

The Control of Wages and the Value of Money: The Dutch Experience

1. Introductory Remarks

Roughly speaking, prices may change for two reasons: (a) because of a change in the number of hours it takes to produce a marginal unit of the commodity in question, and (b) because of a change in the number of monetary units paid for labour per hour. The first kind of change is of a technical nature and is often spoken of as a change in the marginal efficiency or productivity of labour, whereas (b) is a purely monetary change. Price changes due to (a) have definite limits determined by the natural conditions of production, the stock of real capital and the knowledge and administrative ability of entrepreneurs. Changes due to (b) are arbitrary, *i.e.* determined by the decisions and actions of people.

Controlling money, or the value of money, is therefore identical with controlling the level of money wages. Since wages are arbitrary, *i.e.* have no automatically determined equilibrium value, and since cumulative changes in the value of money impair (or destroy) the efficiency of the monetary system with respect to production, the level of wages has to be controlled somehow.

During the era of the Gold Standard, control of the wage level and thereby of the value of money was effected by the discipline imposed by the Central Bank on the labour market organizations.

Knowing from experience that an expansion of economic activity and of credit might lead to an outflow of gold, the Central Banks of the individual countries would restrict credit. This generally led to a reversal of the upward trend in activity, wages and prices, and sometimes precipitated a crisis.

Thus the Gold Standard mechanism prevented the realization of genuine full employment and produced cycles of rising and falling unemployment. Wages began to rise towards the close of the prosperity period and continued rising until somewhat after the

beginning of the recession. They generally kept constant at the bottom of the depression, and in extreme cases even fell in especially exposed industries.

The overall result was a rising trend in wages, checked by recurrent periods of depression with heavy deflationary pressure.

This way of controlling wages and the value of money was very costly in terms of human welfare. It did not result in a stable level either of prices or of wages, but up to the outbreak of the first World War it did prevent a collapse of the monetary system.

It is clear that once the Gold Standard had been abolished and when, in addition, the governments of the various countries accepted the obligation to establish and maintain full employment, this mechanism of control could function no longer. If such a programme is to be taken seriously, a tendency of rising wages during a period of unemployment cannot be met by measures restricting total demand, whether such measures take the form of credit restriction or of fiscal policy.

In a free economy, *i.e.* an economy guided by the consumers' choice, excess demand for labour may occur in individual industries even when there is considerable average unemployment, say six or seven per cent. If restrictive credit or fiscal policy were to be employed in order to prevent such partial excess demand for labour (the so-called bottlenecks) from causing a rise in wages, the general level of activity would have to be kept so low as to leave a considerable fringe of permanent unemployment. This is not only incompatible with a programme of full employment, but means great waste of human resources and human happiness.

On the other hand, if such bottlenecks are left to themselves, they will cause a partial rise in wages, which is not removed by the subsequent disappearance of the bottlenecks. With present trade union practice such partial rises are generally not only consolidated into a rise in official wage rates when collective agreements come to be renewed, but are even used as a justification for a corresponding rise in the general level of wages.

If such a development is to be avoided, means must be found not only to control a rise in wages in periods of general unemployment, but also to prevent partial excess demand for labour from developing into an irreversible rise of wages in particular industries and its transformation into a general rise of wages regardless of the state of the labour market.

These are the problems of control confronting an economic policy aiming at full employment.

We shall now discuss the means by which control of wages could be established under such circumstances.

2. 0. Means of Wage Control Under a Full Employment policy

2. 1. *Voluntary Restraint on the Part of the Labour Organizations, or Government Persuasion*

When Sir William Beveridge, now Lord Beveridge, published his well-known book *Full Employment in a Free Society* (1) immediately after the war, he realized that, given the structure of the British labour market then prevailing, as it still does, full or very high employment would lead to uncontrollable wage movements. He assumed, however, that trade union leaders, too, were aware of the problem and that they were able and willing to act accordingly. He thought that centralization of negotiations for the whole labour market would make it possible for the leaders to keep the development of wages under control, and that such a change in the structure of the labour market would take place.

Experience has shown, however, that the problem cannot be solved by such a change in the structure of the labour market. In countries such as the Scandinavian ones, where centralized settlement does take place, the development of wages has not differed essentially from that of countries such as Britain and U.S.A., where negotiations are decentralized. It does not seem possible, therefore, to solve the problem solely by a change in the structure of the labour market (2).

Others have held the opinion that it should be possible for the Government to persuade trade union leaders to adopt a policy of wage restraint sufficient to solve the problem (3).

Various such attempts have been made. In certain cases an agreement was made between the Government and the trade unions to the effect that during a certain period the unions were to refrain

(1) London 1945.

(2) Cf. ALLAN FLANDERS, "Wage Policy and Full Employment", *Bulletin of the Oxford Institute of Statistics*, 1950.

