

1967 No. 642

PRICES AND INCOMES

The Prices and Incomes (General Considerations) Order 1967

<i>Made</i> - - -	24th April 1967
<i>Laid before Parliament</i>	26th April 1967
<i>Coming into Operation</i>	27th April 1967

The Secretary of State, in exercise of the powers conferred on him by section 4 of the Prices and Incomes Act 1966^(a) and after consultation, in accordance with subsection (3) of that section, with organisations appearing to him to represent to a substantial extent the interests of those particularly concerned, hereby makes the following Order:—

1.—(1) This Order, which may be cited as the Prices and Incomes (General Considerations) Order 1967, shall come into operation on 27th April 1967.

(2) The Interpretation Act 1889^(b) shall apply for the interpretation of this Order as it applies for the interpretation of an Act of Parliament, and as if for the purposes of section 38 of that Act this Order were an Act of Parliament and the Order revoked by Article 3 of this Order were an Act of Parliament thereby repealed.

2. The considerations set out in the Schedule to this Order (which reproduces sections I to IV (inclusive) of a memorandum entitled “Prices and Incomes Policy after 30th June 1967”^(c) which was presented to Parliament by the Secretary of State by command of Her Majesty in March 1967) shall:—

- (a) for the period commencing with the date of coming into operation of this Order and ending on 30th June 1967, be added to the considerations set out in Schedule 2 to the said Act of 1966 (as substituted by the Schedule to the Prices and Incomes (General Considerations) (No. 2) Order 1966^(d)) as the considerations to which the National Board for Prices and Incomes are to have regard in accordance with section 4 of that Act; and
- (b) on and after 1st July 1967, be substituted for the considerations set out in the said Schedule 2.

3. The Prices and Incomes (General Considerations) (No. 2) Order 1966 shall be revoked on 1st July 1967.

Given under the Hand of the First Secretary of State and Secretary of State for Economic Affairs on 24th April 1967.

Michael Stewart,
First Secretary of State and Secretary of
State for Economic Affairs.

(a) 1966 c. 33.
(c) Cmnd. 3235.

(b) 1889 c. 63.
(d) S.I. 1966/1477 (1966 III, p. 4073).

SCHEDULE
PRICES AND INCOMES POLICY
AFTER 30th JUNE 1967

I. INTRODUCTION

The standstill on prices and incomes, followed by a period of severe restraint in the first half of 1967, was one of the important measures taken in July 1966 in order to strengthen the economy and to improve our competitive position. The very rapid increase in incomes compared with the increase in productivity in the previous eighteen months, despite the development of the agreed productivity, prices and incomes policy since the Joint Statement of Intent, had contributed to the failure of the balance of payments to improve in the first half of 1966, and the standstill and severe restraint were necessary to halt the upward spiral of incomes and prices.

2. The July measures have had considerable success. Exports have been advancing strongly and the trade gap has been narrowed. The balance of payments has improved considerably and was in surplus in the fourth quarter of last year. Sterling has been greatly strengthened and the gain to the reserves has made it possible to repay a satisfactory amount of short-term debt. Internally, the measures have eliminated the excess pressure of demand, have freed resources for export production and other essential purposes, and have slowed down the rise in prices and incomes.

3. The success of the standstill and of the period of severe restraint so far has been due largely to the voluntary acceptance by management and unions and by the public generally of the national need for restraint and willingness to sacrifice immediate personal benefit in the interests of the whole community. Only in a relatively small number of cases has it been necessary to make Orders under Part IV of the Prices and Incomes Act 1966, restricting particular prices or the pay of particular groups of workers.

4. In considering the future development of the productivity, prices and incomes policy, the Government have two main objectives:

- (i) to create conditions favourable to sustained economic growth and to avoid the "stop go" cycle;
- (ii) to work as quickly as possible, consistent with the considerations set out in (i), towards the operation of an effective policy on a voluntary basis in agreement particularly with the Confederation of British Industry and the Trades Union Congress.

5. The Government have therefore welcomed the undertakings given by the C.B.I. and the T.U.C. in their recent consultations with these bodies to play their full part in the development of an effective voluntary policy. It is common ground between them and the Government that decisions about prices and incomes should be related to the interests of the community as a whole. It is agreed also that there will be need for continued moderation especially during the twelve months following June 1967, in order to provide a sound basis for the resumption of sustained economic growth.

