistribution to income

where savings are high,⁽¹⁾ but the response in terms of increased production must be sufficiently rapid to offset the immediately depressing effect of the cut in consumption.

The evidence that supply does not necessarily create its own demand so that a regressive redistribution of income could increase rather than reduce employment provides macro-economic reasons for maintaining income levels. However this does not dispose of the argument that the increase in their relative earnings has priced the low paid out of the labour market and that existence of social provision increases voluntary unemployment. The belief that such measures will improve the operation of the labour market has encouraged the British government to remove the earnings related element from unemployment pay, to break the link between social welfare provision and the level of retail prices, to re-open the question of the detrimental effect on employment of minimum wages and to introduce a scheme whereby the payment of a subsidy for the employment of school leavers requires firms to pay youths no more than a certain wage.

Income maintenance and employment.

a. the neo-classic approach

Neo-classical theory draws a clear distinction between worth and need. Worth, it is argued, is most effectively evaluated by the market and when it falls below need, making up the difference should be left to the benevolence of society.⁽²⁾ Thus Brittan argues:

(1) The incentive would increase investment and exporting to offset the reduction in consumption.

(2) Subject to the proviso that the benevolence is minimal so as not to act as a disincentive to work.

'This (that wages should be determined by market forces) does not mean that workers with low earnings power should be left to fend for themselves. "Topping-up" of wages by family allowances or any form of negative income tax can raise their living standards, as far as the real generosity of their fellow citizens will allow (as distinct from the sham generosity of passing laws which appear to cost us nothing). Best of all would be help for such people to acquire aptitudes and qualifications which will raise the market value of their services - admittedly easier said than done.' (Brittan 1975 p.44).

Flexibility in wage determination is advocated to meet both short and long term objectives. In the long term, it is argued, the market can be depended upon to adjust the wage structure to reflect efficiency differences between workers. In the short term wages may fall below their equilibrium level in some areas particularly when the process of reallocating labour from declining to expanding sectors is slow. In this case the low wages serve the purpose of reducing frictional unemployment. But in the long term this misallocation of labour will disappear as workers are attracted away from firms unable to pay the market rate and as, consequently, the wage structure moves back into equilibrium. If, in the long term, wages at the lower end of the structure are below what is socially acceptable then, the neo-classics argue, this is because the productivity of some workers is so low or because the market is imperfect. Any attempt to raise low wages by trade union organisation or by administrative means will merely exclude from the labour market workers with earnings potential below imposed minima.

Neo-classical theories explain unemployment when the system is in equilibrium by rigidities in the labour market and include minimum wage legislation and trade union organisation amongst those rigidities. In this view the reduction of wages would encourage the employment of workers with productivity lower than this minimum. Brittan takes this argument one stage further by arguing that wages should not only fall to the point where they reflect workers' productivity but also to the point where they compensate the holders for their prejudices against the employment of disadvantaged workers. Thus:

'It does not matter if there are real disadvantages, or prejudices existing in the minds of employers or customers. Minimum wage laws, or enforced non-discrimination in pay where the desire to discriminate remains, will suppress adverse pay differentials at the cost of increasing unemployment for the disadvantaged groups' (Brittan 1975 p.44).

This argument has been shown to be weak even within its neo-classical framework. It was argued by Becker that racial minorities and other discriminated groups would need to accept wages lower than their marginal productivity to compensate employers for the psychological hurt resulting from their prejudices or to provide the additional resources to compensate the rest of their workforce by an increment above their marginal product sufficient to overcome their distaste for working with members of socially excluded groups. However such a system of price discrimination could only operate in a competitive system under the additional and unlikely condition that all employers are equally prejudiced. Less-prejudiced employers can secure cost advantages over more prejudiced employers by employing all or mainly disadvantaged

workers at lower wage rates and would therefore under competitive market conditions ultimately drive the more prejudiced employers out of business (Arrow 1973) and at the same time raise the wages of the disadvantaged workers through increased demand for their labour.

A more fundamental objection to the views of Brittan and other neoclassics that a floor to wages inevitably results in a misallocation of resources is that this argument rests on the assumption that the economy is generally competitive. If, however competition is normally imperfect, the efficient allocation of resources might acquire more rather than less intervention. Monopoly in one sector means that prices there are above the optimising level and insufficient resources are utilised in the monopolised sector. In these circumstances too many resources will be concentrated in the competitive sector and prices there will be sub-optimal. The first - best solution would be a reduction in the degree of market imperfection to reduce prices (and expand employment prospects) in the monopolised sectors. But this might prove impossible. The second best solution would be to move towards a more optimal structure through an increase in relative factor costs in the competitive sector. Wage reductions as a route to full employment are in practice arguing for the opposite policy, a decrease in relative factor costs in the competitive sector. This policy would serve to increase the degree of monopoly and induce further misallocation of resources. Neoclassical theorists have usually chosen to use their analytical framework to argue the case against market intervention in an assumed competitive labour market. Paradoxically the theoretical framework could be readily enlisted in support of raising low pay under the different but more realistic assumptions of imperfect competition.

However the major objections to the neo-classical arguments about the relationship between wages and employment are not confined to the selective use they make of their own theory but rather that their theory has little useful to say about the operations of the labour market. This belief that the downward flexibility of wages will result only in short term "exploitation" of workers trapped into declining industries and low profitability firms and that in the long run all workers will be paid their worth rests on the twin notions that within the constraints of natural aptitude and general training workers with wages lower than the equilibrium market valuation have ready access to alternative jobs at higher levels of pay and that in the long run labour is in short supply. Neither proposition bears close examination.

The overwhelming evidence of empirical studies is that the labour supply is divided into non-competing groups with certain classes of labour more or less permanently confined to the low paid sector irrespective of their productivity. At the fringe of industrial activity firms whose ability to pay is constrained by their efficiency, product market position or some combination of both offer wages considerably below those in the primary industrial sectors. The continued existence of such firms (at least at current levels of efficiency) depend on their ability to recruit workers whose relative productivity is higher than the relative pay they are prepared (or, more precisely, obliged) to accept.

The view that workers are only temporarily trapped into low-paid jobs rests on the two propositions that i) they are free to vacate their jobs and ii) that they can obtain access to higher pay by competing for a wide range of jobs. Whilst the first proposition

generally holds the second does not. As a general rule the only serious contender for any job is its incumbent until he chooses to quite. But even when vacant the job is not open to all contenders and the higher its pay and status the more carefully is entry to it controlled. Moreover the rule of exclusion operates at all levels and is reinforcing. The very limited access each labour market group has to better jobs encourages them to more carefully protect those within their control. Thus the only jobs that are open to all are those that no one wants. Neo-classical theorists recognise the existence of such inflexibilities but regard them as exceptional, imperfections in a world that works approximately in line with their a priori notions of its operation. However careful empirical investigation of the labour markets shows non-competing groups to be the rule rather than the exception.