(3) Cf. FLANDERS, *op. cit.*

from pressing for a rise in wages, on condition that Government price control prevented prices from rising.

Such agreements are dangerous in a situation in which the Government has to introduce price control connected with official or unofficial rationing. Since the need for the control of wages is due to the adverse effects of an uncontrolled development of wages on the efficiency of the monetary system, the problem can obviously not be solved by measures which imply that the monetary system is partially prevented from functioning by the introduction of rationing.

I should not maintain that these attempts of persuasion or of voluntary agreement between Government and trade unions have been entirely without significance for the development of wages. I think it would be very difficult to ascertain their effects. In any event, it is a fact that so far the problem has not been solved by such measures, and very few, if any, hold the opinion that it could be solved in this manner.

Trade unions are created as combat organizations. They are based on the assumption that the exercise of power, *i.e.* strikes, boycott, etc., enables the unions to force the employers to grant wage concessions. It is further assumed that such wage concessions need not influence prices, so that a nominal rise in wages means a real rise in wages. It is irrelevant that such assumptions are erroneous. They still exist, if not amongst the leaders of the trade unions, at any rate amongst the rank and file. Leaders of the trade unions fear that if the unions give up their customary aggressive wage policy, they will disintegrate and trade union leaders therefore cannot be expected to advocate such a policy.

2.2. *The Resistance of Employers as a Detering Factor*

According to experience the trade unions will — almost with the regularity of a natural law — advance claims for higher wages at the expiry of every collective agreement. With the same degree of certainty, the employers or their organizations will — at least at the outset — refuse to meet these claims.

Now the question may be asked, whether this behaviour on the part of the employers will serve as a sufficient bulwark against a development of wages which may seriously threaten the efficiency of the monetary system? The answer to this question depends on whether or not there is a general belief that the Government intends

or is able to implement its proclaimed programme of maintaining full employment.

If such an opinion prevails, it would seem to be quite irrational for employers to put up any very vigorous resistance against claims for higher wages. In the first place it is obvious that when a country balances on the edge of full employment, there will always be industries with an excess demand for labour (the bottlenecks mentioned above). Individual firms in such industries will be anxious not only to maintain the labour force they have, but even to attract labour from other sections. The wage claims raised by the workers in such an industry, therefore, will not meet much resistance on the part of employers, for in many cases it will be to the latter's advantage to pay the higher wages rather than to have trouble with the workers.

But even in the case of collective bargaining covering the whole labour market, employers will hardly offer effective resistance in the long run; so long as they feel assured that the Government will adopt measures to enable the firms to pay the higher wages, employers have no real interest in keeping wages down. On the contrary, the firms may, as debtors, gain by the ensuing fall in the value of money. At any rate it is to the advantage of employers that wage negotiations be settled without strikes or other forms of labour unrest. Nor could it be to any employer's interest to refuse wage claims and thereby to serve as a scapegoat for the workers' complaints about unsatisfactory wages and other conditions of labour.

It must be admitted that the employers' organizations have in fact put up some resistance against the pressure for higher wages. Nevertheless I think it is almost universally true that concessions to wage claims have been made at the renewal of every collective agreement; in addition, cost-of-living clauses have been included in many agreements — in certain countries indeed in all of them. For these reasons the trade unions gradually have come to consider concessions to wage claims as a kind of vested interest.

In judging the behaviour of the employers during the post-war period, it must be remembered that there has been a fairly stable level of employment in all countries. Over a very large area (U.S.A., Great Britain, Holland and the Scandinavian countries) there has even been an extremely high level of employment. Serious fluctuations of employment on the pre-war pattern have not been experienced.

Whether this was due to deliberate and successful policy on the part of the authorities or was the outcome of accidental forces or of measures taken for other purposes, it is obvious that this situation weakened any doubts which employers may have entertained concerning their ability to pay continually increasing wages.

If a major depression should develop in the future or if the authorities should attempt to prevent the continual fall in the value of money by a restrictive credit or fiscal policy as in the era of the gold standard, then the employers would certainly change their attitude and put up much stronger resistance against claims for higher wages.

Such a policy certainly has powerful supporters. Many politicians and even economists hold the opinion that the only effective means of curtailing the rise in wages and prices is an old-fashioned credit or monetary policy, and that governments should not underwrite employment in spite of higher wages and a subsequent deterioration of the value of money.

It is doubtful, however, whether such a policy has any chance of success. In the first place powerful stabilizers have been built into the system. Thus in most countries the spending power of the wage earners is maintained in case of unemployment, by means of high unemployment benefit over long periods, "after pay" for weeks or months in case of discharge or even a "guaranteed annual wage".

Such measures weaken or even totally remove the cumulative effect of restrictive measures on wages and concentrate it on investment. In these circumstances the undesirable consequences of credit restriction are obvious and it can hardly be carried very far.