II. PRICES AND CHARGES

6. The continuing aim of the policy is to improve the competitive position of the economy, to restrain increases in prices and encourage necessary investment. More competitive prices will restrain the growth of imports and encourage the

substantial increase in exports required to sustain faster economic growth. But prices will not be competitive unless management continue their efforts to keep down costs and prices and actively reduce prices wherever possible. A prices policy is required also to ensure that profits are earned by efficiency and to maintain the real value of wages, salaries and other incomes, particularly small fixed incomes, and thereby reduce the pressure for incomes increases. More immediately the aim must be to avoid any widespread and unjustifiable increases in prices due to pressures which may have been building up during the periods of standstill and severe restraint.

7. These considerations and the criteria set out below are intended to be applied by all concerned, including wholesalers and retailers, in the determination of prices and charges in the private and public sectors alike in the twelve months after 30th June 1967. It would not be in the interests of economic efficiency to seek to operate the policy in a rigid form involving a very widespread and detailed supervision of individual prices. As indicated in paragraph 3 of the White Paper on Prices and Incomes Policy: An "Early Warning" System (Cmnd. 2808) the aim will be to concentrate on those prices which are of economic significance, including those of importance in the cost of living.

Arrangements for Notification

8. The "early warning" system for notification of proposed price increases is an essential element in the policy and arrangements have been made during the standstill and period of severe restraint to strengthen and expand it. The Government look to all those concerned to continue to operate the existing early warning arrangements and they will also be reviewing, in consultation with the C.B.I. and other interested organisations, and in the light of the experience gained during the last twelve months, the possible further development of these arrangements. In the light of this review, it is the Government's intention that the existing general request for advance notification of price increases made in paragraph 9 of the White Paper on the Prices and Incomes Standstill (Cmnd. 3073) should lapse on 30th June 1967.

Price Reductions

9. The emphasis placed on restraining price increases must not divert attention from the need for price reductions wherever possible. Broad stability in the general price level requires that many price reductions should be made to offset price rises that cannot be avoided; in particular, prices in the manufacturing sector will need to fall in order to offset price increases in those parts of the economy where it is more difficult to absorb increases in costs by increasing productivity. Appropriate cases involving the application of the criteria for price reductions will be referred to the National Board for Prices and Incomes.

Criteria for Price Behaviour

10. The limited criteria for price increases set out in paragraph 10 of the White Paper on the Prices and Incomes Standstill: Period of Severe Restraint (Cmnd. 3150) will be replaced after 30th June 1967 by the broader criteria laid down in paragraph 9 of Part I of the White Paper on Prices and Incomes Policy (Cmnd. 2639) which were agreed with Management and Unions. Price increases should take place only where they can be fully justified against these criteria and every effort should be made to absorb increases in costs. The criteria are:—

- (i) if output per employee cannot be increased sufficiently to allow wages and salaries to increase at a rate consistent with the criteria for incomes

without some increase in prices, and no offsetting reductions can be made in non-labour costs per unit of output or in the return sought on investment;

- (ii) if there are unavoidable increases in non-labour costs such as materials, fuel, services or marketing costs per unit of output which cannot be offset by reductions in labour or capital costs per unit of output or in the return sought on investment;
- (iii) if there are unavoidable increases in capital costs per unit of output which cannot be offset by reductions in non-capital costs per unit of output or in the return sought on investment;
- (iv) if, after every effort has been made to reduce costs, the enterprise is unable to secure the capital required to meet home and overseas demand.

11. The agreed criteria for price reductions set out in paragraph 10 of Part I of Cmnd. 2639 which have applied during the severe restraint period will remain valid after 30th June 1967. These are that enterprises will be expected to reduce their prices in the following circumstances:

- (i) if output per employee is increasing faster than the rate of increase in wages and salaries which is consistent with the criteria for incomes, and there are no offsetting and unavoidable increases in non-labour costs per unit of output;
- (ii) if the costs of materials, fuel or services per unit of output are falling and there are no offsetting and unavoidable increases in labour or capital costs per unit of output;
- (iii) if capital costs per unit of output are falling and there are no offsetting and unavoidable increases in non-capital costs per unit of output;
- (iv) if profits are based on excessive market power.

12. The Government regard the nationalised industries as under the same obligations as the rest of industry to have regard to the criteria for prices behaviour set out in paragraphs 10 and 11 and to contribute to the general objective of price stability, while taking account of their financial and social obligations.

III. RENTS AND RATES

Rents

13. It is not possible to apply directly the criteria for increases in prices or incomes to rents, but the principle of moderation should apply here also. Moreover, the statutory framework of the Rent Acts regulates the determination of rents by landlords for virtually the whole of the private housing sector. Public sector housing, of course, is not conducted on a profit-making basis but is subsidised to an appreciable extent.

14. The Government will continue to keep under review the movement of private housing rents as well as ensuring that the provisions of the Rent Acts are properly observed.

