CABINET

PRICES AND INCOMES STANDSTILL

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

I circulate for consideration by the Cabinet on 28th July -

(a) A revised White Paper.

(b) A note on the new clauses which it is proposed to add to the Prices and Incomes Bill.

G. B.

Department of Economic Affairs, S. W. 1.
27th July, 1966
1. In a statement in the House of Commons on 20th July 1966 the Prime Minister drew attention to the fact that money incomes have been increasing at a rate far faster than would be justified by increasing production and called for a standstill on prices and incomes. Details of the way in which it is proposed that the standstill should be applied are set out in the paragraphs below.

2. The country needs a breathing space of twelve months in which productivity can catch up with the excessive increases in incomes which have been taking place. The broad intention is to secure in the first six months (which can be regarded, for convenience, as the period to the end of December, 1966) a standstill in which increases in prices or in incomes will so far as possible be avoided altogether. The first half of 1967 will be regarded as a period of severe restraint in which some increases in incomes may be justified, where there are particularly compelling reasons which justify them, but exceptional restraint will be needed by all who are concerned with determining prices and incomes.
II. PRICES

1. The introduction of a general standstill on prices and charges until the end of 1966, to be followed by a six-months' period of severe restraint, is intended to apply to prices of all goods and services whether provided by private or public enterprise. All enterprises will be expected to make every effort to absorb increases in costs, whatever the circumstances in which these arise.

2. This standstill period will apply except to the limited extent that increases in prices or charges may be necessary because of marked increases, which cannot be absorbed in whole or in part, in
   (i) the cost of imported materials;
   (ii) costs arising from changes in supply for seasonal or other reasons;
   (iii) costs due to action by the Government, such as increased taxation.

3. In some instances an enterprise may feel compelled to propose an increase in price where it finds it impracticable to absorb increased costs over which it cannot exercise full control (e.g. manufacturers whose products include a high proportion of bought-in components.) Any such cases will be subject to the most rigorous scrutiny in the light of national economic needs, including the requirements of export trade.

4. The criteria for price increases appropriate throughout the whole period are thus much more stringent than those set out in the White Paper on Prices and Incomes Policy (Cmnd.2639, Part I, paragraph 9). The criteria for price reductions set out in the White Paper (ibid, paragraph 10) will still apply.
Type of Price Covered

5. Although the paragraphs above relate primarily to manufacturers' prices for the home market, the same general considerations apply to prices charged by wholesalers and retailers, who are expected, in common with manufacturers, to do everything possible to avoid any increases in their prices by increasing efficiency and, in particular, by avoiding any increases in their cash margins.

Early Warning Arrangements for the Period of Standstill and Severe Restraint

6. The early warning arrangements at present in force are to continue. But the Government considers it essential that they should be extended to cover a wider field of items and will be consulting the C.B.I. and other interested organisations about this.

7. The standstill is to apply equally, however, to goods and services within and outside the present early warning scheme. Any manufacturing enterprise, other than one to which the exceptions in paragraph 8 below apply, which considers that it is justified in proposing a price increase on the grounds set out in paragraphs 2 and 3 above should notify the appropriate Government Department. It will be expected to make no increase in price without receiving written confirmation from the Government that no further standstill on the increase is required.

8. Prior notification is not required:

(a) in respect of increases in prices of the food items listed in Part B of the Appendix of Cmd. 2808 which will continue to be kept under constant watch by the Ministry of Agriculture, Fisheries and Food in accordance with the terms of paragraph

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White Paper on Prices and Incomes Policy: An "Early Warning System" (Cmd. 2808)
paragraph 5 of Cmd. 2808.

(b) from enterprises which are not included in the early warning arrangements and which employ less than 200 workers.