It should be added that the margin of unemployment required to keep the rise in wages within tolerable bounds may be so large that it becomes just as intolerable as the rise in wages. The comparatively heavy unemployment which has, in fact, existed in Italy and Germany during the post-war period has not prevented a rise in wages in those countries similar to that of countries with nearly or absolutely full employment.

It is not very likely, therefore, that the problem of wage control could be solved by creating unemployment.

At any rate, we may conclude that if the generally accepted goal of economic policy to maintain full employment as far as administratively possible is to be realized, neither voluntary restraint by trade unions nor resistance by employers would provide any

guarantee against a rise in wages at a rate which would seriously impair the functioning of the monetary system.

The solution, therefore, if there be one, seems to be some form of government supervision of the development of wages.

3. 0. Government Control of Wages

3. 1. *The Wage Control Scheme in The Netherlands*

Governmental interference with wages is no novelty. For many years provisions for minimum wages have been on the statute books of various countries. In some countries, *e.g.* Australia and New Zealand, compulsory arbitration of wage disputes has been in force since the beginning of this century. In other countries compulsory arbitration has been resorted to in a number of particular situations. Thus in Denmark no major wage dispute has been allowed to run its natural course for the last 25 years.

However, none of these measures meet the problem we are discussing in this article. The idea behind minimum wages, the soundness of which I shall not discuss here, is to protect workers in an inferior bargaining position against an alleged exploitation by employers. The aim of compulsory arbitration is solely to protect society against the damaging effects of labour conflicts such as strikes, lock-outs and boycotts. The arbitration courts generally do not function unless the organizations of the labour market fail to come to an agreement, and the courts do not interfere with the contents of the agreements. The problem here at hand is altogether different, *viz.* the control of money wages in order to preserve the efficiency of the monetary system. Here the main thing is not to see to it that the labour market organizations agree, but rather to prevent these organizations from agreeing upon something which is against the public interest.

To my knowledge the only country in the world which has had experience with supervision of wages for this purpose is Holland, and I shall, therefore, give a brief description of that country's system.

The backbone of the wage control scheme in The Netherlands is an order in Council issued in 1945, which authorizes the Minister of Social Affairs to control wages and other labour conditions. The administration of this power has been delegated by the minister to

the Board of Conciliators, an institution inherited from pre-war Holland.

The issuance of that Order may at the time have been intended as an emergency measure to meet the chaotic conditions then prevailing in Holland. However, governmental wage supervision has been maintained ever since and an elaborate system for the proper and smooth implementation of the regulation has developed. The basic condition for a satisfactory working of the scheme was, of course, the support of the great majority of the Dutch people and especially of the sections immediately concerned, the workers and the employers.

During the German occupation the labour market organizations were dissolved. The leaders of the organizations, however, met in secret and formed an organ of co-operation, called "The Foundation of Labour". It consisted of twelve members, six representatives of the workers and six representatives of the employers. The function of the Foundation was to discuss all labour market problems, and to give advice to the organizations which it represented and to the authorities.

This institution, which emerged full-fledged after the German withdrawal, naturally became a corner-stone in the implementation of the Order in Council just mentioned. The procedure which was established may be described as follows. Claims for changes in wages are initially dealt with by the organizations of the individual industry concerned. Any agreement reached at that level has to be submitted to the Board of Conciliators for confirmation in order to become binding on the parties concerned. If it is not confirmed or accepted by the Board, the agreement is returned to the organizations which have submitted it, and work has to continue on the old conditions until the organizations in question have revised the proposals so as to become acceptable to the Board.

However, the Board does not make its decision in an arbitrary manner. It has the obligation to consult the Foundation of Labour before making a decision. It has, therefore, become customary to submit any proposal for changes in existing agreements to the Board and to the Foundation simultaneously and, as I understand it, the examination of the proposal takes place primarily in the Foundation of Labour.

The Foundation of Labour as well as the organizations which it represents are of course informed as to the principle according to which wages should be fixed. If, in the view of the Foundation,

the proposal is in accordance with these principles, it is formally submitted to the Board of Conciliators and as a rule confirmed. If on the other hand the proposal is not in accordance with these principles, it is further discussed with its initiators, and when such changes have been made that the Foundation is able to support the proposal, negotiations with the Board of Conciliators are resumed and as a rule an agreement is reached.

Thus we see that the scheme provides for an elaborate machinery of negotiation and discussion. In all these negotiations both parties, workers and employers, are represented and their interests are the subject of discussion. It is only to be expected that there may be considerable disagreement between the various spheres of interest, but there is also a great likelihood of removing disagreement. Some disagreement may persist even at the stage of negotiation between the Foundation of Labour and the Board of Conciliators.