15. Local authorities generally have given support to the standstill and severe restraint since 20th July 1966 within the limits imposed by their duties to preserve a balance in their housing accounts year by year, and also a balance between tenants and ratepayers. The Government recognise that many local authorities will need to review the level of their rents and some increases are likely to prove unavoidable. It is of great importance that, where rent increases do prove unavoidable, local authorities should make the fullest use of rent rebates to protect tenants of modest means.

16. In the case of rents for business premises and land, those concerned are expected to take into account the national need for moderation in any negotiation of rents to be applied during the twelve months after June 1967.

Rates

17. Rates, as a form of taxation, are also outside the scope of the present restraints on prices and incomes. But in order to keep rate levels within reasonable bounds local authorities have been asked to ensure the utmost possible economy. Thus, spending by councils should be kept to a realistic level, while continuing to provide for the expansion and improvement of essential services. Also, by increases in Exchequer grant, the rate for householders is to be less than the general rate—by 5d. in 1967/68, by 10d. in the following year, and so on; and in Scotland (where rate poundages are higher) by 10d. in 1967/68, 1s. 8d. in the following year, and so on.

18. These measures have substantially reduced the rise in rates in England and Wales; in a substantial number of cases there, they are enabling authorities to keep the rates which householders pay down to their present level or even to reduce them. Their effects will also become apparent in Scotland when rates are fixed there later this year.

IV. INCOMES

19. The continuing objective of the incomes side of the policy is to develop effective arrangements for ensuring a closer relationship between the overall growth of money incomes and the growth of national output, to raise productivity and efficiency and to promote social justice. The immediate need after 30th June 1967 is to avoid a widespread and rapid increase in incomes in excess of the rise in national productivity resulting from the pressures which have built up during the periods of the standstill and severe restraint.

Employment Incomes

20. In the present economic situation priority must continue to be given to economic recovery and the strengthening of the balance of payments. There can be no justification at present for returning to the norm of 3–3½ per cent per annum which prevailed up to July 1966 and which in practice tended to be regarded as the minimum increase which everyone expected to receive. Over the twelve months' period beginning 1st July 1967, no-one can be entitled to a minimum increase; any proposed increase (or other significant improvement) will need to be justified against the criteria set out below. As stated in paragraph 40 of Cmnd. 3150, the country cannot at present afford any further general reduction in the standard working week or general movement towards longer holidays; proposed improvements in hours and holidays and other conditions of service likely to add significantly to labour costs, as well as proposed pay increases of all types, would need to be justified in relation to the criteria.

21. These considerations and the criteria set out in the following paragraphs are intended to be applied by all concerned with the determination of employment incomes in the private and public sectors whether at industry, company or plant level and including arbitrators, independent review bodies and statutory wage fixing bodies.

Criteria for Incomes Behaviour

22. The limited criteria for incomes increases laid down in Cmnd. 3150 will be replaced for the twelve months following 30th June 1967 by the broader considerations of Cmnd. 2639 which were agreed with the C.B.I. and the T.U.C.

These require that less regard should be paid to such factors as general comparisons with incomes in other employments and changes in the cost of living and provide for increases in the following circumstances:—

- (i) where the employees concerned, for example by accepting more exacting work or a major change in working practices, make a direct contribution towards increasing productivity in the particular firm or industry. Even in such cases some of the benefit should accrue to the community as a whole in the form of lower prices;
- (ii) where it is essential in the national interest to secure a change in the distribution of manpower (or to prevent a change which would otherwise take place) and a pay increase would be both necessary and effective for this purpose;
- (iii) where there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living;
- (iv) where there is widespread recognition that the pay of a certain group of workers has fallen seriously out of line with the level of remuneration for similar work and needs in the national interest to be improved.

These criteria should also in the present situation be read in conjunction with the comments in paragraphs 23–26 below. The reports issued by the National Board for Prices and Incomes also give valuable guidance on the interpretation and application of the criteria.

23. In their Report on Incomes Policy which was approved by the Conference of Union Executives on 2nd March 1967, the T.U.C. General Council stated that priority should continue to be given to encouraging settlements which promote productivity and to improving the relative position of low-paid workers. The Government accept the desirability of maintaining these priorities within the overall objectives of the policy. In applying the other two criteria it should be borne in mind by the parties concerned that the most effective way of remedying a labour shortage is to use existing manpower more efficiently and that comparisons should not be used to spread pay increases into areas of employment where the original justification does not apply.

