

## **Coordinated capitalism in the United Kingdom: wage bargaining and British social democracy**

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### **Introduction**

In the earlier work I examined the development of the British Labour party's policy programme between 1983 and 1992. I concluded that Labour relocated itself during this period within the mainstream of European social democracy. However, one aspect of the party's programme, the core of its anti-inflation strategy, remained, on the face of it, a significant anomaly. An enduring aspect of Labour's economic strategy was the party's stated commitment to free collective bargaining and its rejection of incomes policy and state intervention in the wage setting process.<sup>2</sup> The issue is anomalous concerning Labour's orientation towards European social democracy because many scholars and commentators are agreed in concluding some form of incomes policy or wages compact between employers and workers to be a defining feature of continental reformism. If Labour was truly attempting to recast itself as a European social democratic party, its failure to adopt some form of incomes policy represents a significant departure from the norm. Indeed, in an article in *The Guardian* in 1989, Christopher Huhne protested that Labour could never be taken seriously as a European social democratic party precisely because of its failure to

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<sup>1</sup>. This paper is part of a larger project examining the trajectory of the British Labour party after 1945. Earlier parts detail Labour's failure to learn from other social democratic parties during the 1950s and 1960s as well as its rejection of Europe as the basis for coordinated economic interventions. After defeat in 1983 Neil Kinnock reorientated the party's outlook and articulated a much more positive attitude to other European parties. Labour adopted European style measures in regard to training, research and development, and investment, endorsed membership of the European Union (and the ERM), and established close relations with the SPD and the SAP.

<sup>2</sup>. See, for example, Labour party, *Looking to the Future* (1990), p. 10; and Labour party, *Opportunity Britain* (1991), p. 12.

advocate an incomes policy.<sup>3</sup> Victor Keegan, another journalist, drew much the same conclusion, noting that '[while] other social democratic countries have been modernising the incomes policy alternative to inappropriate market forces, there has been a black hole in alternative thinking in the UK.'<sup>4</sup>

My objective in this paper is to detail the trajectory taken by Labour towards anti-inflationary policy during the 1980s and early 1990s. In particular, I want to assess whether the measures proposed by Labour are antithetical in comparison with those of many European social democrats. Or can Labour's policies be concluded to be more similar than otherwise appears to be the case at first consideration? The case is an important one. Given the emphasis placed by European social democracy on wage regulation if Labour's strategy was significantly at odds with such an approach it raises an awkward question-mark over the party's apparent reorientation. Accordingly, I ask whether Labour sustained its ostensible support for voluntaristic wage bargaining and non-intervention in wage negotiations during its transformation after the 1983 general election?

The paper is structured as follows. In a series of empirical sections, I discuss the party's struggle to develop an anti-inflation policy after 1983. I look at Labour's commitment to a minimum wage and the implications that this proposal had for pay bargaining. I detail the internal dissatisfaction within the party during the late 1980s and I go on to outline the impact that Labour's support for the European Exchange Rate Mechanism had on the party's attitude to wage setting in the run-up to the 1992 general election. I assess the proposals that Labour came up with and analyse the party's discussions with its affiliated trade unions on the issue before going on to draw conclusions about what this case indicates about the nature of the reformist project in the United Kingdom. In the first section, however, by way of context, I note the importance placed by theorists of European social democracy on some sort of wages policy and address Labour's historic difficulties in this area.

<sup>3</sup>. Christopher Huhne, 'Economic notebook', *The Guardian*, 4 October 1989.

<sup>4</sup>. 'Other countries have pushed on with refining their approach with considerable success', Victor Keegan, 'Inflation Time for the Opposition to do some new thinking', *The Guardian*, 24 April 1989.

### **Social democracy and wages policy; Labour and free collective bargaining**

After 1983, much influenced by European experience, Labour's economic strategy placed considerable weight on the notion of collective action to coordinate economic arrangements in the face of specific market failures. Academic theorists of such an approach indicate that collective bargaining represents a typical case of market failure which demands some form of collective action by way of a solution. Wage negotiation must, accordingly, be part of the framework around which the economy is organised.<sup>5</sup> Such theorists claim that pay settlements, if left to the unregulated interplay of free market forces, will be inflationary and are likely to be inequalitarian. Unions will leap-frog each other in seeking real wage increases. Uncertain about the benefits of moderation and the potential risks of low wage increases, they will be inclined to push for the maximum pay settlement that employers will concede.<sup>6</sup> If they conceive of those workers who are apart from the place of employment and from direct negotiations as being 'outsiders', they will be more extravagant in their demands.<sup>7</sup> Wage extremism may yield substantial real increases in pay but is also likely to be inflationary. Such action by strong workers will exacerbate pay differentials and can lead to considerable rigidities within the labour market. Theorists conclude that breaking this wage-price spiral requires some form of intervention in free collective bargaining. As such advocates of

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<sup>5</sup>. See, among others, David Soskice, 'Wage Determination: The Changing Role of Institutions in Advanced Industrialised Countries'; and Andrew Martin, 'Wage Bargaining and Swedish Politics'. See the discussion in Andrew Henley and Euclid Tsakalotos, *Corporatism and Economic Performance* (Aldershot: Elgar, 1993); and Lane Kenworthy, *In Search of National Economic Success* (London: Sage, 1995).

<sup>6</sup>. With reference to the UK see Jonathan Boston, 'The Theory and Practice of Voluntary Incomes Policies with Particular Reference to the British Labour Government's Social Contract, 1974-1979 (Oxford University DPhil thesis, 1983); and Jonathan Boston, 'Corporatist Incomes Policies, the Free Rider Problem and the British Labour Government's Social Contract', in Alan Cawson (ed.), *Organised Interests and the State* (London: Sage, 1985), pp. 64-84. See also Peter Lange, 'Unions, Workers and Wage Regulation: The Rational Bases of Consent', in John Goldthorpe (ed.), *Order and Conflict in Contemporary Capitalism*, pp. 98-123.

<sup>7</sup>. See David Rueda, *Social Democracy Inside Out* (Oxford: Oxford University Press, 2007).

coordinated markets usually espouse some form of incomes policy. It can take many forms: its key features may include coordination and synchronisation of the pay setting process, centralisation of wage negotiations and general economic discussions by the relevant peak level actors, and particular attention to pay differentials as part of a solidaristic criterion in determining appropriate norms and settlements.<sup>8</sup>

Empirical evidence has supported this claim. In the German case, during the 1980s, negotiations in leading sectors established a norm for settlements which in turn leads to a sensitive and resilient pattern of wage moderation without rigid centralisation.<sup>9</sup> In the Swedish case, social democrats relied for many years on a more formal and institutionalised form of centralised bargaining to help determine pay settlements.<sup>10</sup> Social democratic parties have frequently resorted to state intervention in the wage setting process. Thus many scholars of comparative social democracy, no doubt drawing on the Swedish experience, regard a commitment to centralised wage bargaining as pivotal to social democracy. For example, David Cameron emphasises the exchange by labour of wage restraint for full employment as the foundation of reformist economic achievement whilst Andrew Martin presents centralised bargaining as being crucial to social democratic success in Sweden.<sup>11</sup> Likewise, Karl Ove Moene and Michael Wallerstein take institutionalised collective wage setting to be a defining and essential characteristic of reformism.<sup>12</sup> A similar perspective is to be found in many of the texts surrounding the 'Varieties of Capitalism'

<sup>8</sup>. Intervention in the determination of wage levels need not involve the development of a corporatist polity where unions and employers are incorporated in the formation, negotiation and implementation of policy across a range of areas.

<sup>9</sup>. Peter Hall, 'Central Bank Independence and Co-ordinated Wage Bargaining: Their Interaction in Germany and Europe' (Harvard University, Centre for European Studies working paper series 48, 1994), p. 8.

<sup>10</sup>. Andrew Martin, 'Wage Bargaining and Swedish Politics'.

<sup>11</sup>. See David Cameron, 'Social Democracy, Labour Quiescence, and the Representation of economic Interest in Advanced Capitalist Society', in John Goldthorpe (ed.), *Order and Conflict in Contemporary Capitalism* (Oxford: Oxford University Press, 1984), pp. 143-78; and Andrew Martin, 'Wage Bargaining and Swedish Politics'.

<sup>12</sup>. Karl Ove Moene and Michael Wallerstein, 'How Social Democracy Worked: Labor-market Institutions', *Politics and Society*, vol. 23. no. 2 (June 1995), pp. 185-211, p. 186.

debate.<sup>13</sup> At the heart of this approach lies a distinction between liberal market economies and coordinated market economies. Though much of the scholarship is focused at the level of the firm, the coordinated market economy is held typically to involve wage setting processes which reflect prevalent institutional configurations as well as economic factors. Social democrats are likely to make use of such configurations in the coordination of wage claims.

By contrast, in the United Kingdom, Labour formally and repeatedly avoided any public commitment to intervention in wage negotiations. To be sure in government in the 1970s, Labour had resorted to an incomes policy in the form of the Social Contract. Such an approach was in a sense a reaction to a series of economic upheavals and crises. As a party, Labour was manifestly hostile to such arrangements and in opposition it repeatedly rejected them. After 1979, Labour criticised various forms of wages planning - statutory arrangements, voluntary deals, and the introduction of norms - as being unworkable and unnecessary. Such criticisms were repeated even after 1983 at the same time that other aspects of the party's programme were transformed. Frequently, the party was vague as to how inflation would be contained. In 1989, the document published as the conclusion of an intense and sweeping review of policy stated in straightforward fashion: 'On pay generally, we reject a pay policy or any form of pay norm as being unhelpful and unworkable.'<sup>14</sup> A year later, Labour pronounced, 'We will not introduce a statutory incomes policy.'<sup>15</sup> The TUC and individual trade unions appeared to be just as hostile to any notion of an incomes policy. The party frequently suggested that industrial recovery alone would be sufficient to control inflation as increased production reduced inflationary pressures in the economy.<sup>16</sup> 1984's document, *A Future that Works*, example, argued that 'by producing at full capacity we will reduce unit costs

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<sup>13</sup>. See, for example, Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism* (Oxford: Oxford University Press, 2001); and from a different perspective, Jonas Pontusson, *Inequality and prosperity* (Ithaca: Cornell University Press, 2005).

<sup>14</sup>. Labour party, *Meet the Challenge, Make the Change* (1989), p. 14.

<sup>15</sup>. Labour party, *Looking to the Future* (1990), p. 10.

<sup>16</sup>. Peter Torday, 'Labour party will not give support to incomes policy', *The Independent*, 19 January 1990.

and, as in Japan, reduce inflationary pressures.<sup>17</sup> Eight years later, party leader Neil Kinnock made much the same point: 'It is essential,' he told an audience during the 1992 general election campaign, 'to build the productive and competitive strength of which is the only effective means of maintaining low inflation in combination with a healthy rate of growth.'<sup>18</sup>

Of course, some leading individual figures within the party wanted a deal on pay. For example, Roy Hattersley, as shadow chancellor between 1983 and 1987, was pretty explicit in his view that some agreement was essential for a future Labour government.<sup>19</sup> He made it an important feature of his unsuccessful 1983 bid for the Labour party leadership. Despite such preferences on the part of some senior figures, the party's official position was to reject such schemes consistently. Even Hattersley was obliged on occasion to disavow incomes policy, to reject intervention and the kind of initiatives with which Labour had been associated in the past. On one occasion, he said that he had 'not the slightest intention of advocating, even less of introducing, either a statutory incomes policy or an incomes policy which although theoretically voluntary is dependent upon government coercion.'<sup>20</sup> John Smith, Hattersley's successor as shadow chancellor after 1987, repeatedly distanced himself from any talk of either incomes policy or the introduction of pay norms: for example, arguing 'We certainly don't advocate return to what one might call an old style incomes policy with some norm fixed by government, and then policed one way or the other, either by kind of non-statutory pressure or by statutory direction or anything like that.'<sup>21</sup> On another occasion he proclaimed, 'I don't think that in the present circumstances that you could institute a [pay] norm in the private sector.'<sup>22</sup>

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<sup>17</sup>. Quoted by Michael White, 'Labour unwraps its revamped economic package, *The Guardian*, 14 September 1984.

<sup>18</sup>. Neil Kinnock, 'Economic policy for the short term and the long term', speech, Manchester, 24 March 1992, Labour party archive.

<sup>19</sup>. Roy Hattersley, *A Duty to Win* (London, 1983), p. 29; and Parliamentary Committee minutes, 12 December 1984.. See also Patrick Wintour, 'Labour warns unions on pay', *The Guardian*, 23 April 1985.

<sup>20</sup>. Quoted by Patrick Wintour, 'Labour warns unions on pay', *The Guardian*, 23 April 1985.

<sup>21</sup>. Interview with Brian Walden, 23 September 1990, transcript, p. 8.