I have been told, however, that only in very few cases has the Board rejected any proposal agreed upon by the members of the Foundation. In order to facilitate negotiations, the procedure has developed that a member of the Board of Conciliators takes part in the Foundation's discussions.

3.2. *The Objective of Wage Control in The Netherlands*

It is clear that an administrative body like the Board of Conciliators, which has the final word with respect to the determination of wages, can act only on the basis of government instructions as to the principles according to which wage rates should be determined. In other words the government must decide on the objectives of its wage policy and instruct the Board of Conciliators accordingly.

Now, what has been the principle according to which wages have been regulated in The Netherlands? As far as I know no clear-cut official statement of these principles has ever been issued, and it may be that the authorities themselves have not always had any very clear conception of what the goal really should be. Perhaps it could be said that originally the aim of the introduction of the scheme was to put some brake upon the increase in wages, which, during the extremely critical period immediately after the war, might otherwise have seriously impaired economic progress or reconstruction in The Netherlands.

Gradually more definite ideas on the principle of wage-fixing have developed. During my stay in Holland in order to study the system, I interviewed several people competent to speak on this question. On the basis of those interviews I arrived at the conclusion that the principle gradually adopted by the authorities and the co-operating organizations, including the labour unions and the organizations of the employers, had a double purpose:

- 1) To maintain full employment.
- 2) To maintain constant exchange rates vis-à-vis the most important countries such as U.S.A., Germany, Great Britain and others.

Wage rates, therefore, must be so determined that this double goal can be realized.

It should be emphasized that the aim of wage policy in Holland is not to prevent inflation, however that may be defined. Neither is it to prevent a rise wages. Rather it could be said that the aim is to adapt the level of Dutch monetary costs to that of the surrounding world, led by the big industrial countries, so as to make it possible for Holland to maintain full employment with stable exchange rates. It could also be said, perhaps, that the aim is to keep pace with the inflation going on in the leading countries, but not to exceed it.

This may perhaps be considered an extremely modest goal, but I, for my part, should say that it is much better to adopt this modest goal and attain it than to adopt a more ambitious goal and not be able to realize it and perhaps get frustrated, so that everything is left to itself in the end. In fact, I think that the apparent success of the system is to a certain degree due to the fact that a realistic goal has been adopted.

3.3. *On What Facts Does the Dutch Government Base the Determination of the Actual Wage Rates?*

Once the objectives of wage policy have been decided upon, it remains to determine by how much, if at all, wages can be raised in a given situation in view of those objectives. In Holland people speak of the "margin" or "space" available for wage increases. How do the authorities determine this margin? This question is not very easy to answer. One explanation may be

offered, however. There is in Holland apparently great confidence in scientific research. At the close of the war, when everybody agreed that government interference in economic affairs had to be considerably greater than before the war, an institution named "Centraal Planbureau", or in English "The Central Planning Bureau", was established. The distinguished economist Professor Jan Tinbergen was appointed director of that institute and it was lavishly staffed with the best economists who could be found in or outside of the country. There can be no doubt that the analyses undertaken by this Institute and its conclusions regarding economic development in the near future, played a great role as a basis for government decisions with respect to the margin at the disposal for increased wages. The Bureau's analysis has also greatly influenced the outlook of the parties to the labour market, employers and employees. In this manner the work of the Bureau has influenced the claims for wage increases advanced by the labour organizations as well as the position taken by the employers towards those wage claims and the course of wage negotiations at every stage from bottom to top.

The existing machinery for making decisions with regard to the control of wages and other social and economic problems must nevertheless have been considered insufficient; for in 1950 a new institution for economic and social analysis and consultation was established, *viz.* "The Social-Economic Council" (4). The Council consists of 45 members; fifteen experts in various fields of social science are appointed by the Crown, fifteen members by the trade unions and fifteen by the employers' organizations. The Council was to conduct independent analysis of all questions within the field and to give advice to the government on social and economic problems including wages policy.

Thus we see that since the establishment of this Council all the parties concerned co-operate in the process of wage formation, from the individual organizations on the industry level upwards to the decision-making authorities.

(4) It must be pointed out that this institution was a link in a rather comprehensive scheme for gradually organizing the economic life of The Netherlands on a corporative basis. I cannot go further into this complicated matter here. It has not so far been realized in full, but the Social-Economic Council which was to be the co-ordinating body of that whole scheme was put into operation immediately.

3.4. *The Scope of Control*

In the preceding sections I have tried to describe the main features of the Dutch wage control scheme. I shall now make a few observations on the extent of official wage regulation in Holland.

From the point of view of controlling monetary development in a full employment economy one would think that supervision and control of the general level of wages by the authorities should be sufficient and that the determination of relative wages, *i.e.* differentials between the various qualities of labour, could be left to the labour market and its organizations. This however, does not seem to be the prevailing view in Holland, for right from its inauguration government interference has extended not only to the general level of wages, but also to the actual rates paid to various groups of workers.