The notion that in the long run labour is in short supply rests on equally shaky foundation. Experience suggests that labour in the long run is in more or less abundant supply and that the general level of employment is demand determined. If the demand for labour rises above its "normal" level the labour input of the core labour force can be increased by an increase in the hours worked, by taking up under-utilised labour, by upgrading workers trapped in jobs below their potential by promotion rules and other institutionalised systems for rationing scarce good jobs and by retraining. Supplies can also be generated from outside the core labour force - by immigration, internal migration from traditional sectors such as agriculture and by an increase in labour market participation, in particular, by married women and by workers acquiring second jobs.

Workers brought into the labour market at the height of the boom tend to be paid very low wages indeed (Amstrong 1966) as they tend to replace workers upgraded from the secondary to the primary sector. However as unemployment increases this process is reversed and the newly recruited workers tend to be ejected from the labour market or remain to intensify the competition for jobs with the workers shunted back from the primary sector (Wilkinson 1981).

The structuring of the labour market, which seriously limits workers job opportunity independently of their acquired or potential skills, and the absence of any long run constraint on the labour supply, so that employment in the short and long run is demand determined means that the market provides no lower limit to wages. In these circumstances there is no need to cut social security to provide incentives to work; increased opportunities to work will expand the labour force.

Institutional and Social Regulation of Wages

The social mechanism underpinning the real wages was elegantly described by the Webbs when considering the 19th Century labour market.

"Over a large part of the industrial field, the wage-earners cling with stubborn obstinacy to certain customary standards of expenditure. However overpowering may be the strategic strength of the employer, however unorganised and resourceless may be the wage-earners, it is found to be impossible to reduce the wages and other conditions of particular grades of workmen below a certain vaguely defined standard. In the years of worst trade, when thousands of engineers or boilermakers, masons or plumbers, are walking the streets in search of work, the most grasping employer

knows that it is useless for him to offer them work in their respective trades at ten or fifteen shillings a week. Sooner than suffer such violence to their feelings of what is fit and becoming to their social position, they will work as unskilled labourers, or pick up odd jobs, for the same, or even lower earnings than they refuse as craftsmen. This stubborn refusal to render their particular class of service for a wage that strikes them as outrageously below their customary standard, does not depend on their belonging to a Trade Union, for it is characteristic of unionists and non-unionists alike, and is found in trade in which no combination exists." pp.693-4.

Thus:

"To the modern observer it is obvious that the existence, among all the workmen of a particular grade, of an identical notion as to what amount and kind of weekly expenditure constitutes subsistence, is in itself equivalent to a tacit combination. It is, in fact however it may have come about, an incipient Common Rule, supported by a universal and prolonged refusal to work, which is none the less a strike in that it is unconcerted and undeliberate. If every artisan, without the slightest concern with his fellows, is possessed by an unreasoning prejudice that he and his family must consume wheaten bread, butcher's meat, beer, and tea, instead of living on oatmeal, maize, potatoes, and water, the employer will find it useless to suggest that "any meal is better than none." He quickly discovers that if he offers wages which will provide only the cheaper food, no individual of the class that he requires will

accept his situation. He is, in fact, face to face with what is virtually a universal strike." pp.696-7.

Increasingly trade unions have given institutional form to the "incipient Common Rule" and institutional wage determination has become widespread. However labour markets have always been structured to some extent and the higher the skill and status of the workers the more organised and protected their position: professional associations are the most effective craft unions and have always been with us. Moreover, those parts of the labour market where workers are continually thrown into competition have generally been those typified by low pay and the most degrading working conditions. The historical tendency has been the extension of trade unionism to reduce the unregulated section. But this process has not been complete and a significant section of the manual worker labour force is not organised. However the institutionalisation of labour markets has not been confined to trade union activities. Growing concern about conditions in the unregulated section of the labour market led to the imposition of legal minimum wages. Even so a significant proportion of the labour force still remains outside the effective control of trade unions and legal controls and some parts within the organised sector and particularly those covered by minimum wage legislation are low paid. On the other hand the progressive extension of the coverage of social security has constructed a floor of minimum income levels which however low has reduced to some extent competition in the low paid area of the labour market.

The family structure is also an important influence on labour market behaviour. Much of wage analysis proceeds on the unspecified assumption that behaviour is individualistic, or that families typically

rely on the earnings of a single breadwinner. However a switch of emphasis to an analysis of the family rather than individual subsistence, requires increasing attention to be paid to family structure and lifetime patterns of expenditure and income. Moreover the existence of family subsistence is important in explaining the labour market position of members of the family other than the principal wage earner. If the family has a target income and if family members have access to family subsistence provided by the principal wage earners then the supply price of the subsidiary earners might be quite independent of their individual needs or their productivity. This is particularly true where, as in most working class families, a very high proportion of income is pre-empted by essentials and any margin above this has high priority because it is this increment which provides the luxury.

The relationship between the supply price of labour and family subsistence is not confined to earned income - it also applies to social welfare. To an important extent the provision of adequate social security provision is an important complement to institutional wage determination in maintaining acceptable living standards. The problem of low pay exists at least partly because of the number of workers obliged to seek work at almost any wage. Protection of family living standards therefore requires both minimum wages to prevent employment at earnings below that level and the elimination of the need to accept low wages by improving social welfare benefits. On the other hand the problem of low pay cannot be solved only through policies to reduce family poverty. Even if minimum acceptable living standards could be secured for all families without recourse to low paid employment - and this objective is in itself extremely difficult to achieve - many

families will rightly strive to raise their living standards above that minimum, and the problem of supplies of low paid labour available for exploitation on the labour market will continue. Moreover the common assumption that the social security systems provide an automatic floor to wage levels does not apply when the eligibility for social security payments is effectively limited to unemployed male breadwinners in single wage earner households. Provided there is at least one family member earning a full week's wage there is usually a financial incentive for other family members to accept any wage level as they are not eligible for social security. It is also not clear that it is social security that provides the floor to the wage level rather than vice versa. As long as the ethos of society requires that people should be encouraged to work and be rewarded for working, unregulated and low wages on the labour market make it politically difficult to increase the level of social security payments, and families of the unemployed or sick may as a consequence be kept in absolute poverty even when there is no employment available to them.

The forces maintaining wages in the labour market are therefore the acceptable minimum standards of living which are protected by social convention and worker organisation and supported by the social security systems rather than the working of supply and demand on the labour market supposed by neoclassical theorist. Policies designed to lower these institutional floors for wages are thus directed against the forces that protect workers' standards of living and prevent further exploitation of workers in the labour market. But arguments which break the link between wages and labour market clearing are not sufficient to

establish that a reduction in wages will not increase employment, this question is explored in the next sections.