24. The Government consider that in applying the criteria to proposed increases (or other improvements) under new agreements the objectives of the policy will best be furthered if the following additional considerations are taken into account:—

- (i) Paragraph 40 of Cmnd. 3150 drew attention to the adverse economic effects of the shortening of the intervals between successive improvements. For the future, twelve months should be regarded as the minimum period which should normally elapse between the operative dates of successive improvements for any group of workers;
- (ii) In some cases it will be appropriate for substantial improvements in pay or conditions, which may be justified under the criteria, to be achieved by stages;
- (iii) the parties concerned should not seek to make good increases foregone as a result of the standstill and severe restraint.

25. Commitments, the operative dates of which have been deferred “at least until 1st July” under paragraphs 32, 34 and 35 of Cmnd. 3150, may be implemented from that day, unless the parties concerned agree upon a later operative date, or the commitment is at 1st July 1967 the subject of a reference to the

National Board for Prices and Incomes, or the Board has recommended a different operative date. As regards actual payments, the provisions of paragraph 36 of Cmnd. 3150 should continue to apply.

26. The criteria for incomes set out above should apply to salaries as well as to wages. Increases in salaries, like wage increases generally, have been subject to the standstill and severe restraint (unless paid in the form of regular increments of specified amounts within a predetermined range or scale). After 30th June 1967 managements will be able to return to progressions based on added experience, increased responsibility or special effort. It is important in the interests of economic efficiency that there should be a proper development of salary structures which provide incentives to improved performance. But individual increases should not include any element relating to cost of living and any general increase in salary ranges or average salary levels would need to be justified by the criteria.

Notification of Claims and Proposed Settlements

27. The Government have welcomed the decision of the T.U.C. to strengthen its own system for securing notification and vetting claims and have expressed the hope that the C.B.I. would also develop its efforts to give guidance to members on the application of the criteria to pay claims and offers. Under the "early warning" arrangements described in Cmnd. 2808 the Government receive information about claims and proposals to increase pay from the C.B.I. and the T.U.C., from organisations which are not members of either of these bodies and directly from firms and employers' organisations in the case of local and company negotiations. These arrangements and the similar arrangements in the public sector will continue after 30th June 1967.

28. Information about claims and proposed settlements will continue to be required, whether at national, local or company level, in all cases covering 200 employees or more, and in other cases which are regarded as significant either because of the nature of the claim or because of the possible repercussions on the pay of other groups.

29. As in the period of severe restraint, it will be the aim of the Government, in consultation with the C.B.I. and the T.U.C., and with the assistance of the parties and of the National Board for Prices and Incomes in appropriate cases, to secure the effective and consistent application of the incomes criteria both in the private and public sectors.

Self-employment Incomes

30. Although the incomes criteria do not apply precisely to the circumstances of self-employed persons, the fees, charges and incomes of such persons should be subject to the same moderation as wages and salaries. In some cases it will be more appropriate to apply the prices criteria.

Profits and Dividends

31. The Government's call for a standstill on company distributions during the twelve months of standstill and severe restraint has been given full support by industry and commerce. Total dividends paid on ordinary shares in the second half of 1966 are estimated at £577 million compared with £836 million in the second half of 1965; for the years, the estimated totals are £1,633 million in 1966 and £1,688 million in 1965. Although this standstill will end in July 1967, companies should exercise moderation in distributions during the following

year consistently with the principles of this White Paper. The Government have power under section 12 of the Prices and Incomes Act 1966 to require notice to be given of increases in company distributions.

32. As set out in paragraph 17 of Cmnd. 2639 which was agreed between the Government, Management and Unions, the Government will use their fiscal powers or other appropriate means to correct any excessive growth in aggregate profits, whether distributed or not, as compared with the growth of total wages and salaries, after allowing for short-term fluctuations.

33. The Government will stand ready also to refer for examination by the National Board for Prices and Incomes prices cases where the growth of profits or dividends is based on excessive market power.

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order, which is to be read with the Prices and Incomes (General Considerations) (No. 2) Order 1966 (S.I. 1966/1477), sets out the considerations to which the National Board for Prices and Incomes are required to have regard in examining questions relating to prices, incomes and other matters referred to them under section 2 of the Prices and Incomes Act 1966 and in complying with instructions to keep such questions under continuous review under section 3. The Order provides that from the date of its coming into operation until 30th June 1967 the said considerations shall be those set out in the Schedule to this Order (which reproduces sections I to IV (inclusive) of the White Paper "Prices and Incomes Policy after 30th June 1967"—Cmnd. 3235) in addition to those set out in the Schedule to the Order referred to above (which reproduces the White Paper "Prices and Incomes Standstill: Period of Severe Restraint"—Cmnd. 3150). From 1st July 1967 the said considerations shall only be those set out in the Schedule to this Order and on that date the earlier Order is revoked.