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SOME THOUGHTS ON INFLATION, WAGES AND MONEY

/Note by Mr. Mawdling7

To the economic purist no doubt prices are only a symptom of inflation, but to us as politicians they are the real problem, because it is rising prices that are breaking the country in half.

Prices are based on cost plus profit. Cost consists of labour plus materials plus overheads, (including rates and taxes). Profits are certainly not excessive, rather the opposite. The most rapidly rising element in costs is labour.

To reduce the rate of price increases, therefore, we must reduce the rate of labour cost increase.

Greater efficiency and the removal of overmanning reduce unit labour costs, and can help to offset wage increases. But it is a long term solution, and is resisted by some Trade Union forces that push excessive wage claims.

How does monetary control effect the prices problem? Presumably by reducing the demand factor in the equation.

We need to know the answer to the following questions about the money supply:

(a) What is it?

(b) How is it to be controlled, i.e. by what practical means, in what circumstances?

(c) How does it influence effective demand for goods and services? People's spending is limited to what they earn, borrow or dissave. If I sell £100 of gilt edged from my savings and put the cash in the bank, I may increase the money supply, but do I increase my propensity to spend?

The argument appears to be that counter inflation action should consist of:

(a) Cutting public expenditure.

(b) Reducing the credit base, public and private (obviously cutting the money supply cannot mean refusal to print pound notes).

This seems very similar to the old fashioned "squeeze". There is nothing wrong in being old fashioned. There are powerful other reasons for slashing Government expenditure, i.e. stopping nationalisation and giving relief to the private sector, but how will a "squeeze" effect the current wage inflation?

It will increase unemployment, prolong stagnation and further deter investment. But how will it effect unit costs if powerful Trade Unions continue to demand and obtain excessive wage increases?

...../Less will be

Less will be produced, less will be invested, less will be consumed, but prices, for what is produced, will continue to go up as unit costs rise. This seems the lesson of recent experience.

I suggest that a "squeeze" is only useful against wage inflation as a means of implementing an incomes policy rather than as an alternative, i.e. by frightening Unions into accepting restraint on their wage demands. The cost in social and economic terms, especially in the public sector would be great, and would be borne most by the most defenceless, and it is difficult to see how the "squeeze" could be relaxed without a recrudescence of wage inflation.

I do not think a monetary "squeeze" is an alternative to political action to control wage demands. Will the Unions be more likely to react to the spectacle of national sacrifice than to the prospect of challenging the law? If necessary, both means must be used. If both fail, God help us all!

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