Employment effects of reducing wages

The employment effect of a reduction in low pay depends on the elasticity of demand for products and services produced by low paid workers, the substitutability between processes employing low paid workers for those employing high paid, and the substitutability of high paid for low paid workers. Studies show the low paid to be concentrated in low paid occupations dispersed throughout all types of industries and firms, in low paying industries and in low paid firms in otherwise well paid industries. If attention is first concentrated on existing concentration of low pay the employment creating prospects for a reduction in low income levels seems limited.

A reduction in the pay levels of low paid occupations dispersed throughout industry is unlikely to have a significant employment effect. Marginal, ancilliary and feminised occupations are low paid throughout the industrial structure primarily because of the existence of low paid labour for such jobs as cleaning, catering, packing and typing and not because of serious cost constraints on the firms concerned. Such workers provide usually a small minority in a firms labour force and are unlikely to be close substitutes for the main labour force. Consequently the demand for their services is unlikely to be price elastic. However they are easily separable from the main labour force and firms wishing to cut costs frequently put their services out to sub-contractors to break the link between the high paid of their primary labour force and the cost of ancilliary services. A reduction in the pay for such jobs could increase the pressure on firms to contract them

out. But the effect of this is more likely to be a general downward pressure on the pay in these occupations rather than any substantial increase in employment.

The low paying industries tend to be the traditional industries - clothing, textiles, cutlery etc. - which produce goods which in overall terms are probably not particularly price elastic. However, many of these industries, are, throughout Europe, and particularly in Britain under substantial pressure from imports and the demand for domestic goods could be sensitive to costs. Therefore a cut in wage costs could have a significant employment effect. It is also possible that a reduction in wages could benefit marginal firms which pay low wages because they are inefficient or because they employ obsolete technology.

A lowering of the floor of earned and State provided income could also foster new forms of industrial organisation. There is an increasing tendency throughout the advanced capitalist world for firms to sub-contract an increasing proportion of their functions. The reasons for this are explored in a separate paper but the availability of cheap labour is a contributory factor. There is evidence from Italy that the growth of sub-contracting led to the emergence of a small firm sector which secured its independence from large firms and developed new techniques and products.

The links between family subsistence and the supply price of subsidiary wage earners could also lead to a restructuring of employment if family incomes were reduced. Unemployment, short time working and the downgrading of the principal wage earners, which would be exacerbated by wage cuts and reduction in social security provisions, put increasing pressure on subsidiary wage earners and desperate

attempts to maintain family could increase the supply of low paid workers and lower their supply price. Statutory rules designed to prohibit or limit the receipt of social welfare payments to the economically active will exacerbate the problem. Limits on earnings of social security recipients encourages the growth of "black" employment where wages are low, abuses of the law difficult to regulate and where the possibility of exploitation of labour is enhanced. This may pose problems even in booms, but then incomes are high and rising and the underlying poverty which lies at the heart of exploitation is being reduced. On the other hand, in recession when unemployment is high, poverty increasing and social welfare threatened by government expenditure cuts and the growing tax burden as the fiscal base of the economy contracts, the black economy become an important alternative source of income.

However, the major effect of sub-contracting and the growth of the black economy has been to re-structure rather than expand employment and there are no reasons to believe an increase in sub-contracting motivated by wage reduction would have any other effect.

Another possible expansion of employment if labour was available at lower prices is the service sector. Traditionally domestic and personal services such as retailing, distribution and the repair of cars and domestic appliances have acted as a sponge to absorb the unemployment displaced from manufacturing and it is frequently argued that this is being prevented in the current recession by the high price of labour. There is no doubt that if the price of labour fell sufficiently there would be a growth of such services. But whether this would be economically meaningful or just disguised unemployment is questionable.

There is a limited demand for personal services and the demand for services will decline as income at all levels are reduced by recession. If workers were driven by economic necessity to offer services the demand for which is inelastic then this would merely distribute the limited job opportunities thinly amongst a growing flow of suppliers. But there is a limit to this and moreover the long period of decline of the provision of personal services has drastically reduced the demand. Labour intensive laundries and dry cleaners have been replaced by coin in the slot laundramatics, changes in retailing to the super- and hyper-market mode have drastically increased its capital intensity and, moreover, domestic labour has become increasingly mechanised and therefore the potential demand for servants is much reduced. Perhaps the availability of cheap labour might reverse these trends but this would be a long term, rather than short term prospect.

Thus whilst it cannot be denied that pay cuts and the reduction of social security would have a positive employment effect in the absence of any significant increase in effective demand (when employment would increase without pay cuts) the major impact would be a re-shuffling of existing jobs and the spreading of existing work over more workers. But this gain needs setting against the economic and social costs of a regressive redistribution of income.

The Anti-Sweating league and other pressure groups who fought for the establishment of minimum wages argued against those who opposed such a policy, on the grounds of the negative employment effect that jobs are not worth having unless their wages provide at least for the minimum consumption requirements of the worker employed for a normal working week. Otherwise the worker would need to be subsidised by either the

state or the family and this would in effect be a subsidy to the partially parasitic low pay employer. It was further argued that if legislation enforcing the payment of wages sufficient to cover minimum consumption standards eliminates jobs, then this was a measure of the low value of the jobs to society. But where jobs were low paid because of the disadvantaged position of the workers employed, wage protection would serve mainly to reduce exploitation.

The force of the argument that jobs should not be contemplated which cannot provide minimum consumption standards lies not only in the compelling considerations of social justice but also in the possible impact of the employment of cheap subsidised labour on the structure and stability of product markets and production. The negative effects of the employment of low wage labour on the stability, growth and rate of technical change in industry is the obverse of the argument that high wages stimulates innovation, technical change and efficiency. Low wages which for one reason or another bear no relationship to potential productivity provide an independent basis on which firms can compete and on which secondary industries, firms and technologies can thrive. Unregulated low wage employment destabilises product markets, increases uncertainty and risk, slows down the rate of scrapping and consequently reduces the level of new investment, and the profitability of new investment in high wage firms. Therefore the case for or against wage reductions extends beyond a consideration of its impact on workers and employers (potential and actual) in the low wage sector. Attention must be paid to the effect of unregulated employment on the modern, high wage employment sectors which should provide the basis for industrial growth and stable, secure employment.

The disruptive effect of competition based on wage cutting is recognised by employers whose association enforce minimum wages in an attempt to "take wages out of competition". Employers often prefer the institutional regulation of wages within an industry as it limits unfair competition in the product market based on low wage "sweated labour" and they demonstrate this preference by joining employers' associations. In this respect the National Federation of Self Employed and Small Business Ltd., a major pressure group for eliminating minimum wages in Britain, entirely misinterpreted the debates over the abolition of Wages Councils in the 1960s and 1970s. (WFSESB 1981). The Federation suggests that the Department of Employment was unwilling to consider applications for abolition from employers. Infact, in all the abolition cases that we are aware of the main opposition to abolition came from the employers whose main concern was the prevention of destructive competition.

