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THE SOCIAL CONTRACT: A NOTE ON THE YEAR AHEAD

The present series of pay limits is part - but only one part - of the arrangement between the Labour Government and the TUC whereby leaders of major unions have had an unprecedented say in policy development.

The 5% limit operating over the 12 months from August 1976 is coming under greater strains than its £6 predecessor. The portents for a realistic and binding limit for the 12 months from August 1977 are not good. It is beginning to look as if the Government may be forced at that time either to adopt a statutory policy or to permit a period of unrestrained collective bargaining. If that happens, it will mark not merely the end of the social contract in the sense of the 'voluntary' pay control but, more importantly, in the sense of a special relationship between Government and the unions available only to Labour.

Current Strains

Immediate difficulties for the current limit stem for a widespread suspicion that the seamen's settlement drove a coach and horses through the 5% limit. This means that some grievances which have built up during the £6 limit and others which still lingered from the 1972-4 statutory policy are now bubbling up.

Most visible is the miners claim for early retirement. But the likelihood of this leading to another pits strike should not be exaggerated. The NUM executive have indicated that they still believe that there is considerable room for negotiation, suggesting a willingness to make concessions; one authoritative commentator (Paul Routledge, Labour Editor of the Times) has put forward a plan which he claims could be within the limit and which was probably floated on behalf of the NUM; stocks of coal are reasonably high; and the Government has authorised the NCB to make a new offer. Risks of a strike could only arise if one or a number of the following circumstances arose

1. The NCB so mishandled negotiations that no significant concessions were offered

2. The TUC or the Government decided to declare publicly that even a modified NUM claim (which the NCB was willing to accept) was outside the limit: in which case pressure from the pits for a stike 'against the social contract' would grow

3. The Government took actions which incensed the union movement to such an extent that they wished to demonstrate their anger by a display of power

Most public sector agreements have still to be reached and it is possible that other unions there will wish to demonstrate displeasure at the public spending cuts by forcing disputes over pay.

But in the private sector employers seem confident of containing settlements within the limit and it is generally expected to survive.

/...The portents

<u>The portents for the next year</u>

There has always been an inherent weakness in the present pay restraint. In order to obtain TUC assent to it in June 1975 it was designed as a decreasing limit: it was higher in the first year than we could really afford, but this was economically acceptable because the implication was that the limit would be successively smaller in succeeding years. The strains, however, that build up as pay policies progress have to be met by ever greater flexibility. It is almost impossible to reconcile the need for greater flexibility with a declining limit. The hope was that although a lower percentage would be available it would be worth more because of declining price rises so that even as small a sum as, say, 1% would provide real scope for manoeuvre. This optimistic strategy is faltering as price rises start to accelerate once more.

What are the areas where demands for flexibility arise? Negotiators from both sides agree

- differentials must be improved for skill
- rewards should be available for higher productivity
- steps need to be taken towards consolidating the present earnings supplements on to basic rates
- new pay structures are required

The advocates of these points include: differentials - Iron and Steel Trades Confederation and the Electrical Power Engineers; productivity - the miners; reformed pay structures - British Leyland.

The logic of the policy and probable economic conditions demand that the overall cost of the limit should be less than the present 5% limit (which itself probably means nearer 9% on wage costs). Jack Jones has already suggested a figure of 10% (6th September 1976) - a proposal which met with a welter of complaints from union colleagues ranging from Tom Jackson saying that this sounded like a free for all to Joe Gormley saying that no limit would be acceptable - and even going part of the way to meet the pressures outlined above would suggest a much higher figures.

It is possible that the Government may be able to give some help on differentials through tax concessions again and some union leaders have indicated that they would be interested in such a deal. But that will not ea[illegible] the other pressures. To permit flexibility on new pay structures, productivity deals and consolidation means risking phoney settlements: the only way that can be avoided is by strict rules and monitoring of individual settlements. That implies setting up an institution on the lines of the old Pay Board, and opposition within the unions to such a development would be considerable: e.g. "We shall insist that when this lot is over that (sic) nobody from any central organisation (such as the TUC) is going to be in a position to tell us what we should negotiate and how we should negotiate" - Joe Gormley 7th September 1976.

Other developments which make further effective voluntary restraint unlikely include:

- the miners claim now for a productivity deal (and phased retirement) from August 1977
- British Leyland workers rejection of a further round of restraint
- ASTMS already presenting claims which assume no controls from next August.

It is going to become increasingly clear that the Government's overall

/...economic

economic strategy will demand that pay settlements after August 1977 will be less generous. Union negotiators will become more and more suspicious that the talk of greater flexibility cannot be carried through. They will be less willing than last year to allow their leaders to be pushed into a corner by the Government. There were already rumblings then about an arrangement whereby the Government held pistols to the heads of the TUC's NEDC team and told them to agree or else face a collapse of the £ and a general election. They can only be louder this year.

Significantly, the support of the Transport and General Workers Union and their leadership - which has been the keystone of the policy - is crumbling. Their executive has passed a motion - against Jack Jones' advice - that support for the Government does not commit them to support for Cabinet freedom to decide pay levels in 1977-78. Jack Jones' reign is drawing to a close: his successor will run in tandem with him from Spring 1977 and will take over fully a year later. Whoever that successor is and however much he may support pay policy, he will not have the authority of Jones.

An end to the Social Contract

For its part, there is likely to be little that the Government can offer in return for continuing acquiescence in tight limits. The stance that the Government will have to adopt in the coming months, because of the IMF and other pressures, has meant further cuts in public spending and a continuing refusal to contemplate import controls. This implies that the points in the latest TUC/Labour Party document 'The Next Three Years and the Problem of Priorities,'[1] which can be conceded in the coming 12 months will be severely restricted. The Government has indicated that it proposes to act on industrial democracy, but even if it is willing to risk the uncertainty which legislative proposals on worker directors would arouse, it may well find that it has been passed a poisoned chalice by the TUC on this subject as several unions have strong reservations about it.

When the Department of Employment start publishing statistics once more, it is also going to be evident that both unemployment and prices have started to rise again.

For all these reasons, the social contract is unlikely to look any healthier in six months time than it does now, and may well be in a worse state.

What should the Conservative response be? Clearly there will be no wish to mourn the passing of an arrangement which placed so much power in the hands of a body (the TUC/Labour Party Liaison Committee) beyond Parliamentary scrutiny. There will also be a strong belief that the policies recommended by the Opposition over the last two years and now set out in "The Right Approach" offer a far better route to national recovery.

But it is not sufficient that the present pay restraint should fail: what is important is that the present approach whereby the Government allows the TUC wide powers over policy development as the basis of a working relationship with the unions - should be seen to be incapable of renewal. If the Conservatives can demonstrate that we have come to the end of the 'Social Contract' road, then Labour will lose a major electoral asset. For that reason, premature gloating by the Opposition over difficulties into which the present 5% limit may run, and the strident presentation now of policies which could appear to be 'anti-union' should be avoided. Such action could provide the only motive strong enough to close the ranks of the Labour movement around the Social Contract.

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[1] Points in this document include - continued price controls and more food subsidies; planning agreements with the top 100 companies; import penetration ceilings; £1,000m p.a. for the NEB; further action on top salaries; 51% participation in offshore oil; a new non-means-tested benefit for one-parent families; the setting up of a National Transport Planning Authority

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