At the outset this was done rather summarily by merely dividing the workers into three groups — skilled, semi-skilled and unskilled workers — and fixing a general rate for each. It seems obvious that in an economy of practically full employment such a system would cause great inconvenience. At an early date, therefore, the system was made more flexible by allowing for personal supplements to the standard rate according to merit. This way of equalizing efficiency rates did, as far as I have understood, not prove very satisfactory. The main reason, I think, was that in a situation of an extremely tight labour market the permitted wage supplements were used by individual employers as a means to entice labour away from other employers, so that the whole system of control was jeopardized.

At a certain stage this system was, therefore, replaced by the introduction, on a wide scale, of the so-called "job evaluation system". The essence of the latter system is that each job is rated according to objective or technical criteria such as degree of skill, responsibility, initiative, unpleasantness, etc. Each of the features as expressed in figures or points which are added together and the rates are fixed in proportion to the number of points obtained by this summation.

It is obvious, however, that if it is the intention to fix wage differentials according to the market conditions for the various kinds of labour, no objective criteria could be found. The proper

margin from this point of view must be based on economic and not on technical considerations.

If the system nevertheless seems to have functioned in a fairly satisfactory manner, this may be because in fact such market considerations are — perhaps more or less unconsciously — smuggled into the evaluation of jobs, as it were.

In answer to this criticism it is generally conceded that it may be true that the evaluation of jobs by technical experts is more or less illusory, because considerations of the relative value of the performance to the employer do enter into the picture. This, however, does not deprive the system of practical merits, because the seeming objectivity prevents jealousy and disputes in the workshop.

The criticism that the system is more detailed than necessary for the main purpose is met by the answer that unless differentials are rigidly determined by the authorities, employers in a tight labour market will use an increase in the margins to raise the general level of wages regardless of differences in skill or performance. It is admitted, however, that even within the job evaluation system a general rise in wages takes place to some extent in the form of "upgrading".

3.5. *Has the Control of Wages Been Effective?*

It is one thing to establish a complicated and subtle system of organs and procedures for the control of wages according to the general economic policy of the government, but a different thing to enforce such regulation. Would the wage level and economic development in general have been essentially different if the determination of wages had been left to the labour market organizations? One of the officials in the Foundation of Labour told me that in his opinion the Board of Conciliators would be extremely reluctant to veto an agreement which had been endorsed by the Foundation. As the Foundation represents the labour market organizations on a parity basis, this suggests that in actual fact wages are determined by those organizations and not by the Board of Conciliators.

Such a conclusion would, I think, nevertheless be wrong. In the first place the Board of Conciliators has, in fact, on a few occasions refused to accept a proposal endorsed by the Foundation of Labour. Secondly it must be kept in mind that ultimately the Board of Conciliators does have the power to decide. All parties

concerned, including the individual employer and employee and the industry and unions are aware of this fact. They also know the principles on which wage decisions are made. It must be assumed, therefore, that the very existence of the system of wage control influences the general atmosphere on the labour market, including the magnitude of the wage claims which are advanced.

In considering the effectiveness of the system it must further be remembered that except for 1952 there has been practically full employment in Holland, and periodically even a clear excess demand for labour. Seeing that during this period Holland has accumulated large reserves of foreign exchange, there seems to be no doubt that the wage control system has been effective as a brake on the rise in wages.

At this juncture the question may be asked: How is it possible, in an economy in which there is always extensive partial — and periodically even general — excess demand for labour, to enforce the system of wage rates decided upon? If the official rates are to be respected, will it not be necessary always to maintain a margin of unemployment, which at times may be considerable? How is the emergence of so-called black market rates to be prevented? The answer is that black market rates are, in fact, being paid. Such overpay is illegal, it is true, and the employers paying it may be fined. Nevertheless it is generally admitted that black market rates are being paid, and sometimes on a considerable scale.

Should we conclude that the control system is ineffective with regard to attaining its objectives? The answer which I have been given is that if the system had not existed, it would undoubtedly have been necessary to reduce the total demand for labour through restrictive measures and to keep a considerable margin of unemployment. For under full employment in the strict sense, such as has been prevailing in Holland, wages would certainly have increased at such a rate that balance-of-payments difficulties would have arisen. The other alternative would have been to adapt the exchange rates to the rise in wages, thereby removing all barriers to inflation.

I was told further that although it is true that during periods of extensive excess demand for labour illegal rates are paid, the system does not lose its importance. In the first place, the fact that an increase in wages is illegal makes it easier for employers to resist wage claims; secondly — and for the same reason — the illegal supplement to official rates can be abolished when the demand

for labour slackens. Thus the system makes wages flexible in both directions. They rise when demand for labour increases and fall when the excess demand disappears. With fixed exchange rates this should serve to stabilize market conditions, because there will be a tendency for entrepreneurs to postpone expansion from a period of excess demand for labour and illegal rates to periods with lower demand, when the illegal addition to wages has vanished.