Summary and conclusions

The neo-classical argument that a reduction of real wages increases employment depends crucially on Say's Law; that any reduction in effective demand resulting from a cut in real wages will be offset by an increase in consumption or saving (and hence, according to orthodox economics, investment) from profits. Keynes, however, believed this not to be the case and after a careful study in chapter 19 of the General Theory concluded that the most likely effect of a cut in real wages would be a contraction in aggregate income. From the Keynesian standpoint, the level of employment is determined not by the labour market, but by the level of effective demand. In conditions of Keynesian unemployment - which provides the clearest understanding of the current high level of unemployment in Western Europe - the level of

income, both individual or aggregate, is not easily explained in terms of worth or need.

The basis of orthodox wage theory is that the labour market by rationing scarce labour ensures individual workers are paid their worth in terms of productivity. However the notion that labour is scarce, except in the very short period, receives little historical support. Periods of growth have witnessed the mobilisation of labour, which, as far as the advanced industrial sector is concerned, was previously unutilized or underutilized. Such periods of economic advance have witnessed mass internal and international migration and significant social change, including changes in the family, which have increased activity rates of existing populations. Moreover the taking up of surplus labour has not been only quantitative. With economic expansion, expanding job opportunities in higher grades and improved education and training has resulted in upgrading of industrial labour. Thus the labour force in the advanced sectors is demand rather than supply determined.

However the process of the adjustment of human resources to increased demand is by no means smooth. Newcomers to the labour force tend to be confined to the jobs with poor working conditions, low pay and limited prospects. This can be explained by lack of training, racial and sexual prejudice, effective organisation amongst primary workers, and, in the case of women, by constraints resulting from domestic duties. Thus typically labour markets are structured with newcomers confined with traditionally disadvantaged groups to marginal occupations, with limited earnings opportunities.

In periods of economic crisis the process of up-grading is reversed and labour markets are restricted with the marginalisation of weakly organised workers and the expulsion of marginal workers. In the first instance the costs of crisis are borne mainly by secondary workers. However, the growing crisis intensifies competition as desperation forces firms to cut prices and worsen the terms upon which workers are employed. In these circumstances income maintenance is an important element in controlling competition and preventing a progressive decline in wages and working conditions, a principle effect of policy aimed at wide spread wage cutting accompanied by reduction in social security would exacerbate the economic and social costs of recession. In such periods the growing availability of workers prepared to work for low pay coincides with growing competitiveness on firms encouraging a restructuring of production to avoid previously established minima in wages and working conditions. Thus a form of Gresham's law operates with low wages and bad employment practices driving out the good.

The concentration of the worst effects of crisis on those least able to protect themselves may have an important political stabilising effect. It allows the more powerful in society to resolve their differences by providing them collectively with a higher proportion of total resources. The evidence is that during the crisis of the 1970's the West German economy has concentrated the cost by expelling foreign workers and by restructuring the domestic labour force to exclude domiciled immigrants, women, the disabled, the young and the old from the primary labour market. This has been achieved by upgrading the qualification level of the primary workers with little or no evidence of an increased job content and with the compliance if not the active

participation of the German trade union movement. There is abundant evidence that this process is observable in all advanced capitalist economies and there is no doubt that the abandonment of policies for maintaining low income would accelerate this trend. This is the reality underlying the rhetoric of neo-classical theoreticians. However, apart from the social and moral considerations, stabilisation by increasing inequalities will almost certainly be counter productive. It is argued in an accompanying paper that the driving force of inflation is the reduction in living standards and one of the important features of recent developments has been the growth of organisation amongst the low paid. A permanent reduction in the real income at the lower end of the scale would require a destruction of this organisation and this would be extremely socially divisive (as the dirty job strikes in Britain in 1979 demonstrated). But even if this could be achieved temporarily, history shows that the inclusion of previously excluded groups into the bargaining process over economic resources, status and power is a major feature of modern development in capitalist and also socialist economies. This process can be halted or even set back in the short term but even then only at significant economic and social costs, but the cost of permanently reversing this historical process is unthinkable.

Inflation

Introduction

Inflation has become an increasingly intractable problem over the post war period, a process paralleled by the development of theories of inflation and by policies to reduce inflation. Most of these theories can be classified as demand pull/monetarist, or cost-push; consequently policies to reduce inflation have either deflated demand or attempted to directly control money income or both. An alternative explanation of the inflationary process is that rising prices result from struggles over the distribution of real income between and amongst wage earners and profit takers. This latter analysis has not yet had a serious influence on policy makers, and consequently the implications of the distributional approach for the effectiveness of orthodox anti-inflationary policies has not received wide consideration. But they do suggest that orthodox policies will not only be ineffective but will even intensify the inflationary process.

The purpose of this paper is to argue that the distribution approach raises major doubt about conventional anti-inflationary policies and to suggest areas for policy-orientated research on the inflationary process. Section one briefly summarises the orthodox theories of demand and cost-push inflation and links these with anti-inflationary policies. Section two outlines the distributional approach, contrasting it with orthodox theories. Section three examines the impact of orthodox anti-inflation policies in a world where inflation results primarily from distributional conflict. The final section considers the factors which can be expected to modify or intensify inflation when it is mainly explained by distributional struggles. These

considerations need to be taken into account in designing anti-inflation policies and also in formulating general economic policies.

1. Orthodox theories of inflation

1.1 Theories of excess demand

By the 1970s Keynesian demand-pull theories of inflation, based on the Phillips' curve trade-off between inflation and unemployment, had given way to monetarist theories of excess money demand which provided an explanation for inflation even when unemployment was rising sharply. In the post-war period up to the 1970s there had also been a marked evolution in Keynesian demand-pull theories. During the 1950s the predominant view amongst economists was that inflation resulted from excess demand in the product market. In the 1960s the emphasis shifted to excess demand in the labour market and the apparent trade-off between wage inflation and unemployment. The monetarist explanations, increasing popular in the 1970s, argued that inflation was a wholly monetary phenomenon and independent of labour market conditions (Horsmann).

