

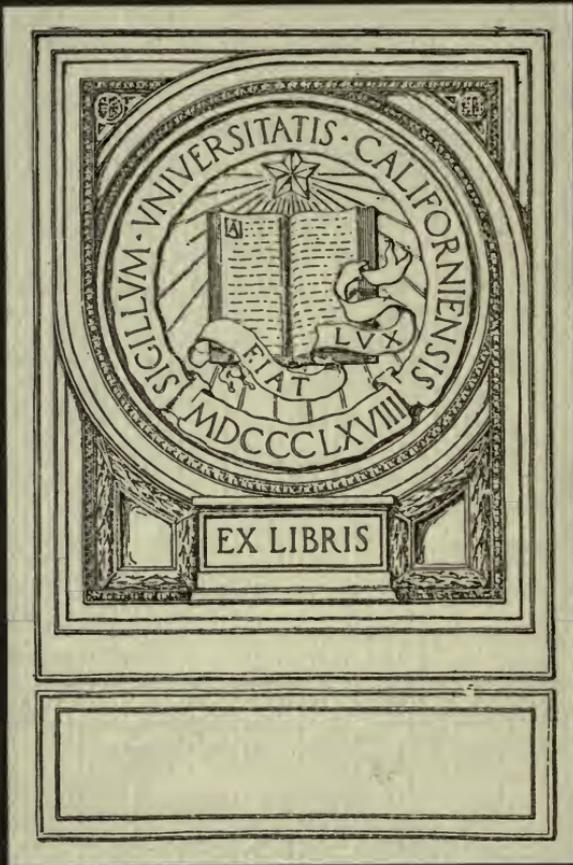
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**JOINT COMMITTEE ON
"THE COST OF LIVING.**

WAGES AND PRICES.

A Reply to the Federation
of British Industries.

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ON
THE COST OF LIVING.

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ARTHUR GREENWOOD,
Secretary.

WAGES AND PRICES.

A reply to the Federation of British Industries.

The Federation of British Industries recently circulated to the Press and forwarded to the Joint Committee on the Cost of Living a statement on the future of wages and prices. As the point of view from which this statement is written is one which the Cost of Living Committee cannot accept, it feels impelled to make a public reply to the Federation of British Industries' memorandum.

The Federation of British Industries is of the opinion that "the time has now arrived when it is essential that a clear statement should be made of the position" as regards wages and prices. Such a statement is undoubtedly needed, but it is not supplied by the memorandum of the Federation, which, whilst recognising that the war is the capital cause of high prices, appears to throw upon Labour a heavy share of the responsibility for the present situation. On the other hand, it may be pointed out that the memorandum contains no reference to the deficiencies of those who compose the Federation of British Industries and makes no mention of profiteering as a psychological factor in the prevailing temper of the people.

Wages follow Prices.

The opening sentence of the memorandum throws light upon the attitude of mind of the Federation. "The rapid increases in wages and in the cost of living," we are told, "have for some time past been causing grave concern to all those interested in the economic and social stability of the country." This statement, by placing in the forefront "the rapid increases in wages" and relegating to a second place the cost of living, is typical of the inverted viewpoint of the memorandum. It is one of the main purposes of the Joint Committee on the Cost of Living to consider possible ways of breaking the vicious circle of prices and wages. Whilst the Committee realises that wage increases have been followed (whether justifiably or not is another matter) by a rise in prices, it must be remembered that, in general, *applications for the revision of wages have been made in order to meet a previous rise in the cost of living.*

It will be remembered that on the outbreak of hostilities, the Trade Unions of the country withdrew outstanding claims for wages advances, though the rise in prices which had taken place in the years before the war had not, at least, in many industries, been overtaken by increases in wages.

In the early months of the war, prices rose appreciably before the Trade Unions formulated demands for higher wages, as they were driven to do by the enhanced cost of living. There is clearly a close relation between prices and wages. But the Trade Unions were not, in the first instance, in any way responsible for the rapid rise in the general level of prices, which resulted from the war and from the refusal of the Government of the day to face the need, at the outset, of heavy taxation. The position of the Trade Unions is that they were, so to speak, accessories after the fact, engaged in the necessary task of maintaining the standard of life of their members. This point appears,

indeed, to be admitted in another section of the Federation of British Industries' memorandum, where it is stated that "the successive demands on the part of the workers for advances in money wages are not surprising"—an admission at variance with the implications of the opening sentence of the document published by the Federation.