4. 0. Will the Trade Unions Disintegrate Under a System of Government Wage Control?

Those who are familiar with the attitude of trade unions in other countries will automatically ask the question: How is it possible to maintain membership in the trade unions when, in the end, the government fixes wages according to such principles as the state of employment and the balance of payments? Will the unions not disintegrate if they are deprived of the power to strike in order to back up their wage claims?

The answer is that so far there is no indication in Holland that the workers are deserting their unions. On the contrary, the number of union members has increased much more than the labour force during the period in which the wage control scheme has been in operation.

In explaining this fact it should be kept in mind that governmental control of wages was not inaugurated by the arbitrary decree of an autocratic government, but was adopted by a Parliament in which the most powerful group was and is the socialist party.

Secondly, as we have seen, the scheme is administered in close contact with the labour market organizations on both sides of the market, represented in the Foundation of Labour and later in the Social-Economic Council. This co-operation has not been forced upon the labour unions. On the contrary, they have supported the scheme, because they think it is necessary and to the advantage of their members. At least as far as the socialist or neutral federation of trade unions is concerned, its support is based on the following reasoning (5).

(5) *Vide* BERT ZOETEWEIJ, "National Wage Policy: The Experience of The Netherlands", *International Labour Review*, 1955.

- 1) Unemployment can and should be avoided.
- 2) Full employment is not brought about automatically, but must be secured by a suitable governmental policy.
- 3) In carrying out such a policy the level of wages is a strategic factor.
- 4) Therefore some form of governmental control of wages is necessary.

It is difficult for a foreign visitor to ascertain whether this enlightened view has penetrated to the rank and file of the union membership. From conversations with various labour leaders in Holland I did get the impression that this has, in fact, largely happened. One of the means to attain this result has been the educational activity which the central organizations conduct with respect to the individual organizations and their members. This information service includes:

- 1) Current analysis of the economic situation;
- 2) Explanation of the principles according to which wages are determined; and
- 3) Demonstration that the alternative to government supervision of wages is the probable reappearance of depressions on the pattern of the 'thirties.

Of course, the question whether, in a given situation, there is "room" for an increase in wages, could never be solved exactly. To a large extent this is a matter of judgement. The system implies that the labour market organizations are called upon to take part in the discussion of this problem. In addition, there are of course many problems of labour conditions to be settled other than wage rates, and the whole scheme of adjustment of labour conditions in Holland presumes vigorous participation by the organizations.

It is, therefore, perhaps not so difficult to see why the workers of The Netherlands have stuck to their unions and joined them in increasing numbers. Being unable to resort to violent means such as strikes, boycott etc., the workers have no other way of asserting their influence on labour conditions than through the unions which represent them in the wage-making process. Nor can there be any doubt that, through their representation in the various organizations which take part in the determination of wages, the unions certainly do have a very great influence on the outcome.

One of the trade union representatives with whom I spoke, even held the opinion that the influence of the rank and file on wage-formation today was greater than it was during the old system. This opinion he based on the following facts: The three federations of trade unions are represented on a parity basis with representatives of the employers and the government in the Social-Economic Council, which serves as an adviser to the government on all economic problems, including the problem of the extent to which the economic conditions of the country allow an increase in wages. In the same manner the trade unions are represented on a parity basis with the employers' representatives in the Foundation of Labour, in which all controversies and proposals concerning labour relations are discussed.

When I asked him what forces in actual fact did determine the level of wages in Holland, he answered that it could hardly be said with justice that wages were determined arbitrarily by the Board of Conciliators. There is intensive interaction between all the organs which take part in the wage-determining process. Owing to the large number of members they represent and to their political influence, the trade unions weigh heavily in this parallelogram of forces. He did admit, however, that the solution of the problem was facilitated by several circumstances: 1) all parties concerned agree on the principles according to which wages should be determined, 2) everybody is aware of the fact that in the end the decision rests with the Board of Conciliators, and 3) the aim of the trade unions must therefore be to obtain results favourable to the workers by well-founded proposals and skilful negotiations.

5. 0. The Effect of the System on Employment and Production

There can hardly be any doubt that government control of wages in The Netherlands has made it possible to maintain a considerably higher level of employment, together with a stable foreign exchange rate, than would otherwise have been the case. War damage in The Netherlands was extremely heavy. In the years immediately following the war, the standard of living of the people, therefore, had to be very low in comparison with pre-war years, and as speedy reconstruction of the economy made it imperative to mobilize the human and material resources of the country to the utmost, full employment was of vital importance.

