CHAPTER II

The Fall of the Social Contract

THE INFLATIONARY PROBLEM

The period between Labour’s October 1974 election victory and July 1975 when the £6 pay restraint policy was adopted is usually regarded as the ending of the Social Contract. However a definitional problem does arise if the Social Contract is seen as existing right through the 1974–9 period. Hugh Scanlon recalled that the ‘Social Contract enabled us to bring down inflation to 7·9 per cent in 1978 [emphasis added] although at a cost of a reduction in living standards. I don’t want to apologise for the Social Contract.’1 Similarly referring to pay restraint one MP remarked that ‘the unions delivered their side of the Social Contract but the government didn’t deliver theirs’.2

For the purpose of this account – and arguably in the way the Social Contract was seen at the time – the Social Contract period is deemed to have ended with the introduction of the compulsory (though not statutory) £6 pay limit. Thus because a strictly voluntary arrangement on the unions’ behalf characterised the Social Contract in 1974 the abandonment of this voluntary aspect, in effect a de facto suspension of free collective bargaining, may be regarded as too decisive a policy reversal for the Social Contract to survive. Indeed the language of the Social Contract and protestations at its success diminish rapidly with the return of conventional wage restraint.

There is no mystery as to what killed the Social Contract – inflation, at a rate never previously seen in Britain. By the spring of 1975 inflation was running at 25 per cent, just a few months after Mr Healey’s 8·4 per cent claim. This is not to argue that both Mr Wilson and Mr Healey did not realise the nature and extent of the problem – their difficulty lay in extricating themselves from the Social Contract so that effective remedies could be applied.

The Queen’s speech in October 1974 contained more radical
Social Contract inspired measures but also a strong warning about the threat posed by inflation to the economy. The speech contained proposals to introduce a wealth tax, a capital transfer tax, an Employment Protection Bill, further trade union and labour relations legislation, nationalisation of the shipbuilding and aircraft industries and North Sea oil, and plans to introduce ‘planning agreements’ on private industry. However the speech saw the Social Contract as an essential element in curbing inflation as well as ‘promoting social and economic justice’. By and large while the legislative proposals of the Queen’s speech were enacted, the unions were reluctant to make voluntary pay restraint a reality. At the end of October the TUC General Council expressed its concern that the guidelines of ‘Collective Bargaining and the Social Contract’ were not proving effective. With many settlements running at 20 per cent and upwards at the end of the year the question of inflation, which had been largely forgotten during the Short Parliament, was beginning to concentrate minds both in the government and in the General Council. Barbara Castle notes that in November 1974 the survival of the Social Contract was clearly linked to the problem of inflation by a number of cabinet members; Roy Jenkins argued that:

‘... we need a contingency plan, though not a siege economy. We must face the danger that the Social Contract may fail and include this in our contingency plans.’ (The danger of this is, of course, that once Cabinet is willing even to contemplate a return to statutory controls the news seeps out through the very bricks of No. 10 and a run of wage increases starts overnight.) Shirley was equally gloomy. We faced, she said, a rate of inflation of 26–30 per cent next year. ‘Can we shore up the Social Contract through a tax on inflationary settlements? Otherwise we may face a terrible choice between the Social Contract and unemployment.’ We must eliminate waste and move faster on English devolution. We must follow the devolution of power by the devolution of responsibility.\(^3\)

However, at this stage, as Barnes and Reid note, there was little the government could do on the wages front but exhortation once the TUC had rejected proposals of penalties against employers giving increases beyond the guidelines of ‘Collective Bargaining and the Social Contract’.\(^4\) Similarly it may be argued that the