Indeed, some academics have claimed that support within Labour for a wages policy declined over this period. Eric Shaw suggests that by the mid-1980s even erstwhile supporters of incomes policy felt that collective bargaining in the UK was too decentralised and fragmented to make any form of policy viable.<sup>23</sup> Likewise Lewis Minkin argues that gradually Labour leaders became doubtful over the efficacy of intervention in the pay process and accordingly were extremely cool about attempting so to do.<sup>24</sup> After seeking in an informal way to reach some sort of deal with the unions before the 1987 election, they accepted that it was a forlorn hope. When some union leaders proposed an arrangement on pay before the 1992 election, Labour leaders were reported as being sceptical and unenthusiastic. Moreover, they perceived that was no electoral gain to be secured from such a proposal. Newspapers backed such judgements. A *Guardian* leader in 1990 complained that Labour had 'long eschewed any form of incomes policy.'<sup>25</sup>

Such hostility would not surprise scholars working within the Varieties of Capitalism paradigm. Labour's rejection of intervention in the wage setting process simply reflected the realities of the United Kingdom's status as a typical liberal market economy, one in which most relationships were characterised by their economic nature. The fragmented and deregulated state of the British labour market meant that initiatives to intervene in wage setting would be doomed to failure, an outcome well supported by historical evidence of incomes policy experiments during the 1940s and the 1960s as well as the 1970s. The well publicised antipathy of British trade unions revealed the dominant features of the uncoordinated markets within which they bargained with employers and operated on behalf of their members.

Despite Labour's hostility to intervention in collective bargaining, however, various economic advisers to the party during the 1980s, for example William

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<sup>22</sup>. Quoted by Peter Torday, 'Labour party will not give support to incomes policy', *The Independent*, 19 January 1990.

<sup>23</sup>. Eric Shaw, *The Labour Party Since 1979* (London: Routledge, 1994), pp. 42-6 and 94-101.

<sup>24</sup>. Lewis Minkin, *The Contentious Alliance*, pp. 429-31 and 475.

<sup>25</sup>. 'Labour's economy', 16 May 1990.

Brown, David Soskice, David Currie, and David Metcalfe, suggested in candid and direct terms that the party did need some sort of incomes policy if it was to tackle inflation successfully.<sup>26</sup> They located pay determination at the centre of the institutional reforms which the party should adopt and implement as part of its economic programme. In an internal party policy paper in 1986, Metcalfe proposed an annual forum on pay which would reach agreement over a norm which would then be organised and implemented by private firms.<sup>27</sup> Metcalfe's claim was blunt: economies with institutionalised and centralised systems of wage negotiation and agreement did better in terms of inflation and general economic performance. John Eatwell, Kinnock's adviser, was equally direct in rejecting the proposal, noting caustically: 'centralisation is only equivalent to consensus if the central representation is, and is seen to be truly representative. Otherwise it is just a central control system which ultimately will be resisted at the grassroots'.<sup>28</sup> Eatwell concluded critically, 'What is the point of this paper?'

Overall. Labour's policy position appeared transparent and plain: coordinating the economy would not encompass wage setting. As such, Labour's zealous espousal of European social democracy during the 1980s and early 1990s did not extend to collective bargaining. Can such an apparent divergence between the party's promise of organised intervention in the economy along the lines of continental reformism be reconciled with its reluctance to intervene in wage determination? In the next sections I outline the details of Labour's anti-inflation strategy since 1983.

### **Labour's Anti-Inflation Policy after 1983**

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<sup>26</sup>. On William Brown's proposals see Jon Cruddas, 'Inflation and Labour Market', memorandum, 20 March 1990, Kinnock papers, box 163. For David Soskice, see his 'Wage Determination: The Changing Role of Institutions in Advanced Industrialised Countries'. On David Currie and David Metcalfe see Christopher Huhne, 'Economics: Labour's latest', *The Guardian*, 22 November 1984 which discusses their paper, 'The attack on unemployment' written for the party.

<sup>27</sup>. David Metcalfe, 'Incomes Policy', 2 June 1986, Kinnock papers, box 2.

<sup>28</sup>. John Eatwell, note on David Metcalfe, 'Incomes Policy', Kinnock papers, box 2.

Inflation has been extremely problematic for the Labour party since the mid-1960s. Nothing did more to damage the electoral credibility of the 1974-79 Labour government than the breakdown of its anti-inflation strategy, the 5 per cent incomes policy, in the 1978-79 Winter of Discontent. The strikes and disruption that occurred, the prolonged difficulties of reaching a settlement, and the subsequent rise in inflation did intense damage to Labour.<sup>29</sup> The collapse of the pay policy came on top of the acceleration in inflation during 1974 and 1975. By 1979 Labour's claim to be able to work harmoniously with the trade unions was shattered and its anti-inflation approach was in tatters: the incomes policy upon which it had relied in government appeared to be politically unpopular and economically questionable. As inflation has grown in importance as a problem confronting the UK, so Labour had found it difficult to construct a plausible and acceptable means of suppressing it.

Between 1983 and 1987 Labour's anti-inflation policy was focused on what was called the National Economic Assessment (NEA), comprising the development of a quasi-corporatist forum. The origins of the NEA were to be found in the last days of the Callaghan government and the 1978-1979 Winter of Discontent. In the St Valentine's Day pact of 14 February 1979, the TUC and the Labour administration had agreed that a national assessment of economic prospects, also called an agreed economic assessment, should be held each year before Easter involving both sides of industry and the government.<sup>30</sup> The scheme represented an attempt by Labour and the unions to patch things up after the collapse of the government's pay policy and the disastrous sequence of strikes and disputes. The talks would be focused on getting inflation back under control. In the event, of course, Labour lost the May 1979 general election and nothing came of the proposal on a practical basis.

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<sup>29</sup>. On the economic record of the Labour government see Michael Artis, David Cobham and Mark Wickham-Jones, 'Social Democracy in Hard Times The Economic Record of the Labour Government', *Twentieth Century British History*, vol. 3 no. 1 (1992), pp. 32-58; and Michael Artis and David Cobham (eds.), *Labour's Economic Policies 1974-79* (Manchester, : Manchester University Press, 1991).

<sup>30</sup>. Government-TUC statement, *The Economy, the Government and Trade Union Responsibilities*, reproduced in TUC, *Annual Report* (1979), pp. 392-7.

Nothing more was heard of the National Economic Assessment until 1981 when the TUC-Labour Party Liaison Committee published *Economic Issues facing the Next Labour Government*. It called for an analysis of the economy's growth prospects which would include 'such issues as the share of national income going to profits, to earnings from employment, to rents, to social benefits and to other incomes'.<sup>31</sup> Much about the new proposal remained cryptic. In part this equivocation reflected tension between Labour's NEC and the party's research department.<sup>32</sup> Party staff were much more cautious about rejecting incomes policy altogether and about the effectiveness of the kind of price controls upon which some leftwingers wished to rely. Some researchers accepted that wage rises were an important cause of inflation. The original draft of the NEA had been much closer to presenting it as an explicit incomes policy: the outline stated that 'the Labour party and the TUC will need to discuss and agree a strategy for collective bargaining by the time Labour returns to office'.<sup>33</sup> Such a conception was more than leftwingers on Labour's policy committees could stomach and they called for a revised version. To many, the National Economic Assessment resembled an endeavour, albeit in a somewhat more formalised fashion, to reconstruct the Social Contract, the Labour party's effort at putting together a voluntary package in 1974-75. Its exact form remained unclear.

At the 1983 general election the National Economic Assessment was at the heart of Labour's anti-inflation programme.<sup>34</sup> Discussions would involve the distribution of income but not collective bargaining. Nothing was said about pay differentials or wage rigidities. The lack of progress on this formula after 1983 reflected disagreements within the party as to how inflation could best be contained. One journalist complained, 'The silence from Labour's frontbenches is resounding.'<sup>35</sup> Senior figures from a resurgent parliamentary leadership, including Roy Hattersley, as noted above, wanted some sort of deal on

<sup>31</sup>. TUC-Labour Party Liaison Committee, *Economic Issues Facing the Next Labour Government* (1981), p. 13.

<sup>32</sup>. See Mark Wickham-Jones, *Economic Strategy and the Labour Party*, pp. 72-4, 78, 112-113.

<sup>33</sup>. RD: 859/May 1981, p. 15.

<sup>34</sup>. Labour party, *New Hope for Britain* (1983), p. 9.

<sup>35</sup>. John Torode, 'Working brief', *The Guardian*, 1 April 1985.

incomes. Many union leaders were extremely hostile to that concept. In the run-up to the 1983 election leading unionists had been divided amongst themselves as to whether even to discuss matters concerning the determination of pay with the party.<sup>36</sup>

In 1985, after discussions in the Liaison Committee, Labour and the TUC reached an understanding: In office the party would hold discussions with employers and unions over economic policy - a National Economic Summit would be called.<sup>37</sup> It was not evident what form the National Economic Assessment would take or even if that title would be used at all. Roy Hattersley felt, 'It is a terrible phrase and I will try not to use it'. However, he believed that there had to be some such deal.<sup>38</sup> There was no mention of collective bargaining in outlining the work of the National Economic Summit - though income distribution would be addressed by it. Wage restraint and norms were rejected. Such uncertainties reflected ambiguities about the nature of the National Economic Assessment. *The Guardian* called it 'wishful thinking of a high order'.<sup>39</sup> Christopher Huhne noted that the document launching the NEA used neither the word inflation nor the phrase incomes policy.<sup>40</sup>

The National Economic Assessment formula represented a way of fudging the impasse over anti-inflation policy: it was open to interpretation and individual policy-makers could draw their own conclusions. Hattersley was clear that there had to be some sort of arrangement over incomes. He was also clear that such an arrangement might mean looking at other countries' approaches to the matter, telling one interviewer, 'Instead, the policy must be self-regulating, rather in the way it has happened in Sweden for forty years where the trade unions say, "OK we'll do our best" and the general atmosphere encourages most of them to do it.'<sup>41</sup> Kinnock used the 'euphemistic phrase' of a 'rewards

<sup>36</sup>. *The Times*, 8 September 1982; and *The Times*, 11, 18 and 21 April 1983.

<sup>37</sup>. TUC-Labour Party Liaison Committee, *A New Partnership, A New Britain* (1985), p. 18.

<sup>38</sup>. 'Interview', Jobs and Industry supplement, *New Socialist* (June 1985).

<sup>39</sup>. 'Partner in the pocket', *The Guardian*, 7 August 1985.

<sup>40</sup>. Christopher Huhne, 'Why Labour cannot fudge the need for incomes policy', *The Guardian*, 8 August 1985.

<sup>41</sup>. 'Working Brief', *The Guardian*, 18 June 1985

policy'.<sup>42</sup> His views do not seem especially different from those of Hattersley: a determination not to go back to the past and a preparedness to learn. He spoke of 'intelligent co-determination about what we give priority to', indicating that 'Those are not the ingredients of a wages or incomes policy that remotely resembles anything that has been tried before.'<sup>43</sup>

Others within the party remained implacably hostile. A labour correspondent reported of Larry Whitty, Labour's new general secretary: 'Of one thing he was sure. There was to be no incomes policy or social contract between the unions and a new Labour government.'<sup>44</sup> In particular Ron Todd, leader of the Transport and General Workers' Union (TGWU), Labour's largest affiliate, appeared unflinching in his rejection of incomes policy and in sustaining his union's support for free collective bargaining.<sup>45</sup> Though he softened his approach slightly to accept that pay might be discussed, the thrust of Todd's position was manifest.<sup>46</sup> Free collective bargaining was sacrosanct and Hattersley's initiatives were regarded with downright suspicion.<sup>47</sup> The TGWU demanded evidence before they accepted any moves on pay and they rejected any notion of using norms: 'It [Their position] sounds, in short very like free collective bargaining.'<sup>48</sup> By no means all unions were so hostile: divisions existed amongst organised labour on the matter. The Amalgamated Union of Engineering Workers backed the TWGU, while the Union of Communication Workers (UCW) and the National Union of Public Employees (NUPE), unions whose members tended to include the lower paid, were more sympathetic on the matter.<sup>49</sup> Peter Hain and Maggie Jones, officials with those latter two

<sup>42</sup>. 'The nails keep plopping out of the plank', *The Guardian*, 27 June 1985.

<sup>43</sup>. Quoted from *Tribune* newspaper. See 'Agenda: Labour digs in on miners', *The Guardian*, 20 September 1985.

<sup>44</sup>. Keith Harper, 'Whitty delivers grim election warning to party', *The Guardian*, 10 June 1985.

<sup>45</sup>. See, for example, Keith Harper, 'Todd rules out pay deal', *The Guardian*, 26 June 1985.

<sup>46</sup>. Colin Brown, 'Todd hints at future pay pact with Labour', *The Guardian*, 1 July 1985.