References to the National Board for Prices and Incomes

9. The Government will refer proposals for price increases during the periods of standstill and severe restraint in appropriate cases to the National Board for Prices and Incomes for examination and report. The Board will be required to report as soon as possible. The enterprise concerned will be expected to defer the increase until the Board has reported, and in the light of the Board's recommendations will be expected to continue to hold the price unchanged until the end of the twelve months.
Rents

10. The level of rents charged by landlords for virtually the whole of the private housing sector is already determined within the statutory framework of the Rent Acts, but the Government will keep the movement of rents of private housing under close watch.

Local authority rents are already on a non-profit making and subsidised basis. If increased costs are not met from rents they must be recouped from rates which are also a charge on tenants, local authority tenants paying the two - rent and rates - in a single payment. In these circumstances the imposition of a general standstill would be inappropriate. In the period of the prices standstill until the end of 1966 the Government expect local authorities to take such practical steps as are possible to prevent rent increases. Where increases are unavoidable, the Government hope that local authorities will make provision for the protection of tenants of limited means through rent rebate schemes. Similar considerations apply to rents of houses provided by other public authorities, e.g. New Towns.

Rates

11. Local rates are a form of taxation, although they also enter into the cost of living, and are necessary to finance the whole range of services to the residents of the area provided by the local authority. Local authorities have been urged to ensure all proper economies in expenditure.

Rents of Business Premises and of Agricultural Land

12. In calling for a standstill on the prices of goods and services, the Government recognise that increases in the rents of business premises and of agricultural land have an effect on prices of goods and services. The principles of the standstill are expected to apply to all such rents no less than to the prices of goods and services and landlords should take them fully into account.
Prices of Houses

The prices of houses, both new and existing, are determined in almost all cases by individual negotiation between buyer and seller, or by auction. The standstill, therefore, does not appropriately apply to such transactions.

Mortgages, Bank Overdrafts and Hire Purchase

The charges made for the loan of money under these and similar arrangements reflect the general level of interest rates and it would be inappropriate to apply the principles of the standstill to them. It will be open to the Government, however, under the Prices and Incomes Bill to refer any such charges to the National Board for Prices and Incomes for examination and report but without imposition of a standstill.
III. INCOMES

1. As explained in para. 2 it is the Government's intention that there should be a standstill on all forms of income up to the end of 1966, followed by a six-month period of severe restraint.

Employment incomes

2. The standstill is intended to apply to increases in pay and to reductions in working hours. It is not proposed that the standstill should be regarded as applying to other conditions of service, except in so far as these are likely to add significantly to labour costs.

3. The term "increases in pay" itself requires definition. Broadly it is intended to cover arrangements which have the effect either of increasing the remuneration payable for a given amount of work or of reducing the amount of work for which a given level of remuneration is payable. On this basis "pay" includes in addition to basic pay, rates of allowances which are in the nature of pay, rates of pay for overtime and week-end working, piece rates, etc.

4. It is not intended that the standstill should be regarded as applying to:

   (i) Increases in payments made in specific compensation for expenditure incurred, e.g. travel and subsistence allowances.

   (ii) Increases in pay resulting directly from increased output, e.g. piece-work earnings, commissions on sales, any necessary increases in over-time, profit-sharing schemes, etc.
(iii) Increases in pay genuinely resulting from promotion to work at a higher level, whether with the same or a different employer. (On the other hand the intention of the standstill would be defeated if employers were to regrade posts as a concealed method of increasing rates of pay.)

(iv) It is not intended that the standstill should interfere with the normal arrangements for increasing pay either with age, as with apprentices or juveniles, or by means of regular increments of specified amounts within a predetermined range or scale. Such arrangements are equivalent to promotion according to age or experience; nor do increments as such add to the total wage bill. They can thus be distinguished from a commitment to increase pay for a group of employees as a whole, which is affected by the standstill.

