THE CRISIS AND CO-PARTNERSHIP

PAUL DERRICK

DURING the first three months of 1955 imports exceeded exports by an average of £77 millions. In March the Trade gap was £92 millions. There was a slight improvement in April and May; but in June exports were £128 millions less than imports and in July they were still £107 millions short. And exports in June were £90 millions less than they were in June 1954.

Gold and dollar reserves at the end of July were £48 millions lower than they had been at the end of June. At the end of August they were a further £31 millions lower still. The country's balance of payments situation was clearly deteriorating in the summer sunshine of 1955. And although Mr Butler said that there was no crisis in a speech at the end of July, a month later Sir Anthony Eden warned the country that the balance of payments situation was getting worse and that rising prices were tending to lead to loss of export markets. He declared that the Government were determined to enforce all necessary measures to ensure the health and stability of the economy.

The balance of payments difficulties with which the country was faced in 1949 were to some extent due to the recession in America in the summer of that year and to excessive dollar spending by Australia. The crisis of 1951 was mainly due to the 16 per cent increase in import prices in that year. But today there is no recession in America: there is a boom. And the terms of trade, which were steadily improving between 1952 and 1954, are now 5 per cent better than they were in January of this year in spite of a slight tendency for them to move against us last spring. Our present difficulties cannot, therefore, easily be blamed upon world conditions.

The Government tells us that they are to a large extent due to our costs having increased substantially more than those of manufacturers in Germany and the U.S.A. According to the August issue of the Treasury *Bulletin for Industry* our labour costs have risen by 27 per cent in six years, so that we find it difficult to compete with Germany and America in spite of the substantially

https://doi.org/10.1111/j.1741-2005.1955.tb00696.x Published online by Cambridge University Press

higher wages in America. Mr Butler said in July that it was vitally important that we should keep our costs competitive and that we might have to restrict home demand in order to do it. He also argued that our balance of payments difficulties this summer have to some extent been due to the rail, dock and other strikes.

It is also true that a substantial increase in costs and prices this autumn would probably lead to a further worsening of our balance of payments situation. Higher wages which are not matched by proportionate increases in productivity, necessarily tend to lead to higher prices, loss of export markets and unemployment. But when the T.U.C. met in September various Trade Unions were pressing claims for wage increases on behalf of more than six million workers. Of these claims, the most important was that by the Confederation of Shipbuilding and Engineering Unions on behalf of three million workers, many of whom produce for export.

The Trade Union Congress rejected a resolution from the Communist dominated Electrical Trades Union which called for complete rejection of any kind of restraint in wage claims. But the amendment which was carried with the support of the General Council did not call for restraint. Nor did the Annual Report of the General Council; it contented itself with saying that the Government had 'deliberately turned its back on fair shares'. It declared that the Government had allowed increases in profits and dividends, often accompanied by the issue of bonus shares, to outstrip increases in wages.

But a few days after the publication of the report and a week before the T.U.C. met, Sir John Braithwaite, Chairman of the Stock Exchange, produced figures to show that since the White Paper on 'Personal Incomes, Costs and Prices' was published in 1948, wages and salaries had increased by 69.2 per cent while interest and dividends had only increased by 32.1 per cent. A week later the Government published a Blue Book in which it produced further figures. It declared that dividends and interest and rents had only increased by 30 per cent since 1946 but that wages in the same period has risen by 89 per cent.

But was it quite fair for Sir John to have included interest in Government Stock in his figures for interest and dividends? And for the Blue Book to have also included rent payments? For interest payments do not rise and rents have not risen much; so

https://doi.org/10.1111/j.1741-2005.1955.tb00696.x Published online by Cambridge University Press

that the inclusion of interest on Government Securities and rent payments makes the percentage increase very much less than the percentage increase in dividends on ordinary shares alone. Moreover Sir John and the Blue Book appear to have taken the total figures for wages without regard to the increased numbers employed or to extra hours worked. They also seem to have given figures for interest and dividends without taking new capital contributed into account.

What interests Trade Unionists is the way in which the earnings of industry are divided as between workers and ordinary shareholders; that is to say in the relation between increases in dividends on ordinary shares and increases in wage rates. The Stock Exchange Report published last March showed that ordinary dividends increased by 47 per cent between 1950 and 1954; and Mr Maudling said last December that wages had risen by 39 per cent between 1947 and 1954. Clearly ordinary dividends have, therefore, risen more than wage rates during that period, and since 1951 they have risen much more. In 1954 alone ordinary dividends increased by 20 per cent as against an increase in wage rates of less than 5 per cent. There is some justification in the T.U.C. argument that the Government has 'turned its back on fair shares'. For it has been to some extent the reduction in taxation on company profits that has enabled companies to make these increases in dividends.