Output and Shorter Hours.

The Federation of British Industries rightly fastens upon the destruction of wealth, which the war involved, the withdrawal of labour from the production of peace-time commodities, and the methods adopted by the Government as causes of higher prices. Since the war the shortage of supplies, it is said, has continued, and "the general reduction of working hours" is regarded as an "extremely important factor in the loss of output." Organised labour could certainly not accept the point of view that every reduction of hours must be accompanied by redoubled efforts. Rather does it look to the better organisation and use of industrial capital to maintain and increase production. It may, however, be pointed out here that *the last report of the Chief Inspector of Factories shows that reduction of hours has not always resulted in diminished output. Cases are quoted of the beneficial effects of shorter hours upon time-keeping, and it is stated that "where output is largely or entirely dependent upon the exertion of the worker, there is frequently no loss in production" as a result of shorter hours.** It may be suggested to the Federation of British Industries that where there has been a failure to respond to an appeal for increased output, it will be found to be due in the main to hostility to an economic system, which finds its motive in profit making, and which, as is pointed out below, condones restriction of output and canny on the part of employers.

Particularly important from the Labour point of view is the discussion in the Federation of British Industries' statement as to whether the advances in wages which have taken place "are likely to be permanent, and if so, whether they will represent any real improvement in the position of labour." It is laid down that "there are only two ways in which prices can be made to fall permanently. Either the supply of goods and services must be increased without any corresponding net additions to credit or currency, or else the purchasing power in the hands of the public must be reduced."

The Federation of British Industries argues:—

- (1) That "Government price fixing" is bound to fail and that "an artificial reduction" in the price of some commodities leads to a rise in the price of other commodities.
- (2) That any rapid deflation of currency is impossible; and
- (3) That, therefore, the only hope of reducing prices is by "increased output."

The Regulation of Prices.

On the first point the Federation refers to methods of "artificially keeping down" prices, but it makes no mention of the possibility of "artificially keeping up" prices. Presumably the Federation of British Industries has in mind interference with the operations of demand and supply. But the old conditions of unfettered competition no longer exist. Trusts, combinations,

* See Annual Report of the Chief Inspector of Factories and Workshops for the year, 1919. Cmd. 941.

and price-fixing arrangements by employers are destroying, and in some trades appear to have already destroyed, the competitive method of determining prices.

Experience shows that generally the withdrawal of control has been followed by a rise in prices. During the War the spinners of worsted yarn were allowed a rate of profit of 1d. to 3d. per lb., and the Committee on Worsted Yarns appointed under the Profiteering Acts reported that no facts were brought to their notice "which lend support to the view that the spinners were inadequately remunerated by the War Office during the period of the war." It cannot be denied that on these terms the spinners as a whole were well recompensed. After "artificial" control was relinquished, the profits of the worsted spinners rose to unprecedented heights.

The Committee's figures were challenged by the trade, but "on the basis of revised figures, prepared by the worsted spinners, indicating what they themselves consider to be the market prices for raw materials, and the resultant yarns for delivery November-December, 1919, the application of the War Office scale (brought up to date by the inclusion of all known charges) shows that the rates of profit per lb. range from 8½d. to 34½d.*** These exorbitant profits were the result of artificial and abnormal conditions, and there is clearly ample justification for the use of "artificial" methods of control.

A Committee appointed to investigate "the cost of production and distribution of wool, tops, and yarns at all stages, and the profits arising therefrom," on which the trade are largely represented, reported *inter alia*—

"That the controlled prices at which the Government was able, owing to its control, to issue the wool, were generally lower than the world prices, and "in fact, during the greater part of this period of control† British prices were "considerably lower than those ruling elsewhere. It is clear that this resulted "in enormous savings to the Government in respect of military clothing."

"That the release of wool from control in April (1919) has been followed by "a very great increase in prices and consequently in the cost of woollen goods. "The increase in price is most marked in the finer qualities of wool, i.e., those "used for flannel, women's costumes, men's serge suits, etc."

"That, consequently, profits on raw wool of all types have been augmented "very greatly since the control was removed."

The effect of control was during a period of abnormal conditions, to prevent the exploitation of the community by the operation of "the law of demand and supply"; the effect of decontrol, during a period when conditions were still abnormal, was to enable the traders to take advantage of the large demand for their products to obtain excessive profits at the expense of the consumer.