There is no doubt that in the absence of governmental wage control the extensive emergence of bottlenecks in the labour market, which is a necessary concomitant of the full utilization of the labour force, would have induced an uncontrolled rise in nominal wages. The alternatives would have been credit and fiscal restrictions in order to lessen the pressure on the labour market or a rise in the exchange rate with the risk of uncontrolled inflation.

The great test of the efficiency of the wage control scheme came in 1950 after the outbreak of the Korean war. Owing to the rise in raw material prices a large deficit in the balance of payments developed. Simultaneously there was a considerable increase in the cost of living. This situation was common to almost all Western countries. But apart from Holland, the rise in the cost of living was accompanied by a corresponding rise in wages which further impaired the external payments situation. In most countries this situation was countered by restrictive credit policy and contractionary fiscal policy with damaging effects on investment and ensuing unemployment.

In Holland, on the other hand, where a highly developed machinery for wage control was available, it was agreed to meet the situation by wage restraint. In spite of a ten per cent rise in the cost of living, wages were allowed to increase by only five per cent, thus deliberately reducing real wages by about five per cent. Because of the wage restraint the balance of payments was corrected without a deliberate curtailment of economic activity.

A general depression, no doubt to some extent caused by the restrictive measures, developed in almost all countries except the U.S.A. In these circumstances employment in Holland could not be fully maintained, but the fall in activity was much smaller than in most other countries, and measures could be taken to stimulate total demand because the pressure on the balance of payments had been relieved by the reduction in wages relative to wages in other countries. In fact, the international competitive position was greatly improved. The balance-of-payments deficit disappeared and was replaced by a very considerable surplus.

During the subsequent two years wages were in fact kept fairly stable and as wages rose considerably in the rest of the world the competitive position of The Netherlands improved steadily and a large surplus in the balance of payments developed. It is rather remarkable proof of the efficiency of the wage control scheme that

it was possible to avoid an increase in wages in spite of a very high level of employment and a mounting surplus in the balance of payments.

At the close of 1953 the foreign assets of The Netherlands Bank had risen to nearly five billion * guilders or more than half the value of exports. From this date onwards, large increases in official wage rates have been granted and in addition increasing contributions to unemployment and social insurance funds have been imposed upon the employers, so that labour costs have risen more than official wage rates. As the cost of living has risen only moderately, there was a considerable rise in real wages during this period.

The economy seems to have been able to absorb this large rise in wages or labour costs, of perhaps up to 25 or 30 per cent. Foreign exchange reserves have been maintained at a high level. During the entire period there has been an extremely tight labour market and industrial production has increased by some 30 per cent.

It has sometimes been said that the high level of production in The Netherlands has been achieved at the cost of the working man's standard of living. This seems not to be the case. Real wages seem to have risen fully as much as in other Western countries with which comparison is possible. During the last three years real wages have in fact risen considerably more than in a number of other countries, in spite of the fact that Holland, together with Denmark and Great Britain, suffered from a rather unfavourable development of the terms of trade with other countries.

Nor does there seem to have been any shift in favour of entrepreneurial income as a consequence of wage control. According to calculation made by the Planning Bureau, wage income per worker as a percentage of gross national income per gainfully employed person is about the same as it was in 1938.

Paradoxically, the development in Holland may be characterized as follows.

Government control of wages has made it possible to achieve a larger increase in real wages and a larger income for all groups of society than would have been the case if the formation of wages had been left to bargaining between the labour market organizations. This seeming paradox is explained by the following facts:

* 1 billion = 1,000 million.

1) Government control of wages made it possible to avoid balance-of-payments difficulties and even allowed a very considerable accumulation of foreign exchange, without resorting to credit restrictions and with the maintenance of permanent full employment.

2) Because of the favourable competitive position in international trade due to the control over wages, it has been possible to maintain easy credit conditions. This in turn has served as a basis for modernization and expansion of industry and trade, with a resulting high rate of increase in productivity.

3) The existence of ample foreign exchange reserves has permitted freedom of action in foreign trade, which has not only facilitated an expansion of international trade to its optimum, but which in addition has created more favourable terms of trade, again with rising productivity as a consequence.

4) The removal of wage conflicts from the labour market has replaced grumbling and animosity by co-operation between the parties for the purpose of efficient production.

5) The high level of employment has created a feeling of security amongst the workers and removed their suspicion with respect to labour-saving measures. In the same manner the permanent high level of employment has allowed a higher degree of utilization of the fixed capital of firms, which has made it possible to lower prices.

6) Finally the high level of employment in itself means higher production per head of population.

As far as I can see, the Dutch wage control scheme as carried out so far, serves as an illustration how, by firm interference at a strategically important point, the spontaneous forces inherent in the economy were set free on a far more extensive scale than would have been possible by dogmatically maintaining the right of the organizations to determine wages without interference by the government.