Existing commitments

5. At the time of the Prime Minister's statement at least 6 million workers - approximately one worker in three - was expecting an increase in pay or a reduction in hours (or both) during the next twelve months as the result of a long-term agreement or other type of settlement made at some time in the past. It would clearly have been impossible to introduce a standstill on incomes while allowing these existing commitments to go ahead unchecked. Apart from the unfairness to other workers for whom no such future commitment at present exists, it would in practice have been bound to jeopardise the effectiveness of the standstill from the outset.
6. On the other hand the Government is deeply conscious of the need to restrict to the minimum compatible with the wider economic interests of the country any interference with obligations freely entered into by employers and workers or their representatives. In the present exceptionally difficult circumstances the Government thinks it right to call upon all concerned to accept some deferment of the implementation of any definite commitment to increase pay or shorten hours entered into before the beginning of the standstill. It is accordingly proposed that the following types of commitment, if entered into on or before 20th July 1966 but not yet implemented should be deferred by six months from the original operative date:

(a) agreements to increase pay or shorten hours whether from an operative date before or after 20th July, 1966;
(b) pay increases which may be due under cost of living sliding scale arrangements between 20th July 1966 and 30th June 1967;
(c) commitments to review pay or hours from a date already agreed on or before 20th July 1966 or standing commitments for periodic review;
(d) Wages Council proposals made on or before 20th July but not yet submitted to the Minister of Labour or submitted to the Minister but not yet embodied in a statutory order.

7. An existing commitment may be defined as any agreement to increase pay or shorten hours or any offer to do so which has been firmly accepted by or on behalf of the workers concerned on or before 20th July, 1966.
8. It would clearly defeat the intention of the standstill if the parties concerned were to seek to make good in subsequent negotiations any increases foregone as a result of the standstill. Similarly the deferment of existing commitments necessarily involves the deferment of retrospective dates where these apply.

New Agreements

9. It is not the intention that negotiations should be barred during the standstill period to the end of 1966. But no new agreements entered into after 20th July, 1966 should take effect before 1st January, 1967 at the earliest and should not take effect in the following six months unless they can be justified as falling within the revised criteria set out in para. 10 below.

10. During the six months period of severe restraint (i.e. the first six months of 1967) the criteria for consideration of new proposals for improvements in pay and hours will be much more stringent than those set out in Part I of the White Paper (Cmd. 2639) and for the time being the incomes norm must be regarded as zero. The guiding principle must be that of national economic and social priorities. It follows that even in cases which satisfy these more stringent criteria only limited improvements are likely to be justified during the period of severe restraint. The Government will be consulting the C.B.I., T.U.C. and other interested parties on the form which these new and stringent criteria should take in order to secure the restraint which the national interest demands.

11. The Government intend that the fullest use should be made of the National Board for Prices and Incomes in the examination of proposals for improvements which the parties consider to be justified in accordance with the new criteria.
12. In order that those groups which have an expectation of improvement under commitments already existing should not be treated more severely than those which do not, it will be open to the parties to existing commitments to renegotiate, subject to the standstill, their agreements to take effect during the following six months period of severe restraint in accordance with the new criteria.

Arbitration

13. Arbitrators, no less than the other parties involved in negotiations or industrial disputes, are expected to conform to the requirements of the national interest in reaching their decisions; and arbitration awards, like settlements negotiated voluntarily, are intended to be subject to the requirements of the periods of standstill and severe restraint.

Pay in the public sector

14. Employers and workers in the public services and publicly-owned undertakings will be regarded as under the same obligations to act in accordance with these requirements as the rest of the community.

Other forms of employment income

15. Many individual salaries and other forms of remuneration including that of company directors and senior executives are fixed outside the normal process of collective bargaining; but it is intended that the same principles should apply to these as to other forms of income. It is intended to incorporate in a Companies Bill for introduction in the current session of Parliament the statutory requirements relating to disclosure by companies of emoluments of directors and senior executives, to which the Prime Minister referred in his statement on 20th July.
16. Other money incomes

The Government have already pledged themselves to use their fiscal powers or other appropriate means to prevent any excessive growth in aggregate profits.