Other cases could be quoted to show that the policy of "artificially keeping down prices" prevented undue exploitation, and that the withdrawal of control was followed by soaring prices and soaring profits.

The Federation of British Industries suggests that "artificial prices liberate additional purchasing power for other commodities, which . . . suffer a rise in price equivalent to the fall in price to which the controlled

* Findings by a Committee appointed to inquire into Worsted Yarns. Cmd. 550.

† i.e., during the War and for five months after the Armistice.

commodities had been subjected." That is to say, if the prices of foodstuffs are controlled, people will have more money to spend on other things such as clothing; but the effect of this will be an increased demand for clothing which will drive up prices, and the consumer will be no better off. To examine this argument, let us suppose that the price of coal was uncontrolled, and that colliery proprietors and merchants were able to sell their coal where they pleased, whether at home or abroad. The price of coal in this country would be much higher than it is at present, and production would have been seriously impeded. A rigid control of the price of coal, by "artificial" means, in so far as it means cheaper coal, would not restrict production. On the contrary, it would stimulate production and facilitate that "increased output" which the Federation of British Industries regards as the only method of reducing prices. An "artificial" price for coal, therefore, whilst it would leave people with more money to spend on other things, would assist the production of those things and tend to reduce the price of them. The argument of the Federation of British Industries wrongly assumes that production would remain unchanged if the prices of materials used in production were reduced.

Moreover, the argument of the Federation overlooks the fact that the control of prices in the case of staple commodities enables the poorer section of the population to obtain a fairer share of available supplies, and even if it be true that the prices of other less urgently needed commodities rose, control would be a net gain to the general body of consumers.

Increased Output and Industrial Inefficiency.

The Federation of British Industries urges that "rapid deflation" is impracticable, and therefore falls back upon "increased output." "In existing circumstances," runs the memorandum, "the only effective means by which prices can be reduced and the real wages of labour improved, is by working the existing instruments of production at their maximum pressure, and by increasing, as rapidly as possible, the mass of commodities to be bought."

"The existing instruments" which are to work at their "maximum pressure" are not defined. But it is assumed that the Federation of British Industries is referring to plant and machinery. What is primarily needed in the opinion of the Joint Committee on the cost of living, is that the existing instruments of production should be worked with the *maximum intelligence*. It is in this direction that we must look, first, for a large increase in the productivity of industry. It is not merely a question of applying the "maximum pressure." *It is a problem of eliminating industrial inefficiency and of utilising to the fullest extent and with the greatest economy the various agents of production.* This does not necessarily mean that labour is to be pressed harder, or that machinery is to be worked 24 hours a day. Primarily it means efficient management. As a writer of great industrial experience has recently said, "when each employer has ensured that his own house is in order, then will be the time to investigate how far the worker fails to do his share."* Labour has a right to ask that "captains of industry" should supply adequate and suitable plant, adopt the best methods of production, and organise their work so that continuous production is possible. The book from which the above quotation is taken records instances of inefficiency for which the workers concerned were blamed, but for which the management was responsible. "In a works some years ago, the tapping of $\frac{3}{4}$ in. holes, which was bound

* Mr. Edward T. Elbourne in the Introduction to "The Output Problem." By J. E. Powell. Page 6.

“to be done by hand, was considered to be taking too long. Investigations were carried out and the following discoveries were made:—

“The tapping holes were too small.

“The cutting edges of the taps used were badly worn.

“The tap wrench was too short, and at one end it was so sharp it hurt the fitter’s hands.

“The size of the holes was corrected; the taps were ground up the flutes; the wrench was scrapped and replaced by one more suitable; and, as a result, the output was doubled—the fitter actually putting forth less energy. At the same time, for that size of tap, depth of hole, and in that class of material, a measure of output had been fixed.

“In another instance, the output obtained from the fitters on a certain operation was considered to be small. The major part of the operation involved the use of the pneumatic hammer. Testing these hammers, it was proved that, due to their being nearly worn out, it was impossible to obtain more than 60 per cent. efficiency.”