<sup>47</sup>. See Rupert Morris, 'Todd warning to Labour over incomes policy', *The Times*, 1 July 1985.

<sup>48</sup>. Keith Harper, 'Working brief', *The Guardian*, 30 July 1985.

<sup>49</sup>. Donald MacIntyre, 'TUC split on pay looms larger', *The Times*, 16 August 1985.

unions, wrote in support of a fairly invasive formula: 'In addition the government in agreement with the TUC would recommend a general level of wage increase which is compatible with its other economic objectives.'<sup>50</sup> A *Guardian* leader noted of the 1985 document *A New Partnership, A New Britain*, that, 'the comfortable emphasis of the document is upon free collective bargaining.'<sup>51</sup> The newspaper concluded, however, that the NEA must involve some form of incomes policy: 'And that as night follows day, must involve a national view about the overall level of wages increases.'<sup>52</sup> By August 1985 something of an impasse appeared to have been reached with Roy Hattersley and Ron Todd representing polar opposites on the issue: 'A dialogue of the deaf'.<sup>53</sup>

### **The minimum wage and incomes policy**

In 1986, however, a further effort was made to resolve this predicament. The attempt was focused on the decision of the TUC and the Labour party to endorse the introduction of a statutory minimum wage.<sup>54</sup> Traditionally many unions had been, at best, lukewarm towards the idea of a minimum wage because of the impact it might have on differentials as well as the implication that some outside intervention in wage determination would be necessary. Many British unions with memberships of skilled workers had fiercely defended structural variations in incomes.<sup>55</sup> However, as Conservative anti-union legislation eroded the strength of workers in plant bargaining and following the weakening of the Wages Councils, so some unions came to accept the desirability of a minimum wage to tackle low pay. The decision also reflected a shift in the balance power within the labour movement with trade unions representing low paid and public sector workers becoming more influential. On Labour's side the MP John Prescott was a key figure behind the new initiative.<sup>56</sup>

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<sup>50</sup>. Peter Hain and Maggie Jones, 'The wages of winning is an incomes strategy', *The Guardian*, 27 September 1985.

<sup>51</sup>. 'The nails keep plopping out of the plank', *The Guardian*, 27 June 1985.

<sup>52</sup>. 'The nails keep plopping out of the plank', *The Guardian*, 27 June 1985.

<sup>53</sup>. 'Partner in the pocket', *The Guardian*, 7 August 1985.

<sup>54</sup>. TUC-Labour Party Liaison Committee, *Low Pay: Policies and Priorities*, statements to Conference (1986).

<sup>55</sup>. See TUC, *Annual Report* (1986), pp. 559-70.

<sup>56</sup>. Parliamentary Committee minutes, 7-8 October 1985.

In 1985, the Labour conference had voted in favour of a minimum wage. A few months later, the TUC economics committee agreed that it would look at a minimum wage on the basis that such a measure would have implications for economic strategy more generally.<sup>57</sup> By April 1986, the trade unions appeared slightly more accommodating towards Labour. Ron Todd argued that ‘there has to be a form of discipline exercised by us’ whilst John Edmonds, leader of the GMB, ‘we know now how much money is affordable.’<sup>58</sup> Both were clear there could be neither a pay policy nor a norm.

By the summer of 1986, the TUC-Labour party Liaison Committee proposed that the minimum wage would be part of rejuvenated National Economic Assessment and that it would have implications for pay differentials between workers.<sup>59</sup> The better off should allow the lower paid a greater share of any pay-off.<sup>60</sup> The NEA would be responsible for reaching agreement about the initial level of the minimum, its phasing in, and its regulation over time. It would also look at the implications for public spending. Although many unions now endorsed the minimum wage, the problem of differentials between workers remained. If better paid workers used a minimum wage settlement elsewhere to justify larger pay increases for themselves, then differentials would be likely to be restored. Inflation was likely to accelerate, thereby eroding the gain for those on the minimum wage. Earlier, Hattersley had been clear that a minimum wage would require some action on incomes: ‘To introduce a minimum wage without an understanding with the unions about money wages is simply to give the lower paid more money but no extra purchasing power.’<sup>61</sup> The minimum was intended to have a relative effect on low wages as well as an absolute one. Labour was frank: ‘It is impossible to eradicate low pay without destructive inflationary consequences, unless there is a redistribution of income in which high earners, including those outside the scope of collective bargaining, receive

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<sup>57</sup>. Jane McLoughlin, ‘TUC nears wages deal with Labour’, *The Guardian*, 11 December 1985.

<sup>58</sup>. Keith Harper, ‘Union leaders offer pay pledge to help a Labour government’, *The Guardian*, 21 April 1986.

<sup>59</sup>. Liaison Committee, *Low Pay: Policies and Priorities*, p. 51.

<sup>60</sup>. Keith Harper, ‘Labour seeks income policy to aid low paid’, *The Guardian*, 8 July 1986.

<sup>61</sup>. ‘Labour party conference’, *The Guardian*. 5 October 1984.

smaller increases than the low paid.<sup>62</sup> Differentials would have to be eroded: 'unions will be expected to undertake not to quote in claims for higher paid workers that element of general percentage increases in earnings specifically related to the general move to attain the national minimum wage'.<sup>63</sup> If the NEA was to do its job properly, collective bargaining and a commitment to egalitarian wages would be part of its agenda.<sup>64</sup> Wage levels would not be determined by unions alone.

Not all were sanguine about the prospect of a minimum wage: some unions, essentially those representing skilled workers on higher wages, remained hostile. Concluding it to be a form of incomes policy, the Electricians union (EETPU) as well as the Engineers and the TGWU remained unpersuaded.<sup>65</sup> They continued to push for an explicit commitment to free collective bargaining.<sup>66</sup> Despite such doubts, in voting for the Liaison committee document, the 1986 TUC annual meeting backed a statutory minimum wage. Unhappy, Todd described it as a 'slippery road to a statutory incomes policy'.<sup>67</sup> Needless to say, in typically ambiguous fashion, the Congress also voted for free collective bargaining.<sup>68</sup>

The commitment to a minimum wage marked a departure for the labour movement, though at the time the implications of its adoption were not publicised. The pledge indicated that the traditional pattern of free collective bargaining and autonomous union negotiation would have to be modified. Furthermore it meant that the trajectory taken by British social democrats to secure reformist objectives was adjusted. Previously, under both the moderate

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<sup>62</sup>. Liaison Committee, *Low Pay: Policies and Priorities*, p. 53

<sup>63</sup>. Liaison Committee, *Low Pay: Policies and Priorities*, p. 53. See also TUC, *Fair Wages Strategy: National Minimum Wage* (1986), p. 11.

<sup>64</sup>. Rodney Bickerstaffe, 'The Bottom Line', *New Socialist* (February 1987) pp. 30-3.

<sup>65</sup>. Patrick Wintour, 'TUC split over pay and ballots', 28 July 1986, *The Guardian*.

<sup>66</sup>. Keith Harper, 'Pay split at TUC dashes Kinnock hopes', *The Guardian*, 23 August 1986.

<sup>67</sup>. Patrick Wintour, 'The unions now see the law as an ally', *The Guardian*, 4 September 1986.

<sup>68</sup>. 'TUC Conference', *The Times*, 4 September 1986.

social democracy of Anthony Crosland and the more radical proposals of Labour's left in the 1970s, the party had proposed to secure the goal of equality through welfare spending and progressive taxation. The 1986 decision to introduce a minimum wage marked the espousal of an alternative means via the labour market to secure equality: as well as promoting egalitarian outcomes through the welfare state, a Labour government would intervene with trade unions in the determination of pay to reduce differentials and level-up the lowest incomes. (In effect labour market strategy was to be integrated with economic policy.)

The proposal that the NEA be the vehicle for the introduction of a minimum wage was confirmed by the Liaison Committee in 1987: 'The National Economic Assessment will spell out the resource consequences of pursuing our economic objectives, establishing projections for output, employment, pay and prices .... it will also identify the action which must be taken by government, employers and trade unions if objectives are to be met.'<sup>69</sup> The NEA would look at wage costs and what their implications were for the economy. What this measure would mean in practice and what action might be taken regarding collective bargaining remained obscure and open to interpretation.

### **Dissatisfaction within Labour**

Given the sensitivity of the issue and the outright hostility of many unions to external intervention in collective bargaining, Labour could go no further. Indicating that the unions would not restrain themselves on Kinnock's behalf, one commentator was scathing, referring to 'the heart of Kinnock's problem: the natural institutional tendency of trade unions to pursue – first and foremost – the narrow objectives for which they were invented, that is the pay, conditions and job security of their members.'<sup>70</sup> Inflation remained a problematic issue on which the party was generally defensive and its policy was vague and open to condemnation. Many economists and others doubted the efficacy of such a position, distrusting Labour's capacity to control inflation. At a time when price rises were of considerable electoral and economic importance, this stance was

<sup>69</sup>. TUC-Labour Party Liaison Committee, *Work to Win* (1987), p. 11.

<sup>70</sup>, David Watt, 'A fragile man talks tough', *The Times*, 5 September 1986.

manifestly unsatisfactory. Whatever the merits of the party's policy, John Eatwell told the shadow cabinet economics committee, 'We must recognise that this is not an answer that is widely accepted. A better (i.e. more widely believed) answer must be found.'<sup>71</sup> In a note to Eatwell in 1987 about a proposed press release on the subject, Kinnock concluded despairingly:

On the alternatives. They are thin (obviously) but we might just get away with that. What we can't do so well is to avoid explaining in greater and potentially trouble-making detail what positive constructive policies etc. really means. I think it's a discretion the better part of valour job. Great pity but better safe than sorry, damn it. Can we pull out?<sup>72</sup>

By the time of the June 1987 general election the National Economic Assessment was not just the focus of Labour's anti-inflationary strategy, it was effectively the only component.<sup>73</sup> In the NEA the action necessary to contain inflation would be identified and carried out - whatever that involved. The party had not committed itself to an incomes policy but the commitment to the minimum wage had evident implications for collective bargaining.

After its election defeat in June 1987, Labour launched a detailed policy review. It took place in two main stages: a provisional document published in 1988, *Social Justice and Economic Efficiency*, was followed by a more detailed and definite set of proposals, *Meet the Challenge, Make the Change*, launched in May 1989. The latter was hailed in the press as representing a fundamental redefinition of the party's policies and ambitions. What is remarkable about these documents is the paucity of consideration given to inflation and wage determination. *Social Justice and Economic Efficiency* affirmed Labour's commitment to low inflation but there was no detail as to how it would be achieved and the proposal for a National Economic Assessment was dropped.<sup>74</sup> *Meet the Challenge, Make the Change* stated that controlling inflation was a major priority and would include the use of lower interest rates and lower government prices.<sup>75</sup> The minimum wage was mentioned briefly

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<sup>71</sup>. 'Economic Prospects', ESC 87/3, Kinnock papers, box 55, p. 22.

<sup>72</sup>. Kinnock note on 'The Tory Inflation Failure', Kinnock papers, box 4.

<sup>73</sup>. Labour party, *Britain Will Win*, p. 4

<sup>74</sup>. Labour party, *Social Justice and Economic Efficiency* (1988), p. 3.

<sup>75</sup>. Labour party, *Meet the Challenge, Make the Change*, p. 14.

without reference to the problems of differentials or any information as to how it would be implemented. A *Guardian* leader concluded that 'Old ideas of involving the unions in a national economic assessment have gone.'<sup>76</sup>

The lack of attention bestowed on anti-inflation policy was unsurprising given that the committee responsible for drafting the party's economic strategy at this time, the productive and competitive economy group, moved quickly over the issue. In January 1988 it concluded, 'While it was important not to be ducking the issue of inflation, it was seen to be code for more general problems of industrial conflict .... in the long run inflation could only be tackled by ensuring adequate capacity and industrial strategy.'<sup>77</sup> At a latter meeting the group concluded that incomes policies were not viable and therefore irrelevant of further consideration. Instead it was assumed that, once Labour's supply side strategy was implemented, one of its by-products would be lower inflation from the increased productivity that the measures would achieve. (A position the party articulated on numerous occasions, as noted earlier.) Moreover, industrial relations were not the responsibility of the productive and competitive economy review group. The impression given by Labour's policy-makers was that, once industrial relations were on a more harmonious footing, inflation would be less of an issue. It is also the case that some of the economists advising the committee at this time, such as Keith Cowling and Malcolm Sawyer, regarded a moderate level of price increases neither as especially problematic nor as the inevitable foundation for higher inflation subsequently.

In the late 1980s Labour also hinted at the need for credit controls to restrain inflation. Bryan Gould, the party's trade and industry spokesperson, was a particular proponent of such measures, arguing that they were better than the high interest rates upon which the Conservative government relied at the time and that they could be targeted at certain borrowers. Gould suggested that house mortgages might be rationed in some way.<sup>78</sup> He also implied that consumer credit and bank lending might need to be restricted. Though

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<sup>76</sup>. 'Can Labour change?', *The Guardian*, 2 October 1989.