The policy recommendations of both Keynesian and monetarist demand theories of inflation are deflation, the former concentrating mainly on fiscal, and the latter on monetary restraint. However for Keynesian demand-pull theories the co-existence of high rates of inflation and low levels of effective demand and rising unemployment rates provided a real dilemma, and by the 1970s few previous adherents to orthodox Phillips' curve analyses continued to advocate deflationary policy as the main means to curb inflation. Already in the 1960s economists had been working with integrated demand-pull and cost-push theories of inflation. Under these approaches the excess demand for labour combined with extra bargaining power conferred on the trade unions in periods of high labour demand to bid up wages. Trade union strength was thus a function of the level of demand, and the position and shape of the

Phillip's curve relationship was in part determined by trade union behaviour. Trade union militancy was identified as a major obstacle to the achievement of non-inflationary full employment by demand-management alone. To explain the apparent breakdown of the Phillips' relationship in the late 1960s, some Keynesians used the demand-pull/cost-push variant to suggest that the position of the Phillips' curve was no longer stable because of a general increase in the level of trade union militancy which was pushing the curve away from the origin increasing the rate of inflation associated with each level of unemployment. This increase in militancy was itself considered a function of the higher level of employment throughout the post-war period (Phelps Brown). The policy recommendation was for an incomes policy to shift the Phillips' curve to the left to provide more flexibility for macro-economic policies. However with the continuous change in the relationship between inflation and unemployment in the 1970s it was increasingly accepted that the Phillips relationship had broken down and not just shifted position.

For the monetarists a high rate of inflation with rising unemployment was no dilemma as for them inflation is determined entirely by monetary demand and not by conditions in the labour market. Friedman developed the expectations - augmented Phillips' curve which located the cause of the acceleration in inflation rates in mistaken belief that there was a long term trade-off between inflation and unemployment. Monetarists advocated deflationary policies, controlling the supply of money arguing that this would have no long term effect on the utilization of resources which were determined exclusively by market forces. As inflation is caused by excess money, monetarists see no role

for incomes policies. Some economists of the monetarist persuasion have however advocated incomes policies or trade union controls to smooth the transition to lower rates of inflation determined by the appropriate monetary policies (Scott).

1.2 Cost push theories of inflation

Cost-push theories of inflation developed in parallel with demand-pull theories. The breakdown of the Phillips' curve led to the ascendancy of both cost-push and monetarist theories of inflation. In the pure cost-push models of inflation the impetus to inflation comes from autonomous cost-increases, generated by import price rises, increase in taxes, increases in profit mark-up or, more commonly, from increases in money wages generated by trade union bargaining power considered to be independent of the level of demand in the labour market. In a period of persistent inflation the initial impetus to the inflationary process becomes unclear and the definition of cost-push inflation has been extended to include situations where pressures from the cost-side not easily modified by deflationary economic policy maintain inflation whatever its initial cause.

There are a wide variety of cost-push models, and there has been no consistent evolutionary pattern of development of these theories, except perhaps a more recent tendency to emphasise "real wage resistance" as the basis of wage bargaining which blurs the distinction between cost-push and conflict theories of inflation. There are three basic types of cost-push theories of wage inflation: those which assume that wage claims are initiated by workers' greed or dissatisfaction with their lot; those in which workers customary standard of living or

expected increase in their standard of living is reduced through price rises, and those in which workers make money wage claims in order to maintain or improve their relative position in a wage hierarchy.

The causes of wage-wage and wage-price spirals can be many and various. For wage-wage spirals one group may press for improved relative wages because of real or perceived differences in their labour market position or because they consider themselves to be relatively underpaid. These reasons for changes in customary differentials are not accepted by other groups and a wage-wage spiral results. Similarly the inflationary process may be set in motion by a high increase in sectors with relatively high rates of productivity growth and the force of customary differentials generalises the increases throughout the economy. The price increases that could stimulate a price-wage spiral could stem from higher taxes on profits or sales, higher import prices or higher profits, or alternatively the wage-price spiral could be initiated by autonomous claims for higher money wages to increase real wages or to restore real disposable income reduced by tax increases.

These explanations of cost-inflation are based on actual changes in differentials, real income levels, or in the acceptable level of real wages. In periods of persistent inflation, however, inflationary expectations may come to play a part by some cost-push theorists (Wood Pemberton). As inflation becomes the norm, it is anticipated by bargaining groups who build into their wage claim an increase not only sufficient to bring them up to acceptable current levels but to provide some margin against expected inflationary erosion of the absolute or relative value of their wages. As each bargaining group's main objective is to protect their own interests, and as at the time they bargain they

have not direct information on the level of wage increases other groups will achieve, or the rate of price increase, they have a strong incentive to treat experienced inflation as a minimum and predict an acceleration in that rate. In these circumstances inflationary expectations based on imperfect knowledge act as an autonomous force increasing wage costs. In such circumstances incomes policies may be particularly efficacious by providing additional information as to the wage increase norm and they may succeed in reducing the generally self-fulfilling inflationary expectations. In this view inflation results not from fundamental conflict over the distribution of resources but from inefficiencies in the bargaining and information systems; consequently the inflation can be readily brought under control if trade unions agree to centralisation and synchronisation of bargaining.

Incomes policies that are expected not just to moderate inflationary expectations but also to resolve real conflicts over relative positions in a wage hierarchy or over real income levels are clearly much less certain to be successful. However perhaps the main difference between cost-push theorists and conflict theorists is the belief of the former that such ^{conflict} over relative or real income levels should, and moreover can be, resolved within the constraints of the current availability of resources for consumption whatever the level. This requires that workers should be prepared to accept the level of real income that remains after the prior claims of profits, imports and the government sector. Implicit in this approach is a strongly held belief that there is some overall structure of relative pay which is independent of the absolute level of real pay which workers will find acceptable provided certain areas of excess union strength can be

brought under control. For cost-push theorists who believe workers are primarily concerned about the absolute level of real wages, the current economic decline of the UK creates fundamental problems for any optimistic belief in an efficacious incomes policies. Whereas in the late 1950s and early 1960s it might have been possible to claim that the wage-price spiral was initiated by trade unions making exogenous and excessive claims for higher real wages, and that incomes policies were necessary to contain such excesses, it is now clear that since the mid 1960s it has been more a question of trade unions defending customary real wage levels in successive periods of increasingly serious economic decline. Within the context of a depressed and declining economy, the likelihood of real conflict over the distribution of resources increases, and it is this change in the economic climate which occurred earlier in Britain than in other EEC countries that has led to the development of theories which located the cause of inflation in the struggle over real resources.

2. Distributional conflict and the inflationary process

Conflict theories of inflation direct attention to the resources available to meet wage claims and the demands made upon these resources by profits, the foreign sector and the government. Inflation results if the resources available are not sufficient to meet the real resource claims made by these sectors. Inflation is a phenomenon caused by real conflict and by real shortages of available resources. It cannot therefore be 'solved' by reforms of apparently inefficient institutional procedures for wage determination, or by providing an improved information system of the rate of price or money wage changes in the economy.