All company distributions including dividends paid by companies are subject to the standstill for twelve months and should not be increased above the average level paid in the period ............... (1)

It is recognised that there may be a very few cases in which it would be in accordance with the national interest to permit an increased distribution, but the Government will require strict examination of any such cases.

Companies are requested to inform the Government/Treasury of such cases in order that the justification may be examined. In important cases the Government would refer the matter to the N.B.P.I. for examination.

17. The incomes of self-employed persons, including all forms of professional fees, are expected to be under similar restraint over the twelve months. The Government will have power under the Prices and Incomes Bill to impose a standstill on charges made for professional services.

Footnote (i): The tax rules applying to "closely controlled companies" may make it necessary to exclude such companies' distributions from the standstill.
Prices, Charges and Fees of Government Departments

1. The Government intend to apply the principles of the standstill to all prices, charges and fees of Government Departments.

Nationalised Industries

2. The nationalised industries will be subject to the same restraints as the private sector in relation to prices and incomes. They will be subject also to the general provisions of the Prices and Incomes Bill. The Chairman of the nationalised industries have assured the Government of their full support in implementing the standstill. The Air Transport Licensing Board, which has before it applications from British European Airways for increases in fares on the London-Scottish air routes, has assured the Government that it will take the Prime Minister's Statement of 20th July into account before reaching a decision.

Statutory Price-Fixing Bodies

3. Statutorily established price-fixing bodies, such as the Transport Tribunal or the Traffic Commissioners, are expected to conform to the requirements of the periods of standstill and severe restraint.
27. The Government, the C.B.I. and the T.U.C. attach great importance to the continuation of the work of the National Board for Prices and Incomes, both in the longer-term and in the special circumstances of the standstill.

28. The Board will be responsible during the twelve months for considering, in accordance with the above arrangements, such proposals for prices and incomes increases as are referred to it for detailed examination. The Board's examinations will be carried out as rapidly as possible and its organisation will be adapted and strengthened as necessary for this purpose.

29. The Board will continue during the next twelve months to examine references made to it from time to time by the Government on matters of longer term significance in the field of productivity, prices and incomes. This will be of particular importance in preparing for the period following the standstill and period of severe restraint when it will be essential to ensure that the growth of incomes is resumed in a manner consistent with the growth of national output.

VI. PROPOSED STATUTORY POWERS

Section to follow
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In his statement on 20th July the Prime Minister said:

"within the main field of collective bargaining we shall rely in the first instance on voluntary action. Nevertheless, in order to ensure that the selfish do not benefit at the expense of those who co-operate, it is our intention to strengthen the provisions of the Prices and Incomes Bill. .......

Meanwhile the Government will not hesitate to act within the powers they enjoy, or may further seek, to deal with any action involving increases outside and beyond this policy."

2. For this purpose the Government proposed to move the addition to the Bill of new clauses containing purely temporary provisions which would be operative from the date on which the Act comes into force but which would lapse automatically after twelve months without power of renewal.

3. The proposed provisions will:

(a) give the Government power to make orders (subject to negative resolution by both Houses of Parliament) directing that such prices or charges, or rates of remuneration, as may be specified in the order shall not be increased from the date on which the order takes effect without Ministerial consent.

These powers would enable the Government to impose a temporary standstill on both prices and charges and on levels of remuneration (allowing for the effect of changes in normal working hours) where this was necessary. Any organisation or person wishing to raise prices or pay that are subject to the standstill will first have to obtain the consent of the Government.
(b) give the Government power to enable price or pay increases implemented since 20th July which are unjustified to be reversed where this is necessary. The appropriate Minister would be empowered to direct that any price or charge specified in the direction should be reduced to a level not lower than that prevailing on or before 20th July. Such prices or charges would then not be able subsequently to be raised to a level higher than that specified in the direction without Ministerial consent. But before making any such direction, the Minister would be obliged to give 14 days' notice to the person to be affected by the order and to consider any representations made within that time. The direction itself could not be retrospective. A similar power in respect of rates of pay would enable the Government to require by order that any remuneration of a kind described in the order should be no higher than the rate paid by the employer for the same kind of work before 20th July, or higher only to an extent authorised in the order, without Government approval. Before such an order was made 14 days' notice would have to be given and account taken of any representations made by employers or trade unions or other persons affected by the order.