<sup>77</sup>. Productive and Competitive Economy Group minutes, 26 January 1988, p. 3.

<sup>78</sup>. *The Independent*, 16 October 1989.

imperfect and liable to leakage due to the absence of exchange controls, Gould claimed that these measures would have sufficient impact on inflation.<sup>79</sup> In private other senior figures within the shadow cabinet were uncomfortable about the introduction of credit controls, especially on mortgages. They emphasised that restrictions would not be an important part of the party's anti-inflationary strategy, that they would be temporary, and that the main aim would be for them to have some form of limited psychological impact on borrowers.<sup>80</sup>

In 1988 Eatwell had told the shadow cabinet economics committee 'we have no convincing policy on inflation'.<sup>81</sup> Earlier, Henry Neuburger, Bryan Gould's economic adviser, had described anti-inflationary policy as an area of 'chronic weakness' for the party.<sup>82</sup> Neuburger's position, however, was not straightforward. Writing with Malcolm Sawyer, he argued that the control of moderate price increases was not a high priority: 'When inflation is relatively low (say below 10 per cent per annum) these dangers do not exist, and the control of inflation should receive a relatively low priority.'<sup>83</sup> It was a problematic claim given that the Labour leadership wanted to establish impeccable anti-inflationary credentials for the party. *The Sunday Times* picked up on it as front page news and the BBC pushed Smith on the subject in an interview, much to his discomfort: 'I explicitly disavow it [Neuburger's claim about the priority of inflation] here and now.' Peter Mandelson, the party's director of communication was incensed by the projection that Labour might possibly be insouciant about inflation. Incidentally, for all his disavowal of inflation, Neuburger was forthright in assuming that Labour needed an incomes policy as part of the party's battery of interventionist measures: 'in the longer term, the

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<sup>79</sup>. Bryan Gould, 'Credit Controls - The Escape from the Chancellor's Dilemma', 17 January 1989, Kinnock papers, box 59.

<sup>80</sup>. See Dan Corry, 'Credit Controls A Briefing Paper', 12 October 1990, Kinnock papers, box 161.

<sup>81</sup>. Economic Strategy Sub-Committee minutes, 19 July 1988, Kinnock papers, box 59.

<sup>82</sup>. Henry Neuburger, 'Social Ownership', Kinnock papers, box 60.

<sup>83</sup>. 'Little reason is given as to why the reduction of inflation is so important' and 'the attention paid to the control of inflation should then be commensurate with the costs of inflation', Henry Neuburger and Malcolm Sawyer, 'Macro-economic Policies and Inflation', in Industrial Strategy Group, *Beyond the Review* (Edinburgh: University of Edinburgh, 1989), pp. 48-52, p. 49 and p. 59.

maintenance of full employment will be undermined by inflationary pressures unless some (implicit or explicit) incomes policy is in place.<sup>84</sup> (By the time this piece was reprinted a year later, however, the phrase incomes policy was replaced with 'agreement over incomes'.<sup>85</sup>)

By the time of the publication of the policy review in 1989, Labour's anti-inflation strategy indicated a departure from the party's previous commitments. The National Economic Assessment had been abandoned and replaced by a mixture of pragmatic responses to particular inflationary pressures. Whether this shift reflected a new strategy or simply reflected the party's failure to come up with a coherent answer was another matter. *The Independent* newspaper concluded, 'The review's most glaring fault appears to be a lack of specific policies for tackling inflation.'<sup>86</sup> It quoted one party adviser as saying, 'They've no idea what to do on inflation.'<sup>87</sup> When Kinnock was asked by James Naughtie in a radio interview in the summer of 1989 what he would do about the United Kingdom's rising trade gap and inflation, he exploded, 'I'm not going to be bloody kebabed talking about what the alternatives are. We are not in control of it. If I was the Chancellor of the Exchequer I'd tell you this afternoon about credit controls'.<sup>88</sup> It is worth emphasising the extraordinary tone of this exchange, one which was not broadcast until years later. Presumably Kinnock's anger reflected his insecurity on the issue. Public airing at the time would have seriously undermined the Labour leader's (already low) credibility on economic matters. Overall, the 1989 policy review, seen by many as a decisive re-packaging of Labour's policy marked a set of policies on inflation

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<sup>84</sup>. Henry Neuburger and Malcolm Sawyer, 'Macro-economic Policies and Inflation', p. 51. They continued, 'Such a policy requires an underlying consensus over the distribution of income (both as between wages and profits, and within the work force.'

<sup>85</sup>. See Henry Neuburger and Malcolm Sawyer, 'Macro-economic policies and inflation', in Keith Cowling and Roger Sugden (eds.), *A New Economic Policy for Britain* (Manchester: Manchester University Press, 1990), pp. 108-133, p. 127.

<sup>86</sup>. *The Independent*, 23 May 1989.

<sup>87</sup>. *The Independent*, 23 May 1989.

<sup>88</sup>. The full exchange is given by George Drower, *Kinnock* (London, Publishing Corporation, 1994), pp. 250-1.

and wages about which many remained uncomfortable. It did not seem to resolve, convincingly at any rate, the party's difficulties on these topics.

### **Anti-inflationary strategy and the European Exchange Rate Mechanism**

In the spring of 1990, there was an important change to Labour's anti-inflation policy.<sup>89</sup> The development reflected an acceptance that the measures laid out in the policy review were inadequate and that over-reliance on credit controls might prove problematic in electoral terms and in their operation. The party's approach looked altogether too flimsy. In a remarkable claim, Neuburger, still a party adviser though one out of favour with Kinnock, had written bluntly, 'But such has been the distaste for incomes policies in the Labour movement that no discussion has taken place on the long term control of inflation.'<sup>90</sup> Policy development also reflected a change in the balance of power within the shadow cabinet as Bryan Gould was replaced as industry spokesperson with Gordon Brown. Brown worked much more closely with John Smith the shadow chancellor than had Gould. Indeed Smith, who had played little role during the formal policy review, partly because of a heart attack in the autumn of 1988, now became much more involved in the formation of policy. Smith brought with him the Oxford University economist Andrew Graham who, along with John Eatwell, became one of the main economic advisers to the party. These policy-makers, perhaps with an eye on government given the party's success in the 1989 European elections and in the opinion polls, came to place more emphasis on low inflation as the central objective of economic strategy. By contrast, Keith Cowling and Malcolm Sawyer, who had not favoured price stability as an objective, were marginalised along with Neuburger in the party's policy-process. By the time of publication of *Looking to the Future* in 1990, Labour had adopted macroeconomic stability including low or even zero inflation as its immediate and most important economic goal.

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<sup>89</sup>. For the view that changes comprised important areas of the party's economic and industrial strategy and transferred its orientation from the electorate towards capitalists, see Mark Wickham-Jones, 'Anticipating Social Democracy, Preempting Anticipations', pp. 472-6.

<sup>90</sup>. Henry Neuburger and Malcolm Sawyer, 'Macro-economic Policies and Inflation', p. 51. Possibly reflecting political sensitivities the claim was dropped from the version published a year later.

The party came up with a new means of securing such stability. In the spring of 1990 Labour shifted its stance on the European Exchange Rate Mechanism (ERM) and decided that the UK should enter as soon as possible. Previously the party had been critical of the ERM, seeing it in 1989 as 'deflationary' with its reliance on high exchange rates.<sup>91</sup> In 1986 Neil Kinnock had laid out a set of conditions which had to be met before Labour would join: in effect they allowed those for and against the ERM to maintain a precarious united stance within the party. In 1990 the conditions were moderated decisively. Many economists close to Labour, including Eatwell and Graham, had become ardent converts to the advantages of fixed exchange rate systems. Likewise, after discussion with European social democrats, Smith and Brown were convinced that membership of the ERM and the resultant exchange rate stability would be beneficial for the UK economy.

Defenders of the decision to approve the ERM claimed that it gave Labour a much more convincing answer as to how inflation would be tackled than had hitherto been provided. Under a system of fixed exchange rates, the price of British exports and imports would be tied to price levels elsewhere. If wages rose by more in the UK than they did, for example, in Germany, British goods would be more expensive and thus become uncompetitive. Smith, Eatwell and Graham argued that the fixed rate would act as an anchor within which inflation would stabilise. *Looking to the Future* claimed that the discipline of ERM membership would 'help to bring down inflation and interest rates'.<sup>92</sup> The MP Chris Smith went further, enthusiastically telling Kinnock, 'The confidence and credibility we would engender by such an immediate step would be enormously helpful to our first months of office.'<sup>93</sup> A paper presented in 1990 at a conference of the leftwing think-tank, the Institute for Public Policy Research, was positively triumphant about the possibilities of ERM membership, arguing, 'We could solve a large number of our problems at a stroke.'<sup>94</sup>

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<sup>91</sup>. Labour party, *Meet the Challenge, Make the Change*, p. 14.

<sup>92</sup>. Labour party, *Looking to the Future*, p. 10

<sup>93</sup>. Chris Smith, 'Europe, EMU and Delors', 9 January 1990, Kinnock papers, box 118, p. 1.

<sup>94</sup>. Quoted by Eric Shaw, *The Labour Party since 1979*, p. 97.

Labour leaders were also increasingly nervous about the attitude of financial and currency markets to a newly-elected Labour government. Joining the ERM and guaranteeing the stability of sterling was one way of reassuring markets that all was well and that they need not fear a change of administration. At the same time, Labour launched a so-called "city offensive" in a linked attempt to persuade those who were potentially antagonistic to Labour that they had nothing about which to be worried.<sup>95</sup> Membership of the ERM would indicate that the government was tough and determined in its anti-inflationary intentions. Accordingly proponents maintained that the government's credibility would forthwith be enhanced. Obtaining such trust through endorsing the ERM entailed a cost in terms of the party's industrial strategy. It had to be subordinated to the objective of economic stability. Many of the key policy-makers saw it as a price worth paying. Anxiety over the potential capitalist response to a Labour election victory was a significant determinant at this time of the party's policy trajectory. Inflation was not the only reason for joining the ERM. Joining was also a way of demonstrating the party's European credentials and indicating its preparedness to participate in Europe in a far reaching and cooperative fashion.

Quite how the ERM brought inflation under control was not clear. Membership of the ERM would not have an immediate or automatic impact on inflation in the UK. It simply bound the economy to an outcome - inflation on a par with other European countries. If the UK did not achieve that result and inflation remained higher than elsewhere, firms would become uncompetitive and would be forced out of markets. The ERM did not specify the exact mechanism by which the desired objective of low inflation would be secured. Membership simply suggested that any government would have to take action of some sort to protect sterling and competitiveness if domestic inflation was rising. Devaluation and an independent monetary policy were no longer options. One internal party memo put it: the ERM 'gives extra credibility to any anti-inflationary strategy since it is known that the government must act if the

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<sup>95</sup> Mark Wickham-Jones, 'Anticipating Social Democracy, Pre-empting Anticipations', pp. 476-80.

currency becomes too weak'.<sup>96</sup> Yet the actual means of controlling inflation within the party's policy armoury looked rather thin. It was an open question as to what a Labour government would do to ensure the desired result. Ian Aitken had earlier pointed out that the commitment to the ERM indicated that a Labour government would have to be prepared to deflate to protect sterling.<sup>97</sup> There was the added complication of the party's restated commitment to a minimum wage. If workers sought to protect differentials, then restraining domestic inflation levels would prove still tougher.

The implication of *Looking to the Future* was that the adoption of a fixed exchange rate together with the party's emphasis on an objective of low inflation would mean an immediate change in the climate of wage negotiation: 'Membership of the Exchange Rate Mechanism will create a new framework for wages and other costs. Management and trade unions will know that, if their production costs rise faster than those of other European companies, they will not be able to compete successfully within the Single Market.'<sup>98</sup> Some advocates assumed that the effect of membership would not take time to feed into the wage bargaining process within the UK. The relevant parties would painlessly and seamlessly adjust their expectations and demands in optimal and rational fashions. However, it was equally manifest that, if managers and workers did not adapt to the new climate and persisted in inflationary wage claims, the result would be lost competitiveness and unemployment.<sup>99</sup> John Smith was forthright in telling *The Independent on Sunday* that once inside the ERM the exchange rate would come before any commitment, even a notional one, to full employment. If unions secured inflationary wage settlements the result would be lost jobs: 'They – the unions - can cause unemployment', Smith said, 'They might. They must judge that. They constantly do. If we can help to make the wage bargaining more sophisticated, fine, but I think they have to

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<sup>96</sup>. Economic Secretariat, 'ERM and EMU An Update', 8 November 1989, Kinnock papers, box 118.