In fact far from inflation being considered an indicator of inefficiency in the institutional set-up of the economy, it might in at least certain periods in certain economies be considered an essential escape valve: a means by which differences can be resolved without damage to the functioning of the economy. When wage bargains are made, they are agreed in monetary terms, and neither the workers or the employers have precise information about the real outcome of the bargain. The immediate impact of a money wage increase may be to raise the price of the firms product by the same percentage, but for the workers concerned this increase does not cancel out the full benefit of the wage increase as the product will at most form a minor part of their bundle of consumption goods. Moreover the employers will not be certain whether demand for their product and hence total profits can be maintained in real terms; this will depend on whether the firm's relative price position will be restored by a general rise in the prices. This uncertainty over the outcome may allow a bargain to be struck even when, had / the results of the bargain been known in real terms in advance, there might be no solution that was acceptable to both sides. Moreover if the outcome in practice proves unacceptable then the issue can be reopened through another wage negotiation. In this way, for example, an increase in the tax or import price burden can be continuously shifted between wages and profits, and of course also between bargaining groups who achieve wage settlements at different times of the year.⁽¹⁾ This argument also applies to conflicts over

(1) It had been argued that if all bargaining groups settled at the same time for the same amount and if prices immediately rose everyone would recognise the futility of wage bargaining and would give it up. However it is possible that in these circumstances everyone would recognise that it was the restoration of profit levels which reduced real wages below their bargained level rather than other wage bargainings as seems the case when groups settle at different times of the year. This could concentrate conflict between capital and labour rather than disperse it in the group struggles.

relative wages, although intra-wage sector conflicts are generally considered at least secondary to real wage conflicts by this approach. The 'leapfrogging' process may be preferable to any attempt to establish 'direct relativity bargaining' (Wood ; Pemberton) as bargaining groups might be unprepared to accept publicly a particular position within a wage hierarchy, whereas they would be prepared to accept a money wage bargain which temporarily improved their relative position and which promised a permanent improvement because of uncertainty about the relative bargaining success of other groups.

Although the inflation 'escape valve' allows compromises to be reached when there is no current acceptable solution to the real distribution of resources, it can nevertheless have severe costs for the economy and for political stability. Not least of these costs is the fact that inflation that results from conflict is highly likely to accelerate. If workers make a real wage claim in one round that they fail to realise, in the next pay round they may attempt to make good their shortfall in real wages during the previous two rounds, leading to higher rates of money wage claims. Moreover the risks will be the greater the larger the shortfall between demanded and available real resources. (1)

(1) Determined by demands of the public sector, investment, capitalist consumption and the terms of trade, and the rate of increase in productivity.

Secondly if inflation results primarily from the defensive action of workers and employers to maintain income levels, any period of inflation is liable to induce relatively unorganised and weak groups to develop a more effective defence of their living standards. The ability of strong groups to protect their living standard at the expense of less well organised/whilst helping to reduce inflation in the short period is not a stable situation. The more rapid the erosion in their living standards the greater is the likelihood that the weakly organised will improve their organisation. This spread of effective collective bargaining has a similar inflationary pressure in the economy as an increase in militancy amongst already organised groups as the passing on of wage and price increases becomes more complete, so inflation accelerates (compare Phelps Brown's with Wilkinson and Turner's explanation of the late 1960s wage explosion). Moreover these developments in organisation and collective bargaining are unlikely to be reversed as organisation and militancy are maintained both by the new institutions that are formed and by the educative or learning process that employees go through in forming organisations or taking part in industrial action. Considerable evidence exists to show that the probability of further industrial action is very high in establishments where there has been at least one strike. This increased potential for inflationary pressure is therefore a permanent feature of the economy: and the price that has to be paid if weak groups are not to bear the burden of wage and profit claims in more organised sectors.

There is no simple solution to inflation resulting from conflict over distribution. Incomes policies can only work if they achieve or are accompanied by a permanent change in claims for real resources made by

wages, profits, the foreign sector or government or if real resources are simultaneously expanded. Moreover the question about what is the "right" policy becomes explicitly political: it cannot be assumed that it is real wages that can or should be suppressed and it may be that a suppression of profits (with higher public investment to compensate for any consequent shortfall in private investment) is the only way by which an acceptable compromise can be found within the existing social political and economic framework. While conflict theory points to no obvious direct anti-inflation policies, it does direct attention to the importance of macro-economic policy and the availability of real resources in containing the inflationary process. Other things being equal, distributional conflict will be less severe the greater the availability of resources for distribution.

3. Impact of orthodox anti-inflation policies on the inflationary process.

3.1 Monetary/fiscal restraint

Keynesian fiscal restraint and monetarist policy designed to reduce monetary demand and hence prices, in practice cause a reduction in the level of activity in the economy. For Keynesian demand-pull theorists the decline in available real resources is the price that has to be paid for a reduction in the rate of inflation; for monetarists the decline in activity represents a movement back to equilibrium at the 'natural level' of employment where inflation is non-accelerating from a disequilibrium position achieved by a mismatch in capitalist and workers expectations and sustained by a progressive increase in the money supply (although some reduction below the natural rate may be needed

to squeeze inflation out of the system). Moreover the transition to stable inflation is believed to provide the conditions for a larger supply of real resources in the future by creating an environment favourable to enterprise. For Keynesians then inflation control requires a sacrifice of real resources, but for monetarists this sacrifice is only of resources that could make no long term contribution to national income.

If there is conflict over the distribution of / resources, both monetarist and Keynesian policies are liable to exacerbate the inflationary problem by reducing the supply of available resources. Moreover even if the policy was designed to improve long term growth prospects through higher investment by using deflation to weaken union power and to redistribute income to profits, experience shows that an increase in the profit share is not sufficient to secure an increase in investment. Indeed the generally depressed conditions induced by demand deflation are more likely to lead to a reduction in investment and thus to a long term decline in the supply of available resources.

Deflation not only leads to a reduction in wage and profit levels through forcing firms out of business and workers into unemployment but also by affecting profits and wages of firms and workers left in employment. If deflation led only to bankruptcy or unemployment the impact on the inflationary process might be reduced because of the inherently weak bargaining power of firms and workers forced out of economic activity. However it is more likely that all or the majority of firms will be working at low levels of capacity utilization, which squeezes profit levels by increasing overhead costs per unit of output and by reducing productivity growth and competitiveness on the

international market as investment levels are cut. This squeeze in profit levels may lead firms to raise prices by a higher percentage than wage increases, thereby squeezing real wages. Workers' real living standards are also likely to be cut because of the higher tax burden in recession as the tax base shrinks and the dependent population rises. Even if the tax burden is levied on firms part at least is likely to be passed on into prices and thus onto wages. This increased tax burden can lead to persistent inflation if it is rejected by both employers and workers.