These are but instances of the widespread inefficiency which we believe to exist in industry. The Joint Committee on the Cost of Living does not at this stage wish to enter in detail into this aspect of the question of prices. It believes, however, that greater productivity is essential, and that the attainment of this end is the prime responsibility of those who control capital in industry. Its investigations go to show that *restricted production and high prices are in large measure due to defective organisation and the enormous differences in efficiency which now exist between firm and firm. The industrial plant and equipment of the country are not applied to the best advantage. The wide disparities in costs of production between the better and the worse managed firms serve only to enrich the former at the expense of the consuming public, which pays for its commodities prices determined by the costs of production of inefficient firms.*

The Federation of British Industries would serve an important public service if it devoted its energies to grappling with the problem of output from the point of view of the restrictions imposed by inefficiency of management.

The Ca’Canny of Modern Business.

But the limitation of output, due to inefficiency is not the only form of restriction for which the capitalist is responsible. *Deliberate restriction of output or ca’canny is an accepted policy of modern business enterprise.* The motive of those who control industry is to obtain the maximum profit. Profit is, indeed, the sole test of economic success. Productivity is not, in spite of the reiteration of the need for greater production, the prime consideration. A small output at a high price may yield as large a profit as a much greater output at a low price, in which case there is an obvious temptation to limit production and obtain the same financial gain with less effort.

Moreover, it is well known that output is at times restricted to maintain profits. Recently, it has been stated that the output of rubber is to be considerably reduced, not because the world has no need of large supplies of rubber, but because purchasers cannot maintain their purchases at the prevailing prices, and to prevent a fall in price, supplies are to be curtailed. This policy of restriction is systematically adopted in the case of combinations

and rings, which penalise the members guilty of an output larger than that allotted to them, and pay a bonus on the ca'canny policy of those who limit their production below what is allotted to them as their due share of the total output of the combination.

It ill becomes the Federation of British Industries to urge upon Labour the importance of increased output when capitalist enterprise is itself guilty of a ca'canny policy.

The Division of the Product of Industry.

The Federation of British Industries devotes several paragraphs of its published statement to a treatment of the division of the product of industry. We are told that "if the purchasing power now in the hands of capitalists were handed over to labour, excepting for that portion which is devoted to personal expenditure, it would produce no material alteration in the position."

It is assumed that the "payments made to capital" are devoted to "the production of new industrial instruments which will be used to produce the future requirements of the world, i.e., devoted to providing factories, machinery, railways, etc." This assumption is only partially true. It ignores the fact that large numbers of shareholders and debenture holders live either wholly or in part upon the proceeds of "the payments made to capital."

It may be argued that interest and dividends are devoted to further production after the "personal expenditure" referred to above has been met. This personal expenditure, however, on the part of the capitalist is on a scale far higher than that of the general body of workers, manual, clerical, and professional, and there is room for a considerable retrenchment to enable a larger proportion of "the payments made to capital" to be put to productive uses, and to raise the standard of life of the mass of workers.

Organised labour has never suggested that the product of industry should be solely used for consumption purposes. It is obvious that a proportion of it must be set aside for capital purposes. But it is equally obvious that *the capitalist class is extravagantly overpaid for its services, as compared with the incomes received by other classes of the community.*

It is suggested by the Federation of British Industries that the "transfer to labour of capital's share would result in its being diverted from production to the purchase of food and clothing." The language of the memorandum is worthy of the abstract economists whom business-men affect to despise. "There would be more money to spend on food and clothing, and less money spent in productive goods required for the increase of supplies of food and clothing." It is not clear whether the Federation of British Industries implies that labour is at present underfed and ill-clad, or that if it were better paid it would emulate the extravagance of the well-to-do. The important point, however, is the implication that the capitalist may justifiably give the fullest scope to his acquisitive instincts, but that Labour should have regard to prudential considerations, and passively accept the *status quo* on the ground that there is insufficient capital for productive purposes, though the fashionable hotels are crowded with diners, and expensive cars bear be-jewelled women along the public highways.

The Federation of British Industries cannot expect Labour to submit to existing standards whilst "the payments made to capital" are largely used to enable people to live upon dividends, and whilst these payments are not fully utilised for productive purposes. If the whole community were poor, poverty

would be borne with fortitude; but where a wide gulf separates the richest and the poorest members of the community, the former are not entitled to ask the latter to remain content. Moreover, it has already been urged in an earlier section of this statement, that the productivity of industry has been restricted by unenlightened and inefficient control (for which the capitalist and his agents must bear the main responsibility), and often by deliberate action. The Federation of British Industries speaks of "the futility of seeking a solution to our present problem in the re-distribution of the existing supplies of wealth." Such a policy, it is true, would provide no complete or permanent solution, but it would at least ease the situation if the members of the Federation of British Industries were voluntarily to impose upon themselves something approaching the moderate standard of life with which they ask Labour to be satisfied.