<sup>97</sup>. Ian Aitken, 'Hole in the heart of Labour policy', *The Guardian*, 4 December 1989.

<sup>98</sup>. Labour party, *Looking to the Future*, p. 10.

<sup>99</sup>. NEDC, 'Pay, Productivity and Employment The Challenge of ERM Entry', 1990.

stand by the results of their own decisions'.<sup>100</sup> Geoff Bish, Labour's policy director was equally candid: in the ERM there would be 'nowhere to hide'.<sup>101</sup> Under the ERM, with the reduced number of policy instruments available to government and the necessity of protecting sterling, the costs of adjustment and responsibility for any re-alignments would be passed directly onto organised labour. The result might well be unemployment.<sup>102</sup> Writing in *The Independent*, Chris Huhne noted that the ERM would use unemployment to control inflation and went on to question Labour's preparedness to follow such a course: 'The extent to which a Labour government would really be prepared to take tough measures to control inflation must still be in doubt.'<sup>103</sup>

Many Labour party economists and policy-advisers were well aware of this dilemma. Writing about the possibility of redundancies during the transition to the new environment, one official, Dan Corry, noted, 'If we are to avoid that unemployment then other means must be found of keeping the rate of inflation down towards the German rate'.<sup>104</sup> One internal memorandum stated, 'Membership of the ERM makes the solution of this problem all the more urgent.'<sup>105</sup> In other words, far from tackling inflation, membership of the ERM meant that it was essential that some other means of controlling price increases was found. Without an additional effective policy tool, the ERM could prove, potentially at any rate, as damaging to employment, as was conventional deflation. In a paper for Labour's economic policy sub-committee,

<sup>100</sup>. Chris Huhne, 'Labour will not prevent job losses', *The Independent on Sunday*, 6 May 1990, p. 1.

<sup>101</sup>. Notes on Economic Policy Sub-Committee, 26 March 1990, Kinnock papers, box 163.

<sup>102</sup>. In discussion of the Swedish case, Karl Ove Moene and Michael Wallerstein note, 'With the abandonment of an independent monetary policy, the entire burden of preserving employment is placed directly on the unions. In practice, the self-discipline of the unions has been at least partially replaced by the harsher discipline of layoffs.' Karl Ove Moene and Michael Wallerstein, 'What's Wrong with Social Democracy', p. 226.

<sup>103</sup>. Christopher Huhne, 'Mr Smith goes to Washington with a liberal market vision', *The Independent*, 22 April 1990.

<sup>104</sup>. Dan Corry, 'Inflation', memorandum, 2 March 1990, Kinnock papers, box 163, p. 2. In a memorandum to Eatwell he pointed out that membership alone did not ensure desired outcomes were achieved; 23 April 1990.

<sup>105</sup>. 'The National Economic Assessment, Contact group memorandum, Kinnock papers, box 120.

the economist Chris Allsopp stated, 'Optimists argue that with commitment [to the ERM] .... the wage price formation system would change, with favourable effects on inflation. Eventually it would have to. But the costs could be great during the transition. But is there an alternative?'<sup>106</sup> One of the supporters of the ERM, Gavyn Davies pointed out, 'The counter-inflationary impact of ERM membership will only build up gradually over time.'<sup>107</sup> His conclusion was that some other measure would be needed alongside membership: He felt 'a commitment to control pay in the public sector is likely to be crucial'. In a letter to Bryan Gould in 1989, John Eatwell had conceded, 'A fixed exchange rate system will impose strains on the domestic economy if the rate of domestic inflation establishes a trend increase in the real exchange rate. These strains must be alleviated by a domestic anti-inflationary policy and by periodic devaluation.'<sup>108</sup> Critics of Labour's decision argued that the ERM would have an uneven impact on the economy and that wage inflation was likely to persist. One Labour MP, Austin Mitchell, told Kinnock, 'A fixed exchange rate is not a remedy for inflation because it does little if anything to discourage claims for wage increases from the great majority engaged in producing goods and services which are not significantly affected by foreign competition.'<sup>109</sup>

Aside from the traditions of free collective bargaining which many trade unionists had defended with vigour over the postwar period, a particular problem for the UK economy was the fragmented and decentralised nature of its wage bargaining system. In such an environment pay negotiators had little incentive to temper their demands as each settlement had negligible impact on the overall rate of inflation. A document for the Contact group of Labour and TUC leaders, the informal and secretive body which had replaced the Liaison committee, laid out the problem: 'All are benefited by a low rate of inflation. But

<sup>106</sup>. Chris Allsopp, 'Monetary Policy after the ERM', 28 February 1990, Kinnock papers, box 163, p. 4.

<sup>107</sup>. Gavyn Davies, 'Economic Strategy for the Next Labour Government', Kinnock papers, box 163, p. 4.

<sup>108</sup>. 27 February 1989, Kinnock papers, box 167.

<sup>109</sup>. Austin Mitchell, 'Economic and Monetary Union', Kinnock papers, box 118, p. 10. Mitchell's argument mirrored one made in support of wage centralisation in Sweden: that internationalisation would have an uneven effect on wage settlements and price decisions as some sectors were more sheltered than others.

in a decentralised system there is no way in which they can express their preference for lower inflation in the country as a whole, and no way in which they can act to attain it'<sup>110</sup>. It was pessimism stemming from such a situation which led some policy-makers and interested parties to regard any form of wages plan as unworkable.

Labour still had various anti-inflation policy options at its disposal. It had, after all, developed an ad hoc battery of measures in 1989's policy review. After Gould's removal from the trade and industry portfolio, the party was less enthusiastic about credit controls. John Smith doubted their effectiveness and desirability. He suggested that, rather than introduce restraints on consumers, direct controls on lending by banks and other financial institutions would be considered by a Labour government.<sup>111</sup> Kinnock advocated such interventions during the 1992 general election campaign: 'We need new measures of credit management to prevent the excesses of a debt financed boom.'<sup>112</sup> But Smith was wary as to their potential extent and likely impact. At times he implied that once in office he would rely on moral exhortations to bankers not to extend credit irresponsibly. He told Brian Walden, 'I think banks have more obligations to society than simply to seek their commercial advantage and I hope they would take that view too.'<sup>113</sup> He went on to conclude, 'To some extent we will depend upon the responsibility of bankers.'<sup>114</sup> Another potential policy choice to control inflation under the discipline of ERM membership would be to limit wage increases through the introduction of a formal incomes policy. Two Cambridge economists, Ken Coutts and Wyn Godley, told Labour, 'At some stage the question of incomes policy will have to be readdressed because relative costs of production will be such an important factor in improving our trade performance. Perhaps membership of the ERM will make incomes policies easier to present and implement.'<sup>115</sup> But the party and unions remained hostile to statutory and explicit measures. Smith was adamant: there would be no

<sup>110</sup>. 'The National Economic Assessment', Contact group memorandum, Kinnock papers, box 120.

<sup>111</sup>. *Financial Times*, 24 September 1990.

<sup>112</sup>. Neil Kinnock, 'Economic policy for the short term and the long term', speech, Manchester, 24 March 1992, Labour party archive.

<sup>113</sup>. Interview with Brian Walden, 23 September 1990, transcript, p. 24.

<sup>114</sup>. Interview with Brian Walden, 23 September 1990, transcript, p.26.

formal policy and no norm: 'I don't think that in the present circumstances you could institute a norm in the private sector'; <sup>116</sup>

### **Resurrecting the National Economic Assessment**

An alternative option and a more limited measure in interventionist terms would be for Labour to start with reforms to the wage bargaining framework. If pay deals were coordinated and then synchronised into a relatively narrow timespan their impact on inflation might be checked - a conclusion reached by numerous leftwing economists.<sup>117</sup> Such synchronisation could be combined with peak level centralised discussions about the state of the economy.

Labour policy-makers were aware of the possibility of synchronisation. At the same time that the party endorsed the ERM, active consideration was given to ways in which the pay system might be modified. *Looking to the Future* called for a 'more informed approach' to bring down inflation and went on to propose 'regular discussions between government, employers, trade unions and others'.<sup>118</sup> These discussions would aim 'to develop a broad understanding of what is feasible in the light of economic realities. This will be an important element in collective bargaining and other decisions on incomes, taxation and spending.'<sup>119</sup> The new proposal came very close to resurrecting the National Economic Assessment. The similarity is unsurprising because, whilst the phrase was not employed publicly, it was used in private discussions within Labour and in talks between the trade unions and the party.

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<sup>115</sup>. Ken Coutts and Wyn Godley, 'Macro-economic Strategy in 91-92', Kinnock papers, box 163.

<sup>116</sup>. John Smith, quoted by *The Independent*, 19 January 1990. See also *Financial Times*, 6 September 1990

<sup>117</sup>. See, especially, John Grieve Smith, *Pay Strategy for the 1990s* (London, IPPR, 1990); and John Grieve Smith, *Full Employment in the 1990s* (London, IPPR, 1992), pp. 22-9. Some city economists also felt some kind of incomes policy was necessary, including Gerald Holtham and Neil MacKinnon, *Controlling Inflation: Two Views* (London, Fabian Tract 539, 199); see also discussion from On the Record, transcript, 30 September 1990.

<sup>118</sup>. Labour party, *Looking to the Future*, p. 10.

<sup>119</sup>. Labour party, *Looking to the Future*, p. 11.

Party staff were quick to see the potential of a revived National Economic Assessment as a means of organising collective bargaining so as to minimise the impact of the ERM on unemployment. In March 1990 Jon Cruddas, an economic researcher for the party, wrote that, given the identified need for coordination and negotiation over collective bargaining the Labour government would need 'some national economic forum with the authority to establish bargaining guidelines'.<sup>120</sup> He went on 'we might wish to reconsider the role of a National Economic Assessment.'<sup>121</sup> At the same time Labour's economic policy sub-committee discussed the use of the NEA to synchronise pay deals and prevent leap-frogging.<sup>122</sup> It would also be the basis for information, analysis and debate about the economy. John Smith wanted to get everyone involved to face up to constraints. *The Guardian* described shadow chancellor John Smith as the 'moving force behind the concept'.<sup>123</sup> He suggested that the objective was not complex but accepted that its achievement might be. The trade union leader, John Edmonds, went further in discussions within the party: he proposed that the NEA include some sort of tactical deal where interest rate cuts, for example, might be linked to the successful achievement of norms. In the summer of 1990, together with Alan Tuffin, leader of the UCW, who was also concerned by the potential impact of the ERM, Edmonds argued openly for a synchronised approach to collective bargaining. The scheme would involve the construction of an explicit going rate for settlements.<sup>124</sup> In effect, they took up in public some of the ideas which many Labour policy-makers were already voicing in private.

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<sup>120</sup>. Jon Cruddas, 'Inflation and the Labour Market', memorandum, 20 March 1990, Kinnock papers, box 163, p. 6.

<sup>121</sup>. Jon Cruddas, 'Inflation and the Labour Market', memorandum, 20 March 1990, Kinnock papers, box 163, pp. 6-7. Cruddas was influenced, as was John Edmonds, by the proposals made by a pressure group, the Campaign for Work, on this matter.

<sup>122</sup>. Notes on Economic Policy Sub-Committee, 26 March 1990, Kinnock papers, box 163.

<sup>123</sup>. Keith Harper and Seumas Milne, 'Employers and unions see 10 per cent as the minimum', *The Guardian*, 17 October 1990, p. 4.

<sup>124</sup>. John Edmonds and Alan Tuffin, *A New Agenda for Bargaining for Prosperity in the 1990s* (London, GMB and UCW, 1990).

The attempt to coordinate pay bargaining was spelt out in early drafts of *Looking to the Future*. One version had argued explicitly: 'Pay deals should be synchronised and related to an assessment of the condition of the economy.'<sup>125</sup> The drafts had also been blunt about what would happen if wage settlements were not adjusted in line with the demands of the ERM: 'Measures must also be taken to break through the self-defeating cycle of wage and price rises which push up labour costs. Membership of the ERM will ensure that wage and price rises in the traded goods and services sector are made in the light of competitive conditions. Those who ignore the need to be competitive will suffer the consequences'.<sup>126</sup> The final version of *Looking to the Future* was not so emphatic. Policy-makers realised that any proposed commitment to synchronised pay bargaining need stating with care, as did laying out the impact that the ERM might have on the economy.