One response to this tax-burden problem has been the attempt to combine deflationary policy with a reduction in public sector expenditure. The cuts in public expenditure have also been encouraged by evidence that increases in the social wage do not necessarily reduce workers' claims for real net disposable income. It is believed that standards of living/perceived to be higher if goods and services are purchased out of real disposable income than if they are paid for out of social welfare budgets financed by higher taxes. There are two major problems with this attempt to reduce the pressure on real wages by cuts in public expenditure. First the cuts themselves induce price increases for public sector goods, further deflation, rising unemployment, and in practice a higher tax burden, assuming no cut in unemployment benefit, than if the level of non-transfer public expenditure had been kept stable. Second, the impact of changes in the social wage on real wage claims is assymetrical. If the social wage increases workers are liable to incorporate this increase into their customary real living standards without any reduction in their expected level of purchases of marketed commodities, and if the tax burden increases to meet the costs of

higher social wage they may well try to pass on this tax burden to employers through money wage claims to restore their real disposable incomes. However this behaviour does not necessarily imply that the social wage is not valued; only that workers are not content with their current living standards and will not necessarily offset increases in certain areas by cuts in others. But if the social wage is reduced and market substitutes have to be bought (for example private for state nurseries, or medical and other welfare charges), this change will again feed into real wage claims as customary standards of living have been reduced. (1)

3.2 Incomes policies

Incomes policies in Britain have generally been used in conjunction with deflationary policies, and have been directed more at increases in the profit share, than as measures in their own right to establish a more satisfactory long term system of wage determination. Nevertheless even in the formulation of the short term and ad hoc policies used in Britain, some attention has necessarily been paid to devising the kind of policy that would be most likely to be considered 'fair' and 'acceptable'. Most cost push theorists advocate that incomes policies should be both more comprehensive (to include profits as well as wages) and more long term than in the past. It is argued that incomes policies should be used more to ensure a more consensual and efficient way of determining income distribution than as ad hoc measures to restrain wages

(1) Similar asymmetrical effects apply when standards of living rise due to a higher exchange rate.

as part of a macroeconomic deflationary package. The various types of incomes policies already implemented show that there is no predominant view over what system of wage determination is most likely to secure equity and efficiency. Some incomes policies have stressed equal increases for all (some flat rate, some percentage), while others have stressed the importance of allowing wages to rise in higher productivity sectors, and in particular to reward higher labour productivity. The former set of policies is more likely to lead to or maintain relative equality in wage differentials between groups of workers, while the latter is likely to maintain relative shares between wages and profits at the firm level. The fact that all these different types of incomes policies have failed is some evidence that the issue of maintaining real wage levels is of paramount importance, as all periods of incomes policies have slowed down real wage growth and led to reductions in real wage levels for specific groups (Tarling and Wilkinson 1977).

The focus on the search for some form of acceptable equality in relative earnings in incomes policy has directed attention away from the effects of incomes policies on real wages. If one adopts the conflict model of inflation an incomes policy that reduces real wages will not only not succeed in the long term but will actually intensify the inflationary process. This occurs for two reasons: first, when the incomes policy finally breaks under pressure from wage bargainers, claims will be made in this first period of 'free collective bargaining' designed to restore cuts in real wages that occurred over the whole period of incomes policies. Money wage claims will comprise both compensation for the increase in prices since the previous settlement, and compensation for shortfalls in customary real wage levels over

previous settlement periods. Secondly incomes policies, and the associated decrease in real wages, change bargaining behaviour. Previously unorganised groups enter into bargaining, other groups press for more frequent settlements as a means of restoring real income levels, and both this bunching of the number of groups settling and the concentration of real wage claims into a short time period immediately following the end of the incomes policy leads to a rapid rise in money wages and consequently in prices. Moreover this higher rate of price increase may be built into the system as it forms the basis for that part of next years wage claims based on cost of living increases. Incomes policies can and have had a ratchet effect on the rate of inflation.

The serious consequences of ill-thought out incomes policies have not been considered by policy makers. Most expect incomes policies to break down, but believe that at least short term gains can be made which will not be offset by subsequent events. It is also supposed that if wages increase more slowly than prices, then eventually wage claims are likely to rise again but probably to a lower rate of increase than previously provided incomes policies have had some effect in reducing the rate of price increase: no compensation for loss of real wages over the period of incomes policy is expected. One area where policy makers continually hope to make costless short term gains is in the public sector where incomes policies are usually most vigorously applied. However the history of public sector pay in the UK has been a falling behind in income policy-on periods and a catching up period in policy-off periods that causes considerable strain on public expenditure budgets in individual years as well as leading to an unnecessary level of

industrial dispute and disruption of public services. The main socially beneficial effect of incomes policy has probably been to encourage weaker groups particularly in the public sector, to organise to defend their living standards against the cuts imposed by incomes policies and relatively unrestrained price rises. Paradoxically this effect of incomes policies on weaker groups is the opposite of that claimed for incomes policies which were expected to provide protection to the less well organised groups and to improve their relative position.

4. Policy implications of distributional conflict theories

If inflation results from a shortage of resources to meet current claims then there are three possible types of strategies to modify inflationary pressure: to suppress claims to real resources on a long term basis; to increase total available resources; to improve the distribution of current resources and to attempt to reorganise society to improve the standard of life.

4.1 Suppression of claims to real resources

One plausible interpretation of monetarist inspired economic policies is that the prime purpose is to weaken trade union power, to reduce the claims to real resources and to restore managerial prerogative in the organisation of production. The monetarist policies may achieve this objective through the consequent increase in the level of unemployment. In practice these policies have also been backed up by more direct anti-union policies such as the reform of industrial relations legislation in the UK, and the sacking of the striking air traffic controllers in the US. This weakening of trade union control is

also part of the associated policy of restoring incentives to employers, to induce increased investment and growth and^a high absolute level of income even if the share going to labour is permanently reduced.

Such policies, even if considered politically desirable or acceptable, are unlikely to be successful, particularly in the long term. The monetarist policies may achieve a reduction in labour's absolute real wage claims, but by pursuing this policy the total amount of available resources declines, so that the gap between wage demands and the ability of the economy to meet these demands is more likely to widen than narrow. Moreover there is no clear evidence yet that such policies are successful in moderating real wage claims, or that any such reform of bargaining behaviour can be maintained at anything other than high or even increasing unemployment levels. Moreover if permanent deflation is used to control trade unionism it may take only a short time before the controlling impact of unemployment is reversed and the result is a much more hostile, socially, and politically divided society where the chances of finding a workable accommodation between labour and capital are severely reduced. In short these policies are wasteful of economic resources, socially divisive and unlikely to succeed.