6. 0. Can the System be Maintained ?

As I have tried to show, the wage control scheme in The Netherlands has played a great part in the favourable economic development of that country. If that is the case it seems strange

to pose the question whether or not the system will be maintained. Should it not be a matter of course that everybody would be interested in preserving such a system or perhaps improving upon it?

Nevertheless it is justified to raise this question. The reason is not so much that during the whole period of the operation of the scheme there has been complaint and criticism. This is only natural in a democratic country. Nothing is perfect; neither this wage control scheme nor the wisdom of the people whom it is supposed to serve. But those complaints and criticism have increased in intensity and severity. It has constantly been maintained by labour as well as management that the system was too rigid, that it did not reward skill and performance sufficiently, that the workers were prevented from taking advantage of the firms' ability to pay, and that the firms, because of the rigid rates, were unable to expand by attracting a sufficient number of workers.

As I understand it, these criticisms originate mainly in the Catholic or the Christian (Protestant) trade unions and the corresponding employers' unions. In those circles it is felt that questions of wages and other working conditions should be settled to a larger extent at industry level, or perhaps at the level of the firm, thus leaving it more to the workers and employers themselves to manage their own affairs.

The non-confessional or socialist federation of unions opposes these views and on the whole supports the system as it is. That federation upholds the principle of equal pay for equal work regardless of the employer's ability to pay. If employers make high profits, the firm or industry should expand or prices should be reduced until profits are normal. Excessive profits are just as immoral, it is maintained, when they are shared with the particular workers attached to the firm making the profits, as when they go solely to the employer. Nor should firms or industries which are in a favourable market position be allowed to entice labour away from other firms by paying higher wages for the same kind of work. Expansion should take place by absorbing labour from unemployment or from unremunerative firms which are unable to pay the normal rate of wages.

In addition to the above-mentioned source of dissatisfaction, there is of course the recurring question as to the general increase in wages which can be allowed under the system. Naturally, in this respect, the workers all agree. Regardless of the above-

mentioned differences, they are inclined to think that there is room for a larger increase than the government and the employers find suitable.

As I have already said, very large wage concessions were made in 1954 and 1955. At the beginning of 1956 the question of another round of increases was again raised. The workers asked for a large general increase, pointing to the high level of profits and to the favourable balance of payments. They maintained that a rather high rise could be absorbed into profits. On the other hand the government, in consultation with the Social-Economic Council, was of the opinion that the outlook for the coming year was not so favourable, and that the large increases of the two preceding years had hardly been digested.

The great vulnerability of an economy like that of the Netherlands was pointed out, where international trade accounts for about half the national product. Even if at the moment conditions were generally favourable, a slight decline might upset the whole structure. The authorities, therefore, thought that only a very small increase, say three per cent, was justified.

The gap between the claims of the workers and the concessions which the government was willing to make, therefore, was greater than at any time before. In addition, there was the above-mentioned controversy regarding the principles of the system.

Early in the spring of 1956 when negotiations were going on in the Foundation of Labour, the differences were so great that the Foundation declared that it was hopeless to continue negotiations as the parties were so far apart that agreement could not be reached.

Now it should be remembered that the Foundation of Labour is a private organization and that no authority can force it to take part in negotiations. On the other hand it will easily be understood that the smooth functioning of the scheme is contingent upon the willing co-operation between the wage-fixing authorities and the representatives of the labour market organizations. In the absence of such cooperation the fixing of wages by the authorities would be considered as arbitrary and serious industrial disturbances might ensue.

The controversy ended in a compromise. A sort of bonus, amounting to three per cent of the wages paid out in 1955, was to be given to the workers in addition to a general increase in wages of three per cent and permission for a further rise of up to six per cent in individual industries where it could be absorbed without

raising prices. Everybody seemed to think that this would result in a general rise of six per cent, because in a fully employed economy it would be impossible to discriminate.

Thus once more the system was saved from collapse, but it must be admitted that there is good reason to doubt whether it can be maintained in the future. The very fact that the government had to concede something that it considered unsafe, justifies doubt as to the efficient functioning of the system in the future.

The claim for greater freedom within the scheme, if not its total abolishment, has been raised in Parliament, which will have to decide on the question in the near future. Whatever the result of the political revision of the system, there can be no doubt that its operation so far has had very beneficial effects on the economic development of Holland. The system could undoubtedly be improved, but it should not be abandoned and I do not think it will be abolished.

So far the Dutch scheme offers the only example of a solution of the problem of wage control in a permanently fully employed economy. Much could be learned from studying the operation and consequences of that system and if it is successfully maintained in the future it will no doubt have a great influence on the solution of the problem in other countries.

JØRGEN PEDERSEN