Mr W. J. P. Webber of the Transport Salaried Staffs Association declared in August that his Union was most reluctant to put forward a wage claim, and it is one of the few that have not yet done so this year. When the T.U.C. met at Scarborough, he and the Chairman Mr Geddes, emphasized the danger of large increases in wages leading to higher prices and loss of export markets. But at the same time Mr Webber demanded that the Government should introduce an autumn budget in which it would increase taxation on profits and limit dividends. He also urged that the Government should compel industry to carry out adequate investment and implement the majority report of the Monopolies Commission. 'These are the prerequisites for us to think again on the problem of wages', he declared. 'If the Government will give no guarantee, then there is no alternative open to us. We shall have to press wage demands.'

These are the things that the T.U.C. has urged before each of

https://doi.org/10.1111/j.1741-2005.1955.tb00696.x Published online by Cambridge University Press

Mr Butler's budgets; and each time it has been ignored. Can he afford to ignore the views of the T.U.C. this time?

Last February, when the trade gap was beginning to widen, Mr Butler increased the Bank Rate to $4\frac{1}{2}$ per cent and placed restrictions on hire purchase. But Bank advances continued in spite of the higher rate and it had to be supplemented by a 'stiff note' to the Banks in July telling them to reduce their advances. In theory the higher Bank Rate should reduce capital development and production and the need for imported raw materials; and increase resistance to wage claims. But it is very doubtful how far it is likely to be effective. Many big companies finance their development out of reserves or are in a position to pass on increased interest charges in higher prices. Other companies, perhaps producing for export, may be forced to cut down expansion. Local authorities have to pay higher interest rates which, reflected in rent increases, have an effect upon wage claims. The right way to tackle the problem is surely not so much to cut down production and imports of raw materials but to *increase* production and exports.

It is argued that higher interest rates help to attract money from abroad. But rates may be raised in Germany, the U.S.A. and other countries too—as they have been recently. And in any case money that does come in is always liable to go out again.

It seems to me that the crux of the matter is to convince Trade Unionists that the earnings of industry are being distributed fairly. Otherwise we are likely to be faced *either* with rising prices and loss of export markets *or* with industrial frictions and possibly widespread strikes. A move towards some kind of system of partnership in industry which Catholics have long advocated on social grounds would now appear to be urgently needed on economic grounds.

But what can the Government do? Last June Mr Butler said that the Inland Revenue would 'help' companies wishing to introduce profit sharing schemes. But at present tax liability is likely to be *increased* when companies issue shares to their employees. The obvious thing to do would seem to be to encourage co-partnership schemes through some kind of tax concession as has been done in America where there are twenty times as many schemes in operation as there were in 1942.

It would probably be useful if Mr Butler were to follow the

https://doi.org/10.1111/j.1741-2005.1955.tb00696.x Published online by Cambridge University Press

recommendations of the Minority Report of the Royal Commission on Taxation and impose a single Corporation Income Tax on all corporate incomes. The Majority Report argued that this would mean 'double taxation'; but it would surely no more be so than the present system under which trading profits are subject to both income tax and profits tax. Moreover it would be possible to deduct dividends from trading profits when assessing them for tax purposes, as suggested by Randolph Paul, late of the U.S. Treasury, in his book *Taxation for Prosperity*. This is a possibility that was not even considered in the Majority Report.

But should *any* kind of 'co-partnership' scheme qualify for such tax concessions? Clearly conditions would have to be laid down. And in this connection the Government would, perhaps be wise to consider the merits of the system of Employee Partnership developed by the late Mr Valder in New Zealand and described by Wickham Steed in his book *A Way to Social Peace*. One important advantage of this scheme is that it is simple and easy to understand. Another is that it involves the legal limitation of the return as well as the liability of the shareholders; and as the T.U.C. is itself pressing for the legal limitation of dividends the Valder Plan is more likely to produce a response from Trade Unionists than some other schemes.

In his book *The Distribution of Profits in the Modern Corporation: Catholic Moral Teaching* (Catholic University of America Press, 1951), Fr Bardes argues that the modern shareholder is really only a kind of a creditor entitled as such to a limited return. Msgr Ryan argued in favour of dividend limitation in his pamphlets on the *Christian Doctrine of Property* nearly twenty-five years ago, as did Fr Andrew Gordon in *Property*—the C.S.G. Year Book for 1949. If Mr Butler introduces the legislation necessary to enable companies to adopt the Valder Plan he will not only be fulfilling his own pledges about partnership but will go some way towards implementing the suggestion in *Quadragesimo Anno* that the wage contract should, where possible, be modified by a contract of partnership.

https://doi.org/10.1111/j.1741-2005.1955.tb00696.x Published online by Cambridge University Press