4.2 Increased resources

Clearly an expansion of the economy provides the most direct means of meeting a shortfall in available real resources. It is much easier to find some agreed means of sharing out income if no groups are expected to cut their customary living standards. Expansion of the economy also provides more employment opportunities, the most important means by which workers can lay claim to real income. An increase in

available employment affects a large share of the working population: families the members of which are all unemployed and increased labour market participation by families partially employed and an increase in hours of work and bonus payments.

An expansion of the economy is not an easy panacea for dealing with inflation. Indeed the fact that such expansion is necessary to moderate inflation is a measure of how deeply embedded in the economic, social and political system is the inflationary process. The main reason for seeking expansion is not the control of inflation, and an inability to secure sufficient expansion to achieve full employment as well as to contain inflation may be a structural characteristic of most advanced societies in the 1980s. Although this is not the place to review the options for improving growth prospects it is worth stressing that the conflict theory of inflation at least removes the spurious objection to planning for growth, that expansion will intensify inflationary pressures.

In the short term at least it must be expected that whatever the macroeconomic policy pursued, the rate of expansion will not be sufficient on its own to eliminate the risk of accelerating inflation. Attention therefore must be paid to the last strategy, improvements in the distribution of resources and changes in the organisation of society. These issues are central to anti-inflation policy even in a period of high growth, as the way in which the increased resources enter the system, and which groups lay claims to them, clearly has an important impact on the extent to which growth will itself limit inflationary pressure.

4.3 Improved distribution of resources and changes in the organisation of society

A consideration of the implications of conflict theory might give rise to policies that are narrowly focussed on maintaining^{the} real wages of those currently employed at the expense of maintaining adequate living standards throughout ^{the} community, and of establishing a fair and decent society with relatively equal opportunities. In our view these types of policies would not only be socially divisive but would also not succeed in the long term objective of finding some means by which most groups claims for a fair standard of life can be accommodated.

It is possible to advocate three main policies designed to maintain the real wages of those workers most strategically placed and most liable actively to resist cuts.

- 1) Concentration of unemployment primarily on 'secondary' family workers, on women, the young, the old, the disabled and other disadvantage groups such as immigrants.
- 2) Maintaining real disposable wages for those in employment by cutting the real benefit level for those out of employment and thereby reducing the tax burden.
- 3) Reducing the social wage and thereby again reducing the tax burden.

The first option is difficult to achieve because of segregation and segmentation in the employment structure, so that women workers and coloured workers do not usually provide direct substitutes for white male workers. Moreover concentration of unemployment on secondary family workers may have effects opposite to those suggested. Real wage claims will not only relate to workers' perception of a 'fair reward' for effort, but also to the real standard of living that they are able

to achieve. Standards of living are determined by family income and the majority of families have multiple wage earners (over 50 per cent of married women now work in Britain). If some family income earners lose employment the remaining wage earner or earners may seek to make good this loss through further pressure for increases in their own real wage levels. This real living standard argument might help to explain continuing pressure on money wage levels in a period of recession even when individual real wage levels do not appear to have been severely cut. Most family units will nevertheless have suffered some loss of income through unemployment, short-time working, cuts in overtime, production bonuses and the like. A similar argument can be made against cutting the social wage; workers will build in to their wage claims that part of the lost social wage that they made good by purchase of market commodities or services, and even that part for which substitute wage goods are not purchased (often because substitutes are not available) may contribute to workers' general dissatisfaction with their current living standards.

It could be argued that if these strategies were to be concentrated against the most disadvantaged and socially isolated groups then they are most likely to be successful even if morally objectionable. Thus if the cuts in the social wage were concentrated on the services which are most important to the poorest and least vociferous groups (social security benefits, facilities for child custody and care, adult mentally handicapped etc), or unemployment concentrated on the coloured or guest-worker communities, then there would be little opposition to these moves from organised labour. Even if this is the case, such policies might create an even more divided working class and provide a sub-group

or under class, which, because it was excluded from the core labour market and from adequate benefits outside the labour market, could provide a source of competitive pressure to organised labour if out of necessity its members sought low paid work in the black economy. This possibility is even clearer with the strategy to cut unemployment benefit as a means of maintaining real wages for those in employment. Labour market theorists of orthodox and non orthodox persuasion are usually agreed that the level of unemployment benefits is an important factor in bolstering up real wages for those in employment. This is a socially divisive policy of concentrating the cost of unemployment and inflation is also likely to be in the long run counter-productive as the growing competition induced by deprivation of disadvantage workers undermines the position of the more powerfully organised.

It is considerably easier to identify policies that will intensify conflict than policies that can be relied upon to reduce conflict. A major problem is that the demands made by groups are unlikely to be stable. Although real wage claims are based on some notion of a 'fair' living standard and a 'fair' reward for effort, these are only relative notions, relative to what is expected or customary, or to what is believed to be possible. If workers change their perception of what is possible, or if easy opportunities for improved real living standards present themselves (for example reduced import prices) the workers may not only raise their real wage claims but also their perception of what is fair. What constitutes a 'fair' level of profits, or a 'fair' return to enterprise is again determined by custom and practice and likewise subject to upward revision.

Some accommodation over the distribution of the current product

may be found in the short term but no permanent solution can be guaranteed because the causes of the conflict run deep, and each side is liable to reopen the dispute in the near future. For workers conflict over real wages is partly a manifestation of discontent with more fundamental issues in the organisation of society, including the right to secure and non-degrading employment, and for a more permanent resolution of the conflict, attention must be paid to the establishment of a fairer society.

The generalised discussion of the issues does not at this stage allow any specific proposals to be formulated but suggests the principles that should underlie anti-inflation policy.

1) Claims by labour for real resources are not easily suppressed or reduced and some means of accommodating these claims must be found. Policy makers must not assume that they can automatically adjust real living standards through taxes, exchange rate changes, cuts in public expenditure or measures to raise profit mark-ups. All such policies are liable to meet with retaliation.

2) A fair society requires not only the maintenance of real wage levels but also the maintenance of the total income of family and social groups, including those in and out of work.

3) Income maintenance at the family or social level should not however be at the expense of maintaining a fair reward for labour in the labour market. It is at the workplace that conflict over distribution between wages and profits is manifest, and workers must be able to defend their real wage levels. Moreover income maintenance could not be achieved without successful defence of real wage levels at the place of work.

4) Policies designed to provide greater job security, greater control over the working environment and better protection for those without employment may in the long term reduce the intensity of conflict in society, and in the short term help fill the gap between supply and the demand of resources. In the context of the current recession, considerable imagination and innovation would be required to implement such policies: for example they may require a new approach to collective bargaining, at national industry, or local level, and the development of schemes to provide greater job security at the level of the labour market than in specific plants or firms.

5) All these policies require the pursuit of a growth oriented macro-economic policy with high levels of investment and a commitment to full employment, both to provide the required aggregate level of real resources and to secure access to these resources by the majority of the populace, through access to employment.