The sanctions for offences against any order or direction made under these powers will be the same as the sanctions for offences under clauses 11 and 16 of the Bill. Proceedings would, as in the case of offences under Part II of the Bill, require the consent of the Attorney General. Trade unions and employees would have the statutory protection conferred by Clause 16 (5) and (6) and Clause 17 in Part II of the Bill.

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(c) to empower the Minister of Labour to delay the operative date of wages regulation orders made under the Wages Concils Act 1959, and to vary the effective date of pay increases under orders already made;

(d) to empower the Minister of Agriculture (and the Secretary of State for Scotland) to defer the effective date of wages regulation orders made by the Agricultural Wages Boards under the Agricultural Wages Act 1948.

(e) protect from any legal proceedings employers who, in response to the Government's request for a standstill, voluntarily withholds pay increases to which an employee may be entitled under his contract of employment.

4. As explained above, these powers would be of a purely temporary nature. The Prime Minister made it clear in his statement that it was not proposed to introduce elaborate statutory controls over incomes and prices, and that the policy must continue to rely on voluntary co-operation. Even though the temporary new powers will be used very selectively, they need to be potentially wide-ranging if they are effectively to deter any selfish minority who are not prepared to co-operate and to reassure the majority who are prepared voluntarily to observe the policy laid down in the White Paper.

27th July, 1966
In his Statement on 20th July asking for a prices and incomes standstill, the Prime Minister said:—

"within the main field of collective bargaining we shall rely in the first instance on voluntary action. Nevertheless, in order to ensure that the selfish do not benefit at the expense of those who co-operate, it is our intention to strengthen the provisions of the Prices and Incomes Bill, to speed its passage through Parliament and to redefine the role of the National Board for Prices and Incomes. Meanwhile the Government will not hesitate to act within the powers they enjoy, or may further seek, to deal with any action involving increases outside and beyond this policy."

2. At the first meeting of the Standing Committee on the Bill on 26th July, the First Secretary announced that the Government proposed to proceed by adding a new Part IV to the Bill containing purely temporary provisions which would lapse automatically after twelve months and would not be subject to renewal. He undertook to table the new clauses as soon as possible.

3. One possible amendment to the Bill which has been considered by the Government is a temporary provision to extend the 30 days 'early warning' period in Part II of the Bill to six months, and to extend the three months standstill period pending investigation by the National Board for Prices and Incomes to six months, so that the maximum standstill period on any proposed price increase or award or settlement could be twelve months. But this would effectively destroy the existing philosophy of Part II of the Bill, since the intention would be to use the 'early warning' provisions to impose a general standstill rather than to enable the Government to consider whether particular proposals should be referred to the Board and, if so, to enable their implementation to be deferred pending the Board's report. /Moreover
Moreover, an amendment on these lines would be unlikely to provide an effective deterrent to the minority of persons who are not prepared to observe the standstill on a voluntary basis. Even if the need to bring in an Order in Council requiring statutory consultation and affirmative resolutions by both Houses of Parliament was to be waived during the next twelve months, the provisions in Part II of the Bill could not be used to reverse price or pay increases implemented since 20th July but which cannot be justified under the criteria to be set out in the White Paper. Reliance on the provisions of Part II to reinforce the general standstill would also be likely to undermine the goodwill which now exists in operating an "early warning" system on a voluntary basis, as well as encouraging people to put forward new price or pay proposals sooner than they would otherwise have done. For these various reasons the Government have concluded that the best course is to leave Part II of the Bill intact as a longer term measure and to take separate but temporary powers for the purpose of reinforcing the voluntary standstill.