In similar fashion, Labour did not spell out publicly the potential consequences of the minimum wage if workers sought to defend differentials. The explicit commitment to redistribution and the need to surrender differentials were removed from published discussion of the minimum wage, a marked contrast to the way in which it had been articulated in 1986 and 1987. Policy-makers were well aware of the problem, arguing: 'We do not see it [the minimum wage] as being passed on, as it is not about wage bargaining but about removing poverty pay levels.'<sup>127</sup> They proposed: 'The minimum wage would be uprated after the pay round to ensure that it was not included in the claims of that year.'<sup>128</sup> Cruddas emphasised that 'The minimum wage would be uprated after the Budget itself so as to ensure that it was not included in the claims of higher paid workers.'<sup>129</sup> Cruddas also wanted the party to spell out the potential impact of the minimum wage in a similar wording to that used in 1986: 'Unions will be expected not to quote for claims for higher paid workers that element of general percentage increases in earnings specifically related to the general move to

<sup>125</sup>. 'Proposed Structure for the Report of the Economic Policy Sub-Committee', Kinnock papers, box 167, p. 4.

<sup>126</sup>. 'Practical Policies for a Stable Economy', Kinnock papers, box 167, p. 6.

<sup>127</sup>. Economic Policy Sub-Committee minutes, 26 March 1990.

<sup>128</sup>. Economic Policy Sub-Committee minutes, 26 March 1990.

<sup>129</sup>. Jon Cruddas, 'Pay and Prices The Labour Market and Economic Management', 23 April 1990, Labour party archive.

attain fair wages in the economy.<sup>130</sup> Labour did not adopt such a formula openly, though politicians and union leaders alike accepted that differentials could be a problem. In 1991 when the TUC attempted to include a similar proposal in discussion of the minimum wage and collective bargaining, it proved extremely contentious. Unions representing skilled workers opposed the attempt to exclude differentials from wage negotiations and only with difficulty could a vague and acceptable formula be found.<sup>131</sup>

By 1991 the restoration of the National Economic Assessment as a central part of Labour's anti-inflationary strategy was complete with its formal readoption as party policy. In the NEA, the government would spell out the UK's economic prospects and policy options. The new body 'would allow government, employers, trade unions and others to consider together our level of competitiveness within Europe and world markets. These discussions will be a crucial means of informing participants in the collective bargaining process.'<sup>132</sup> Labour went further than it had before in seeking to synchronise pay settlements: 'We will also investigate the possibility of establishing a more co-ordinated approach to collective bargaining itself.'<sup>133</sup> This toned down a draft in which Jon Cruddas had proposed that Labour 'encourage a more co-ordinated approach'.<sup>134</sup> At the 1992 general election the party's anti-inflation strategy was re-affirmed. Once again policy was watered down to the extent that a passage suggesting that the NEA would encourage a more coordinated approach to major pay settlements was deleted.<sup>135</sup> Instead the new forum would be an 'influence' on collective bargaining.<sup>136</sup>

In the development of this strategy Labour was influenced by policies in other polities. In using credit controls of one sort or another, Labour claimed it would

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<sup>130</sup>. Cruddas to Eatwell, 'Notes on Inflation', Kinnock papers, box 163.

<sup>131</sup>. In successive drafts the commitment to ignore differentials was watered down. See *Financial Times*, 9, 23 and 25 April 1991.

<sup>132</sup>. Labour party, *Opportunity Britain*, p. 12.

<sup>133</sup>. Labour party, *Opportunity Britain*, p. 12.

<sup>134</sup>. Cruddas to Eatwell, 'Notes on Inflation', Kinnock papers, box 163.

<sup>135</sup>. 'Draft Manifesto, April 1992, Kinnock papers, box 21.

<sup>136</sup>. Labour party, *It's time to get Britain working again* (1992), p. 12.

be 'in line with every other European Community country.'<sup>137</sup> In outlining the NEA, Jon Cruddas stated, 'This alternative programme [of Labour's to tackle inflation] is based around the importance of long term economic efficiency, borrows from some of our successful market competitors and stands in stark contrast to the 'short termist' policies of the present government.'<sup>138</sup> As Labour re-adopted the NEA, Michael White commented in *The Guardian* that the policy 'amounts to a nod in the direction of synchronised pay settlements done on the European or Japanese model to prevent an escalating season of leapfrogging claims.'<sup>139</sup> During the 1992 general election campaign, Kinnock flagged the success of other countries in controlling inflation. He mentioned financial controls: 'Like France and Germany, and, indeed, virtually every other EC country, we will use reserve asset ratios in the banking sector.'<sup>140</sup> And he went on to address wage bargaining: Experience from other countries also suggests the importance of a more coordinated and consensual approach to pay determination than that which exists here in the UK.'<sup>141</sup>

There was also considerable intellectual support for bringing back the National Economic Assessment. During the 1980s, academics had become more interested in continental-style wage bargaining. Some of their arguments filtered through into public debate. In 1986, in *Marxism Today*, Bob Rowthorn, an economist at the University of Cambridge, made the case for coordinated collective bargaining. Drawing on Scandinavian experience, he argued that trade unions there 'display an impressive ability to act strategically, sacrificing short-term economic goals in return for longer term political and economic objectives'.<sup>142</sup> He concluded that the left needed to discuss incomes policies openly: 'In the present rethinking we have much to learn from Sweden, Austria and Norway.' A few years later, Rowthorn coauthored a paper for the IPPR

<sup>137</sup>. 'Opportunity Britain,' draft, 1991, p. 4.

<sup>138</sup>. Jon Cruddas, 'Pay and Prices - The Labour Market and Economic Management,' 23 April 1990.

<sup>139</sup>. Michael White, 'Labour details plans for keeping bridle on inflation', *The Guardian*, 17 April 1991, p. 8.

<sup>140</sup>. Neil Kinnock, 'Economic policy for the short term and the long term', speech, Manchester, 24 March 1992, Labour party archive.

<sup>141</sup>. Neil Kinnock, 'Economic policy for the short term and the long term', speech, Manchester, 24 March 1992, Labour party archive.

<sup>142</sup>, Bob Rowthorn, 'Unemployment', *Marxism Today*, September 1986, p. 29.

which concluded that incomes policy needed to be ‘restored to the top of the agenda for public discussion.’<sup>143</sup> The Campaign for Work advocated an interventionist approach to pay bargaining. Again, such arguments drew heavily on experiences elsewhere, arguing that countries with ‘coordinated pay bargaining’ performed better.<sup>144</sup> Molly Meacher argued such an arrangement was ‘the single common feature of those economies which sustained full employment throughout the 1980s.’<sup>145</sup> The Campaign for Work was explicit in indicating that Labour should learn ‘lessons from other places’.<sup>146</sup> In 1990 the Employment Institute offered similar proposals in a report by Richard Layard who quoted Harold Wilson, ‘When bargaining is decentralised, *one* man’s wage increase is *another* man’s price increase.’<sup>147</sup> Layard noted: ‘Nearly all OECD countries other than Canada and the US have a more coordinated system of wage bargaining than Britain.’<sup>148</sup> His conclusion was clear: ‘Britain should try to follow German practice.’<sup>149</sup> (The work of the two think tanks may not have been independent of each other: In 1991 Meacher married Layard.)

As before 1987, securing union support for such arrangements was by no means straightforward. The GMB and UCW unions offered encouragement but others were much less supportive. In 1989 the TUC had endorsed the ERM as the basis of an anti-inflationary strategy.<sup>150</sup> When the Conservative government finally took the UK into the ERM in October 1990, the TUC called for wide-ranging talks with the government which should include the issue of pay. Given the opposition of many unions to any outside intervention in wage

<sup>143</sup>. See Robert Peston, ‘Economists give warning on ERM’, *Business on Sunday*, 29 July 1990.

<sup>144</sup>. See, for example, Molly Meacher and Mark Corney, ‘The pay’s the thing as Britain seeks to live within the confines of ERM’, *The Guardian*, 5 August 1991.

<sup>145</sup>. Molly Meacher, ‘Pay deals with dividends for the unemployed’, *The Observer*, 21 April 1991, p. 30.

<sup>146</sup>. See Peter Robinson, ‘Stagflation: Lesson from other places’, cited by Ian Aitken, ‘Hole in the heart of Labour policy’, *The Guardian*, 4 December 1989.

<sup>147</sup>. Richard Layard, ‘How to end pay leapfrogging’, Employment Institute, *Economic Report*, vol. 5 no. 5 (July 1990).

<sup>148</sup>. Richard Layard, ‘How to end pay leapfrogging’, Employment Institute, *Economic Report*, vol. 5 no. 5 (July 1990).

<sup>149</sup>. Richard Layard, ‘How to end pay leapfrogging’, Employment Institute, *Economic Report*, vol. 5 no. 5 (July 1990).

<sup>150</sup>. TUC, *Europe 1992 Progress Report on Trade Union Objectives*, p. 13; TUC, *Annual Report* (1989), pp. 210 and 424.

determination, the request represented a departure from historical practice. The logic was straightforward, however: ERM membership could increase unemployment without some sort of adjustment mechanism.<sup>151</sup>

The potential impact of British membership of the ERM was a significant motivator for Edmonds and Tuffin's proposals for pay coordination in the summer of 1990.<sup>152</sup> Following a trip to Israel, they came up with their proposals and put them to Tony Blair, Labour's employment spokesperson (though party thinking was already on much the same lines). Edmonds was quoted as saying, 'Everyone will know what resources are available. If someone goes for an unreasonable pay claim it will be obvious why pensions were not increased as planned. Everyone will know the consequences of going for a big award and will be under enormous moral pressure not to ask for too much.'<sup>153</sup> That September 1990, following their lead and the discussions within Labour, the TUC adopted a proposal, albeit an ambiguous one, for a reinvigorated National Economic Assessment.<sup>154</sup> The TUC outlined a ten point NEA starting with the autumn statement and concluding after the spring budget. At the same time, however, unions continued to reject the use of norms and there was disagreement as to whether the proposition amounted to any more than a commitment to dialogue and an acknowledgement to look at coordination. Ron Todd remained as sceptical as ever: 'There is nothing wrong with an economic assessment. That is common practice in a number of economically successful countries. But our watchword should be "information", not "coercion".'<sup>155</sup> Rejecting norms, Todd accepted the need for better information and improved coordination. John Smith welcomed the TUC resolution. The 1991 TUC

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<sup>151</sup>. Press reports indicate that, having taken the United Kingdom into the ERM, the Conservative government flirted with the introduction of such arrangements. See Barrie Clement, 'Major set to opt for consensus over pay', *The Independent*, 13 November 1991, p. 8.

<sup>152</sup>. See Patrick Wintour, 'Big unions seek strategy on pay', *The Guardian*, 12 July 1990.

<sup>153</sup>. Quoted by Roland Rudd, 'Back to the future on wage restraint', *Sunday Correspondent*, 7 October 1990, p. 87.

<sup>154</sup>. TUC, *Managing the Economy* (1990), p. 11; and TUC, *Annual Report* (1990), pp. 399-410.

<sup>155</sup>. Barrie Clement and Stephen Goodwin, 'The TUC in Blackpool', *The Independent*, 6 September 1990, p. 8.

meeting voted against norms but in favour of the NEA and social partners: 'Congress rejects unrealistic notions such as a system of synchronised bargaining involving a national norm or statutory pay review machinery.'<sup>156</sup> It backed the minimum wage, though one union, the AEU, voted in favour of such a policy and in support of differentials.<sup>157</sup>

Meetings of the Contact group of union and Labour leaders revealed a series of tensions which were not resolved, though formally both sides supported the NEA.<sup>158</sup> The TUC was concerned by aspects of Labour's endorsement of the ERM and the party's proposals for collective bargaining. Early in 1991 union leaders, including John Edmonds, suggested that the pound was overvalued within the ERM and that a currency realignment should take place. They wanted a commitment to devaluation from Labour in exchange for their support for pay coordination.<sup>159</sup> Unsurprisingly given the political capital they had invested in their support for a stable exchange rate and that so much of their political credibility was at stake, Kinnock and Smith refused. There could be no trade-off and devaluation was not an option. Arguments between the trade unions and Labour simmered on throughout 1990 and 1991.

Some within the TUC felt that by joining the ERM the government was attempting to step-back from its responsibility for economic management. The reality of the new environment would place difficult decisions into the hands of wage negotiators and not in those of politicians. In 1990, a TUC memorandum noted, somewhat resentfully, 'The 'disciplines of ERM membership apply just as much to government as to trade unions and employers, and government cannot simply abdicate its responsibility by attempting to throw the burden of adjustment on wage bargaining.'<sup>160</sup> Labour's explicit desire to shift resources from consumption to investment was a further matter for concern on the part of the trade unions.

<sup>156</sup>. TUC, *Annual Report* (1991), p. 387,

<sup>157</sup>. Seumas Milne, 'TUC at Glasgow', *The Guardian*, 5 September 1991.

<sup>158</sup>. Notes from Contact group meetings, 26 November 1990 and 25 February 1991, Kinnock papers, boxes 119 and 120.

<sup>159</sup>. Notes from Contact group meeting, 25 February 1991, Kinnock papers, box 120.

<sup>160</sup>. TUC memorandum, 'Europe 1992 and After Challenges for Britain', pp. 6-7.

