We cannot claim that the National Incomes Commission (N. I. C.) has had a very enthusiastic reception. The Trades Union Congress (T. U. C.), led by their General-Secretary, Mr. Woodcock, have been violently hostile; the employers have been interested and receptive, but they have been fairly guarded. The Press on the whole has recognised the need for something, but they have been sceptical about N. I. C. and increasingly doubtful whether it will in practice succeed in the light of T. U. C. opposition.

2. I have myself no doubt that we should proceed on the lines we have planned, and I will inform my colleagues orally of the position reached about a possible chairman. Despite the criticism that has been aimed at N. I. C., no-one has produced a better alternative or indeed any reasonably satisfactory alternative.

3. In fact it could be said that recent events have made the need for N. I. C. even more clear. The T. U. C. have agreed to support the National Economic Development Council (N. E. D. C.) and have conceded that wages are a suitable subject for discussion by that body. But general discussion without practical application is valueless. Whatever the Government decide, on N. E. D. C.'s advice, about the appropriate level for incomes must somehow be translated into practical terms in individual cases. This is what N. I. C. is designed to do. Neither the T. U. C. nor anyone else has produced an alternative suggestion. The problem is too urgent to brook delay, as the extent and pace at which we can foster economic growth depends upon the degree of confidence we have in containing the growth of incomes.

4. The award to the nurses is another example. The Industrial Court's findings have been generally welcomed with a sigh of relief. Even from our point of view they could have been much worse and now, at any rate, we are off the hook. It is apparent that our incomes policy permits exceptions. The great problem is to ensure that the exceptions remain exceptions. The 7½ per cent for the nurses is not in itself harmful, but it must be crystal clear that if it becomes a precedent for industry generally, great harm will follow. Once again this underlines the need for a body that can both make exceptions and declare them to be exceptions.
5. The recent rejection of two Civil Service claims shows that an impartial body can take a firm line. If the rejection of the Civil Service claims and the granting of the 7½ per cent to the nurses had been the work of the same body of men the result would have been even more satisfactory, and the people concerned would have less reason to feel that their treatment was arbitrary.

6. So I conclude that the case for N.I.C. has been strengthened by recent events and that we should declare our decision to press on with its establishment. The one argument advanced by the T.U.C. which is likely to command public sympathy is the claim that N.I.C. is designed solely to restrain wages and salaries. As usual there is some element of truth in the argument. Wages and salaries are quantitatively by far the most important factor in cost inflation and simultaneously the least susceptible to control by the Government. That is why in shaping N.I.C. emphasis has been laid on wage settlements. But we have repeatedly stated that an incomes policy must cover all forms of income and that what is fair for one section of the community must equally be fair for others. If we are to secure the maximum support for N.I.C. we must make this principle a little more clear in their terms of reference.

7. Of course it is true that there are many differences between wages and salaries on the one hand and profits and dividends on the other. Wages always go up, profits sometimes come down. Wages are fixed in advance, profits are determined after the event. Wages are now fixed at a common level for an entire industry or occupation, profits should never be consistent. In fact the margin of profitability between the efficient and the inefficient should be as wide as possible. But taking all this into account, it is still in my view desirable to make it clear that N.I.C. is not specially directed at wages and salaries.

8. The purpose of N.I.C. will be, as I have said, to translate general principles into particular terms. There are three reasons why this is necessary and why it cannot be left to be determined by market conditions. In the first place large unions enjoy a monopoly position which they can exploit. In the second place, wage increases in one industry inevitably stimulate comparable increases in other industries. In the third place, people with strong moral claims but weak bargaining power tend to get left behind. The same considerations do not apply to profits and dividends. High profits and dividends in one industry do not lead to high profits and dividends in another. Comparability does not apply here. In the second place, it is generally desirable that the stronger industries should make higher profits and the weaker industries lower profits. To this extent, therefore, we should be able to rely on the normal working of the economy to ensure that particular industries do not do too well at the expense of other people. So far as profits and dividends in general are concerned, we have the advice of N.E.D.C. and we do not need the advice of N.I.C. But there does remain the case where for one reason or another particular industries may consistently enjoy higher profits and dividends without proper economic justification.
these circumstances it would be reasonable to say that the national
incomes policy as a whole was being jeopardised and that investigation
by N. I. C. would be justified. I suggest, therefore, that we should
make it clear that the Government will be able to refer to N. I. C. for
consideration and advice the circumstances of an industry which is
consistently increasing its profit and dividend record by more than the
increases of national productivity, and where there is reason to
believe that such increase may be running contrary to the national
incomes policy as a whole, which will have been determined by the
Government after receiving the advice of N. E. D. C. In other words, the
Government’s economic and taxation policy should ensure that the
average increase of profits and dividends is not out of line with the
national incomes policy. Within this general increase the fortunes of
individual industries should depend upon their competitive efficiency.
But where there is reason to suppose that an unusually high degree of
prosperity depends not on competitive efficiency but, as in the case of
powerful unions, upon the exploitation of a special position, then
investigation is necessary and N. I. C. is the proper body.

9. I do not think this will make much practical difference. In
industries earning unusually high profits there are bound to be either
large wage claims or large settlements, and N. I. C. would therefore in
all probability be brought in. But the psychological difference might be
considerable. We could then say that the Government will have a policy
on incomes generally, including wages, profits and dividends. In
formulating this policy we will take into account the advice of N. E. D. C.,
and the T. U. C. have agreed that N. E. D. C. should thrash out these
problems. Having settled a general policy, we need an instrument to
translate it into particular cases. Whatever form of income is
involved N. I. C. will be our main instrument. In normal cases the
mechanism of a free market and the pressure of competition will safe­
guard the public interest. But the danger is the exploitation of
monopoly strength either by capital or by labour. It is this exploitation
that can damage the public interest and, in particular, harm the people
whose bargaining strength, for one reason or another, is less than that
of the big battalions. Thus N. I. C. will be a protection not only for the
public interest at large but for minorities as well, and it will function
over the whole field of personal incomes as is appropriate in each
category without discrimination.

10. If we make it clear that this is our concept of N. I. C., I think we
can proceed with confidence that, though the T. U. C. will continue to
criticise, the only apparent moral basis for their criticism will have
disappeared.

R. M.

Treasury Chambers, S. W. 1.

11th September, 1962.