4. The new powers which it is proposed to take would be effective from the date on which the Act comes into force. This contrasts with the powers in Part II of the Bill which can only be used after an Order in Council involving affirmative resolutions by both Houses of Parliament. This is essential since the new powers are required to reinforce a voluntary standstill which has already begun. The new powers will however lapse automatically twelve months after the passing of the Act and will not be subject to renewal.

5. The provision in the new Part IV of the Bill will give the First Secretary power to make orders (subject to negative resolution by both Houses) directing that such prices or charges, or rates of remuneration, as may be specified in the order shall not be increased from the date on which the order takes effect without Ministerial consent. These powers will enable the Government
Government to impose a temporary standstill on both prices and charges and on levels of remuneration (allowing for the effect of changes in normal working hours) on a more or less selective basis. Any organisation or person wishing to raise prices or pay that are subject to the standstill will first have to obtain the consent of the First Secretary or the appropriate Minister.

6. The power to impose standstills will not be retrospective to 20th July. Further powers are therefore needed to enable price or pay increases implemented since 20th July which are unjustified to be reversed where this is necessary. These further powers will enable any Minister to direct that any price or charge specified in the direction shall be reduced to a level not lower than that prevailing on or before 20th July. Such prices or charges shall not subsequently be raised to a level higher than that specified in the direction without Ministerial consent. Before making any such direction, the Minister must give 14 days' notice to the person to be affected by the order and must consider any representations he may make within that time. The direction itself will not be retrospective.

7. There will be a similar power on the pay side. This will enable the First Secretary to require by order that any remuneration of a kind described in the order shall be no higher than the rate paid by the employer for the same kind of work before 20th July, or higher only to an extent authorised in the order, unless the appropriate Minister consents to an increase above this level.
Before making such an order the First Secretary shall give 14 days' notice published in the Gazette and shall take account of any representations made by employers or trade unions or other persons affected by the order within that period. The order itself will not be retrospective, i.e., it will not affect payments made above the level on 20th July before the order comes into force.

8. The sanctions for offences against any order or direction made under these powers will be the same as the sanctions for offences under clauses 11 and 16 of the Bill. Proceedings would, as in the case of offences under Part II of the Bill, require the consent of the Attorney General. Trade unions and employees would have the statutory protection conferred by Clause 16 (5) and (6) and Clause 17 in Part II of the Bill.

9. To enable a standstill to be imposed on minimum rates of pay determined under statutory negotiating machinery, it will also be necessary:

(a) to empower the Minister of Labour to delay the operative date of wages regulation orders made under the Wages Councils Act 1959, and to vary the effective date of pay increases under orders already made;

(b) to empower the Minister of Agriculture (and the Secretary of State for Scotland) to defer the effective date of wages regulation orders made by the Agricultural Wages Boards under the Agricultural Wages Act 1948.

These powers would lapse automatically at the end of the twelve months period.

10. Finally, it is necessary for the Bill to protect from any legal proceedings employers who, in response to the Government's request for a standstill, voluntarily withhold pay increases to which an employee may be entitled under his contract of employment.
11. Although these new powers are potentially far-reaching, they are of a purely temporary nature. The Prime Minister made it clear in his statement that it was not proposed to introduce elaborate statutory controls over incomes and prices, and that the policy must continue to rely on voluntary co-operation. (Even if this were not the case, it would hardly be practicable to set up effective machinery for operating such controls within the twelve months period the new powers are to last). Even though the temporary new powers will be used very selectively, they need to be potentially wide-ranging if they are effectively to deter the selfish minority who are not prepared to co-operate and to reassure the majority who are prepared voluntarily to observe the policy laid down in the White Paper.

12. Provisional drafts of the new clauses are attached.

27th July, 1966