As did Labour advocates of such schemes, trade union supporters of coordinated pay bargaining looked towards arrangements elsewhere. The GMB and UCW initiative indicated that the United Kingdom should take note of arrangements in Germany and in France as well as the experience of Australia where Bob Hawke's Labour government had agreed the 'accord' with trade unions.<sup>161</sup> The TUC called for talks informed by the Japanese and Australian record.<sup>162</sup> John Edmonds complained that Conservative government would not 'sit down like the Germans and French and talk.'<sup>163</sup> By the time of the 1991 Congress, however, the TUC passed a resolution that was 'cautious of fashionable notions borrowed from totally different cultures.'<sup>164</sup>

Union leaders were not united amongst themselves about either the desirability of synchronised pay bargaining or its feasibility.<sup>165</sup> Within the TUC agreement was reached only with difficulty. Concerns persisted over the minimum wage. Alongside the Electricians, the Amalgamated Union of Engineering Workers remained concerned over the erosion of differentials.<sup>166</sup> Bill Jordan, leader of the EETPU, stated, 'No worker who increased his productivity is going to step forward to cut his standard of living. If 16 per cent is needed for unskilled workers, then 16 per cent will be demanded by skilled workers.'<sup>167</sup> Some a stance was clearly at odds with that contained within the TUC's draft proposals that 'unions could undertake not to quote, in claims for higher paid workers, increases specifically related to percentage increases to the general move to attain the National Minimum Wage.'<sup>168</sup> The proposed coordination of bargaining

<sup>161</sup>. Patrick Wintour, 'Big unions seek strategy on pay', *The Guardian*, 12 July 1990.

<sup>162</sup>. Keith Harper and Patrick Wintour, 'TUC calls for national pay talks', *The Guardian*, 26 July 1990

<sup>163</sup>. Keith Harper and Seumas Milne, 'Employers and unions see 10 per cent as the minimum', *The Guardian*, 17 October 1990, p. 4.

<sup>164</sup>. TUC, *Annual Report* (1991), p. 387.

<sup>165</sup>. See *Financial Times*, 1 November 1990 and 7 March 1991; and *The Independent* 25 April 1991 and 19 June 1991.

<sup>166</sup>. See Keith Harper, 'Splits force rethink of TUC pay deal plan', *The Guardian*, 11 April 1991.

<sup>167</sup>. Quoted by Roland Rudd, 'Back to the future on wage restraint', *The Sunday Correspondent*, 7 October 1990, p. 87.

<sup>168</sup>. TUC, 'Draft on National Economic Assessment', PD: 2792/March 1991.

also generated apprehension. Some leaders, such as Ron Todd, still saw it as an unattractive attempt to introduce a norm, though he accepted the concept of disciplined informed bargaining might be useful in limited way. Rodney Bickerstaffe, another senior official, anticipated that any scheme would be hard to operationalise and felt that Labour was in danger of launching an unworkable project.<sup>169</sup> Others simply did not want any interference in free collective bargaining. Ian Aitken referred to ‘the fact that too many of the big unions on which Labour relies for moral and material support are vehemently opposed to anything, however modest, which could remotely be interpreted as a return to a formal 1970s-style incomes policy.’<sup>170</sup> Essentially discussions reflected a fracture within the TUC between those unions representing low paid workers and the public sector (such as the NUPE and the UCW) and those unions dominated by a largely skilled membership (such as the EETPU and the AEU). In effect the fracture was patched over with an ambiguous formula.<sup>171</sup>

By the time of the April 1992 general election, Labour and the unions had reached some sort of agreement on what pay synchronisation might involve - though their conclusions remained ambiguous. The exact arrangements as to what would be involved with the NEA remained ‘frightfully vague and unbinding’.<sup>172</sup> Multiple different interpretations were possible from those who conceived of it as a form of incomes policy right through a spectrum to those who insisted it reflected the barest of interventions in the traditions of free collective bargaining. Certainly proponents of the NEA were keen to emphasise that such proposals did not amount to a return to the policies of the 1970s.<sup>173</sup> Accordingly it was unclear what might actually have been offered by unions to a Labour government, had the party won the 1992 general election.<sup>174</sup> The core

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<sup>169</sup>. Notes from Economic Policy Sub-Committee, 26 March 1990, Kinnock papers, box 163.

<sup>170</sup>. Ian Aitken, ‘The black hole that Labour must confront’, *The Guardian*, 2 march 1992, p. 23.

<sup>171</sup>. TUC, *Annual Report* (1991), pp. 388-396.

<sup>172</sup>. Ian Aitken, ‘The black hole that Labour must confront’, *The Guardian*, 2 march 1992, p. 23.

<sup>173</sup>. See, for example, Molly Meacher and Mark Corney, ‘The pay’s the thing as Britain seeks to live within the confines of ERM’, *The Guardian*, 5 August 1991.

<sup>174</sup>. An intra-union split between the public and private sector might well have taken place. For a similar argument regarding Sweden see Peter Swenson,

features of the NEA revolved around an assessment of the implication of rates of pay increase for the economy and the publication of government spending plans with the autumn statement alongside independent forecasts.<sup>175</sup> Following debate generated by these, social partners would aim to reach an understanding about what was a sustainable rate of pay increases. Such an understanding would inform pay settlements which would be synchronised with one another and coordinated in time. Leading Labour figures continued to claim that they had not adopted a form of incomes policy or pay norm. But it was patent that there would be guidelines.<sup>176</sup> Moreover, according to an internal policy paper, the objective of the NEA was as ‘part of an overall strategy within which the Government will seek to influence the shares of national incomes devoted to consumption and to investment, and to mitigate the inflationary pressures which derive from excess demands on the available domestic production’.<sup>177</sup>

## Conclusions

Since the mid -1970s, inflation has presented severe problems for social democratic parties throughout Europe. In an environment of rising prices and inflationary expectations, leftwing governments have struggled to secure full employment, increased real wages and price stability. More than many of its European counterparts, the British Labour party grappled with finding an adequate response to inflation and its failure so to do may help account for its long period in the electoral wilderness. In the opening of this paper, I asked whether Labour’s apparent and continued rejection of intervention in wage determination could be reconciled with its professed support for a coordinated market economy along the lines advocated by European social democrats. The

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‘Labor and the Limits of the Welfare State,’ *Comparative Politics*, 23 (1991), pp. 379-99.

<sup>175</sup>. ‘The National Economic Assessment’, Contact group memorandum, Kinnock papers, box 120; and TUC, *Collective Bargaining for the 1990s*, pp. 16-17. Similar ideas were laid out in Molly Meacher and Mark Corney, *The National Economic Assessment and the Role of Coordinated Pay Bargaining* (London, Campaign for Work, 1991).

<sup>176</sup>. The terms guidelines, norms and going rate were frequently used in discussion.

<sup>177</sup>. ‘The National Economic Assessment’, Contact group memorandum, Kinnock papers, box 120, p. 6.

account given here, particularly of the semi-secret resurrection of the National Economic Assessment in the run-up to the 1992 general election, indicates that a reconciliation is possible. Labour's anti-inflationary policy places it firmly within the mainstream of European social democracy.

Whilst the party rejected statutory incomes policy, Labour went a long way between 1983 and 1992, through its advocacy of nationally orientated coordination and synchronisation, towards the development of some form of deal on pay determination. Labour's advocacy of European social democracy capitalism can be aligned with the party's dismissal of a formal incomes policy. Indeed, Labour had adopted an overall policy package that was more coherent and consistent than some of its public statements implied. Whilst it renounced formal measures and claimed to repudiate any use of norms, the detailed proposals for the National Economic Assessment would have involved considerable intervention by a Labour government in collective bargaining. Such measures included spelling out the consequences of pay settlements, developing guidelines, and implementing the minimum wage. As such the party was abandoning its commitment to free collective bargaining and its intention to coordinate wage settlements amounts to a form of incomes policy. In these proposals, Labour accepted the key features of wages policy as laid out by academic theorists of social democratic coordinated market economies: pay settlements should be coordinated; they should be synchronised; they should be based on some form of centralised discussion; and they should include the erosion of wage differentials as a means to greater equality. The measures articulated by Labour, some in private, are very much in accordance with those of European social democracy.

It is uncertain, accordingly, how great has been the gap between Labour and her continental neighbours over anti-inflation policy. The British party's apparent rejection of incomes policy was much more equivocal than Labour admitted. Between 1990 and 1991, both the TUC and Labour noted the success of European countries in containing inflation levels through the use of a synchronised and coordinated system of collective bargaining. As with other elements of the party's economic programmes, such as its support for research

and development, and its commitment to training, in this period Labour demonstrated an open orientation and was prepared to learn from the experiences of other polities in the construction of its anti-inflationary strategy. The National Economic Assessment resembled in many ways the kind of centralised and coordinated system the Swedish social democrats had relied on - albeit one which would not have so institutionalised in its introduction. The party's policy might be characterised as an attempt to develop a more collective, political and long-term outlook for the British labour movement in contrast to the sectional, economic, and short term considerations which often dominated union demands.<sup>178</sup> In the run-up to the 1992 general election, Labour's advocacy of a National Economic Assessment was much closer to a form of incomes policy than many commentators realised. In part, this failure reflected Labour's public ambiguity about incomes policy; in private the party was much more supportive of the idea. Labour's rhetoric was at odds with its underlying policy outlook.

Indeed, it is striking that much of the press coverage of the national economic assessment focused on the trade unions: newspapers discussed the proposal as an initiative on the part of collective labour and identified the splits amongst the trade unions. They gave much less attention to Labour's interest in the matter. At the time that Labour began to consider resurrecting the NEA, a *Guardian* leader claimed the party had rejected any variety of intervention, 'even of the type that has had some success in Norway', and complained that 'it [Labour] leaves the main task of wage restraint to membership of the exchange rate mechanism of the European Monetary System and competitive pressures of a barrier-free Europe.'<sup>179</sup> Though the NEA was part of the party's formal policy armoury, Labour leaders skilfully deflected scrutiny of their interest in reforms to collective bargaining. The implications of its arrangements were rarely explored. Seldom did the press focus on the interest of Labour politicians in such a scheme. In a rare discussion of the party's involvement, Paul Routledge commented that 'Mr Smith is keeping his own counsel on the

<sup>178</sup> . See Jonas Pontusson, 'Conditions of Labor-Party Dominance: Sweden and Britain Compared', in T. J. Pempel (ed.), *Uncommon Democracies The One Party Dominance Regimes* (Ithaca, Cornell University Press, 1990), pp. 58-82.

<sup>179</sup> . 'Labour's economy', *The Guardian*, 16 May 1990.

matter [the NEA], though it is hard to believe he has not been kept informed of developments.<sup>180</sup> He continued, ‘One can only assume that the shadow chancellor actually wants an incomes policy, but is too embarrassed to own up.’ In similar vein, *The Sunday Correspondent* reported ‘Mr Blair says he is taking a “back seat” on pay. But privately union leaders say he is much more supportive of the new initiative which may support his original idea.’<sup>181</sup> (In fact, Blair does not appear to have been particularly involved in Labour’s initiative, focusing much more on the thorny issue of industrial relations legislation.)

Overall, many actors within Labour, including members of its research department, senior MPs and academic advisers, have never been as hostile to incomes policies as either the party’s formal policy documents or its rhetoric suggest them to be. (Incidentally, a majority of individual party members also favoured a deal on prices and incomes.<sup>182</sup>) After 1989 officials and leaders were straightforward, in private at any rate, about the need to synchronise pay deals. The conventional accounts of Labour politics in this period are therefore mistaken in their characterisation of the party’s attitude to pay. Eric Shaw claimed that by the early 1990s Labour’s policy-makers were not interested in an incomes policy and that they downgraded the National Economic Assessment. Likewise Lewis Minkin argued that Labour leaders were dubious about the potential of any deal and indifferent about adopting one. By contrast, I conclude that Labour leaders were committed to an agreement with the unions as a central part of their anti-inflationary strategy. They did not demote the National Economic Assessment but saw it as the basis of a new pay process in which settlements could be organised and moderated. The NEA was emphasised by Neil Kinnock during the election campaign as an important institutional innovation to be introduced by the Labour government.<sup>183</sup>

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<sup>180</sup>. Paul Routledge, ‘Comrades ready to ride off in all directions’, *Observer*, 2 September 1990, p. 11.

<sup>181</sup>. Roland Rudd, ‘Back to the future on wage restraint’, *The Sunday Correspondent*, 7 October 1990, p. 87.

<sup>182</sup>. Patrick Seyd and Paul Whiteley, *Labour’s Grass Roots The Politics of Party Membership* (Oxford, Oxford University Press, 1990), p. 230.

<sup>183</sup>. Interview with Brian Walden, 29 March 1992, transcript, pp. 15-17.