World Exhaustion.

The Federation of British Industries, under the heading of "World Exhaustion," declares that "as a nation we are considerably poorer than we were in 1914, and the working-classes cannot expect any immediate improvement in their standard of living; they have, indeed, some reason to fear the reduction of it." The first portion of this statement is undeniably true, though many individuals are considerably richer than they were before the war. According to the estimate of the Board of Inland Revenue, the increase which took place during the war in the wealth held by individuals amounted to £4,180,000,000, two-thirds of which increase is enjoyed by 340,000 people, or considerably less than 1 per cent. of the population. As regards the second portion of the above statement, it is obvious that *Labour will resist any degradation of the standard of life of the wage-earners*, and will counter any proposal in this direction by a demand for the strictest economy on the part of those who have profited by the war, and others who control capital. Nor can organised Labour accept the view that a general improvement is impossible, though there is obviously a limit to what an inefficiently organised industrial system can produce.

The Federation of British Industries sees the remedy for "world exhaustion" in its hard-worked formula of "working to their maximum capacity" the instruments of production. "It may appear strange," the Federation states, "to be urging a policy of increased output at a time when unemployment is rapidly spreading through the country and factories are going on short time, or even closing down altogether. We insist on the point because we believe that the present condition of trade is the direct and inevitable result of the policy which has been adopted by the workers of attempting to secure a higher share of the national wealth merely by increasing money wages without any relation to work done." *Labour is naturally in accord with the view that employment ought not to be allowed to shrink, but it cannot accept the view that the growth of unemployment is due to any Labour policy. On the contrary, it seeks the cause in the short-sighted policy of the "captains of industry" and the paralysis and ineptitude of the Government.* The first portion of the passage quoted above is virtually a criticism upon those who control industry, unless it is intended to imply that the way to maintain trade and profits is for the worker to accept lower wages for his labour.

It is suggested by the Federation of British Industries that the alleged policy of "increasing money wages without any relation to work done" is reprehensible. But it may be remarked that the policy is one which has actuated the whole of modern industry. Business men, for example, since the Armistice, have increased their returns "without any relation to work done."

As has been indicated above, the profits of worsted spinners, to take but a single example, increased enormously after the abolition of control, without any relation whatever "to the work done."

This sweeping condemnation of Labour is repudiated by the Joint Committee on the Cost of Living. The Committee in the course of its investigation is examining the whole question of production, including the allegations made with regard to deliberate restriction of output on the part of Labour. But it may here be pointed out that in so far as the allegations are true, the situation is due to a revolt against the old order, and arises from the failure of capitalist employers to adjust themselves to new conditions.

Conclusion.

The whole memorandum is narrow in its outlook. An adequate treatment of the question of wages and prices would have emphasised the international aspects of the problem. The only cry of the Federation of British Industries is that everything depends on working to the utmost "the few instruments (*sic*) which the war has left us. These form the only sources from which we can either rebuild this country or give that assistance which, not only ourselves, but the peoples of the rest of Europe require, if they are to restart their industries."

Though this statement contains a foundation of truth, it is not the whole truth. The Joint Committee on the Cost of Living, in its Interim Report on "Money and Prices" outlined a policy which, it is suggested, would set in motion the wheels of production on the continent of Europe. The proposals of the Committee need not be explained here, as the report has already been published. It may, however, be said that the Federation of British Industries, which places upon Labour a responsibility that the capitalist must shoulder, finds in the national situation, the causes of a problem which is essentially international. The Committee has no desire to minimise the important part which this country must necessarily play in the reconstruction of normal economic relationships in the world. *But however great our efforts may be, their harvest will depend upon the establishment of international peace, the reform of continental currencies, and the flotation of an international loan or its equivalent.* The Committee in its Interim Report emphasised the need for national action, but the head and front of its Report was an international policy to cope with a malaise which has partially paralysed the world's economic machinery.

Signed on behalf of the Committee,

ARTHUR GREENWOOD,

Secretary.

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