Labour's anti-inflation policy between 1983 and 1992 indicated the gradual evolution of the party's economic strategy in this period. Policy did develop - most obviously in the party's growing commitment to synchronisation. But Labour's anti-inflation strategy also indicates considerable continuity, most notably in its advocacy of the National Economic Assessment and support for the minimum wage. In the case of the NEA, such continuity dates not to 1983, but back at least as far as 1979 and arguably to 1973 and the formation of the Social Contract. A further point stemming from Labour's policy-making experience over inflation is that it would be wrong to take the party's formal policy review between 1987 and 1989 as decisive or even of great importance - in this area at any rate. In this period Labour's anti-inflation strategy was not advanced. Commentators who have presented the policy review as a fundamental break with the party's previous commitments have failed to look either across the spectrum of policy or at the post-1989 modifications to economic strategy.<sup>184</sup> Generally, Labour's policy progressed step by step after 1983.

It was by no means certain whether the National Economic Assessment was robust and coherent. There remained problems for Labour in the adoption of such a stance towards wage determination. The objective of coordinated collective bargaining and what it would actually entail in practice remained ambiguous. Many economists doubted that, whatever form the National Economic Assessment took, it would succeed in controlling inflation. It was presented as a forum in which questions over pay and wage differentials would be discussed alongside other more general economic issues. But what form the discussions would take, how the conclusions would be processed, and what institutions would be involved were never delineated with any precision. Nor was it spelt out what form the results of any discussions would take or what status they would enjoy. *The Independent* newspaper concluded, 'If the idea of an assessment is to succeed it means wage guidelines of some kind.'<sup>185</sup> Yet it

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<sup>184</sup> . See, for example, Ivor Crewe, 'Labor Force Changes, Working Class Decline, and the Labour Vote: Social and Electoral Trends in Postwar Britain', in Frances Fox Piven (ed.), *Labor Parties in Postindustrial Societies* (Oxford, Polity, 1991), pp. 20-46.

<sup>185</sup> . *The Independent*, 25 April 1991.

appeared that the NEA was only unacceptable to some unions if the discussions took the form of loose negotiations without such guidelines. As noted already, Labour denied the assessment would come up with a norm, though their acceptance that guidelines would be involved as well as various figures on differing policy options made that issue appear to be one of semantics. Critics also suggested that such a scheme would be inherently inflationary and that it might require further state intervention in the form of a conciliator to resolve pay disputes which could not be settled within the synchronised timeframe.<sup>186</sup> Although Labour had gone a long way towards the adoption of an incomes policy, what exactly was on offer remained obscure and unresolved.

Such ambiguities about the nature of the National Economic Assessment reflect uncertainty amongst the theorists of social democracy. At times proponents of the kind of organised markets associated with continental reformism have suggested that coordinated wage bargaining is possible without either centralisation or far-reaching state involvement. They claim that some form of basic signalling and minimal coordination between key actors is all that is required for inflationary expectations to be modified.<sup>187</sup> Accordingly decentralised economies can be coordinated. They also assert that such coordination might be bilateral without the involvement of the state. By contrast, on other occasions such theorists maintain that centralisation is a necessary feature of a successfully organised economy. Centralisation is often taken to be an essential part of the implementation of any guidelines and policing of any deal. This suggestion led some of the Labour party's economic advisers, including Andrew Graham, David Soskice, William Brown and David Metcalfe, to make the somewhat unusual proposal that Labour should strengthen the employers' organisation, the Confederation of British Industry, in order that it could adopt a more influential and effective role in the negotiation and

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<sup>186</sup> . *The Independent*, 31 October 1990.

<sup>187</sup> . See for example, Peter Hall, 'Central Bank Independence and Co-ordinated Wage Bargaining: Their Interaction in Germany and Europe'; Andrew Martin, 'Wage Bargaining and Swedish Politics'; and David Soskice, 'Wage Determination: The Changing Role of Institutions in Advanced Industrialised Countries'.

implementation of any wages deal.<sup>188</sup> Richard Layard argued, ‘the government will have to cajole the CBI members to talk to each other and to the TUC about pay (the TUC currently appears more willing).’<sup>189</sup> Unsurprisingly, this curious proposition came to nothing. Nevertheless it was made on at least four occasions between 1986 and 1991. Fearing that Labour had not faced up to the fact that Swedish employers were so strong in terms of shaping policy, one sympathetic economist sort to warn Labour off the Scandinavian model.<sup>190</sup> One party memorandum noted that ‘Put simply, more co-ordinated national bargaining would appear to require more coordination amongst employers.’<sup>191</sup>

From the Varieties of Capitalism perspective, the initiative might appear doomed from the start. After all, many economists conclude the United Kingdom to be, alongside the United States, the epitome of a liberal market economy. Yet here was the Labour party seemingly attempting to construct an institutional framework within which a coordinated and synchronised approach could be established. On the face of it, the necessary preconditions, the traditions and relationships of a coordinated market economy, were simply absent. The party’s endorsement of pay synchronisation marked a departure from its formal stance on wage determination during much of the postwar era. In effect, Labour sought to reverse the decentralisation and fragmentation of collective bargaining that had taken place in the United Kingdom during the 1980s.<sup>192</sup> Any attempt to coordinate wage bargaining in such fragmented and decentralised circumstances was seemingly condemned to failure.

Of course, Labour did not win the 1992 general election so we do not know what might have happened to the National Economic Assessment had Neil Kinnock sought to launch it, after forming an administration. By the mid-1990s

<sup>188</sup>. On Soskice see his ‘Wage Determination: The Changing Role of Institutions in Advanced Industrialised Countries’. On Metcalfe see his ‘Incomes Policies’, p. 11. On Graham see letter to Kinnock, 10 July 1986, Kinnock papers, box 58. On Brown see Jon Cruddas, ‘Inflation and the Labour Movement’.

<sup>189</sup>. Richard Layard, ‘How to end pay leapfrogging’, Employment Institute, *Economic Report*, vol. 5 no. 5 (July 1990).

<sup>190</sup>. See Andrew Tylecote, ‘Beware of Swedish-style arm twisting’, *The Guardian*, 17 July 1985, p. 23.

<sup>191</sup>. ‘The Labour Market and Inflation’, PD: 2764/March 1991.

<sup>192</sup>. See ‘The Labour Market and Inflation’, PD: 2784/March 1991.

many erstwhile supporters of Labour's attempt to locate itself within the mainstream of European social democracy were much less certain about the potential of such a trajectory. David Soskice concluded bluntly, 'transplanting institutional policies from one type of system of advanced capitalism to another has seldom worked.' He continued, 'The more we understand other systems the clearer it becomes that they are institutionally interlocked: taking any one part of a system (such as company stakeholding) away from the rest of the system is unlikely to be fruitful.'<sup>193</sup> Clearly there were formidable obstacles to any possible success but, given the uncertainties surrounding such a counterfactual, further speculation would be largely fruitless. It is striking that many policy-makers and academics did not consider the exercise to be futile. From this viewpoint, Soskice may exaggerate the coherence of the liberal market economy model of capitalism and over-emphasise its rigidities. Many polities would indicate hybrid forms of development. Indeed, the axiomatic location of synchronised wage bargaining within the coordinated market economy model is not straightforward. Such arrangements have featured in a number of liberal market economies, most obviously perhaps the Accord in Australia and the social pacts agreed in the Irish case during the 1980s and 1990s. Moreover, Soskice's rejection of the possibility of introducing a more coordinated approach to economic policy under-estimates the capacity for policy-makers to shape outcomes through the instigation of structural reforms. In her discussion of labour politics in the Varieties of Capitalism debate, Kathleen Thelen notes that 'coordination is a political process, and an outcome that has to be actively sustained and nurtured.'<sup>194</sup> Arguing that liberal market economies can learn from their socially organised counterpoints, Jonas Pontusson makes much the same argument. Whatever the possibilities raised by the NEA, Labour party politicians concluded their programmatic options to be determined neither by the fragmented structure of the British economy nor by the existing legacies of traditional policy commitments.

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<sup>193</sup>. David Soskice, 'Stakeholding Yes; the German model no', in Gavin Kelly, Dominic Kelly and Andrew Gamble (eds.), *Stakeholder Capitalism* (Basingstoke: Palgrave, 1997), pp. 219-225, p. 220.

<sup>194</sup>. Kathleen Thelen, 'Varieties of Labor Politics in the Developed Democracies', in Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism* (Oxford: Oxford University Press, 2001), pp. 71, -103, p. 73.

What determined Labour's policy trajectory towards inflation? The advocacy of synchronised pay bargaining was indicative of the general development of party-union relations after 1979. In the early 1980s, as Lewis Minkin suggests, Labour's affiliated unions set tight parameters on what was possible by way of an anti-inflation policy. This stance reflected union hostility to any form of incomes policy and the constraints under which party policy-makers operated. Free collective bargaining was for most trade unionists an article of faith. But by the early 1990s those parameters had shifted decisively and Labour leaders were able to adopt a strategy which was far-reaching in its implications for collective bargaining. Developments also reflected changes within the union movement: the growing influence of public sector and low paid workers' unions generated decisive support for the minimum wage and wage coordination. There were limitations to the shift in party-union relations, but by the early 1990s the constraints on the Labour leadership were more likely to come from the electorate than from the trade unions. The parameters of the party-union relationship did not prove to be as unyielding or as permanent as Minkin concludes that they are.

Labour's policy towards inflation reflected an attempt to come up with a plausible answer that would be economically efficient, reassuring to capital, and normatively attractive, within the external economic constraints, in terms of promoting equality. Given its espousal of the coordinated model, Labour had to consider what should be done about competitiveness and pay determination. The strategy reflected the need to propose a convincing way of tackling inflation given the growing internationalisation of the UK economy and the problems the party was likely to encounter in office. The desire to meet the policy preferences of capital and minimise those difficulties provided an important context shaping policy formation. In particular Labour wanted to reassure business that it need not fear the inflationary consequences of a reformist government. Membership of the ERM was intended to that: in turn pay synchronisation made joining less painful. At the same time that the National Economic Assessment aimed to offset the consequences of meeting the strategic preferences of capital, it represented the basis for a residual and

limited commitment to social democratic objectives through the introduction of a minimum wage. The latter pledge reflected the importance of public sector unions to the party. The former indicated Labour's concern over the situation it might inherit in government. As such the reform was an important institution within Labour's battery of economic policies, designed to ease the adjustment process necessitated by the ERM whilst promoting limited equality. The material interests of capital were indirectly an important determinant of the anti-inflation strategy adopted by Labour.<sup>195</sup>

One potentially puzzling aspect of this discussion is whether Labour's commitment to moderate social democratic objectives could really have been harmonised with the party's vigorous attempt to win over support from business in the run-up to the 1992 election. Many capitalists remained hostile to the limited reformist measures with which they were confronted. An analysis of the social democratic model set-out by Labour confirms that there is no contradiction. The party endorsed greater equality through the minimum wage at the same time that it sought to assure capitalists about its intentions. The resolution of these positions is that the party desired the support of business in its strategy to increase investment and boost the UK's economics prospects whilst seeking to tackle pay differentials (and control inflation). In his analysis of the rise and fall of Swedish social democracy, Peter Swenson argues that support from capital was an important element of the success of moderate reformism.<sup>196</sup> Capital was a central part of the cross-class alliance around which social democracy was constructed. Employers' support for wage centralisation was responsible for its initiation and institutionalisation. Likewise within the UK social democrats looked for employer cooperation in the execution of their policies. The focus of many reformist policies was on intra-class redistribution rather than inter class measures. It was not contradictory for Labour to seek pay synchronisation, a solidaristic wages policy, greater

<sup>195</sup>. See Jonas Pontusson and Peter Swenson, 'Labor Markets, Production Strategies, and Wage Bargaining Institutions: The Swedish Employer Offensive in Comparative Perspective,' *Comparative Political Studies*, vol. 29 no. 2 (1996), pp. 223-250 for a discussion of the Swedish case highlighting similar factors.

<sup>196</sup> . Peter Swenson, 'Bringing capitol back in, or social democracy reconsidered', *World Politics*, vol. 43 (1991), pp. 69-96.

employer strength through peak level centralisation and an increase in private investment. Indeed the party's economic strategy depended upon such features being secured.

Lastly, it is worth noting that Labour looked towards the European social democratic experience at a time when that model was in some difficulty. Whilst social democrats in the UK have sought to synchronise pay and introduce centralised discussions, organised labour in Sweden was in retreat. For a variety of reasons the traditional model of centralised bargaining had been effectively abandoned. Moreover, Labour's proposals looked for some support from employers for their successful implementation. The attitude of employers in the UK and the collapse of the Swedish system intimated that it was by no means certain that such assistance would be forthcoming. Although Labour had developed its measures partly to offset the impact of policies which would benefit capital, business was unconvinced that the party's ideas were desirable.