Attached is the concluding section of the document on the development of the social contract approved by the Trades Union Congress General Council this morning. Pages 4 to 6 are likely to replace the Annex to the draft White Paper circulated under cover of C(75) 76.

Signed  JOHN HUNT

Cabinet Office

9 July 1975
III THE COMING YEAR

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2. The TUC-Labour Party Liaison Committee also considered the situation and recognised the urgent need to project to the Movement the need for a concrete programme for bringing down the level of inflation. A price target would need to be backed up by subsidies where necessary with an accompanying deceleration in the level of wage increases. An agreed counter-inflation programme would provide the foundation for renewed economic growth and a move forward in living standards for the future.

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   (i) A price target to be achieved by the middle of 1976 should be set;

   (ii) A figure for pay, related to the achievement of this target, would be set and unions would be expected to settle on the basis of that figure, in the form of a flat-rate money increase to be universally applied.
Consideration will be given to situations where special problems may arise, and to the possible use of arbitration in this connection:

(iii) Recipients of very high incomes should forego further increases or accept reductions;

(iv) Radical action should be taken to limit price increases, and secure absolute reductions where practicable, involving the more rigid applications of the Price Code, the use of subsidies where appropriate and action at the High Street level;

(v) The objective should be set in 1976 of securing a major reduction in the level of unemployment; and

(vi) The maintenance and development of the Social Contract as the fundamental basis of continuing unity between the trade union Movement and the Labour Government.

4 On July 1, following considerable pressure on the pound, the Chancellor of the Exchequer made a statement in the House of Commons emphasising the need for urgency in reaching agreement with the TUC and CBI about measures to drastically reduce inflation. He said that

"We are determined to bring the rate of domestic inflation down to 10 per cent by the end of the next pay round and to single figures by the end of 1978. This means the increase in wages and salaries during the next pay round cannot exceed 10 per cent. The same limit is being set for dividends."

5 "We propose to fix cash limits for wage bills in the public sector and will take action through the Price Code to encourage compliance by private employers."
The Government welcomes the efforts the TUC have already made to arrive at a plan for lower pay increases in the next round. We would much prefer to proceed on the basis of a voluntary policy agreed with the CBI and TUC. But a voluntary policy will not be acceptable to the Government unless it satisfies the targets it has set for reducing inflation and includes convincing arrangements for ensuring compliance. If, however, no agreement can be reached which meets these conditions, the Government will be obliged to legislate to impose a legal requirement in both public and private sector employers to comply with the 10 per cent limit. The Government will announce its decisions in a White Paper to be published before the end of next week.

The following day at the meeting of the NEDC, the Chancellor made a further statement that "the Government was totally opposed to the application of criminal sanctions against workers or unions."
Pay

1. Adopting a flat rate approach, fixing the pay limit at 10 per cent would give £6 a week to all full-time adults (aged 18 and above) up to a cut off point, with pro rata payments for part-timers and juveniles. A flat rate approach has the advantages of focusing increases on the low paid and preventing unduly large cash increases being obtained by the high paid. It is clear and simple, most emphasises the General Council's view about the gravity of the economic and industrial situation, and cuts through the complication of separate provisions for particular groups which, via comparability claims, had helped to weaken the previous policy. The General Council therefore conclude that there should be a universal application of the figure of £6 per week. The TUC will oppose any settlement in excess of this figure.

2. The General Council fully appreciate the problems which may arise from interfering with differentials based on skill and responsibility, and emphasise that this is a temporary policy put forward for the coming year to arrest the inflationary process, prevent massive unemployment and enable the Labour Government to carry out its industrial programme. It is certainly not envisaged as a permanent policy for continually eroding differentials either between or within negotiating groups.

3. The policy will operate from the beginning of the next pay round, which is about August 1. Those who have settlement dates before then should settle within the existing guidelines. There should be no anticipation of their normal settlement date by other groups.

4. Given problems arising from the fact of different pay structures, the cash amount should be applied as a straightforward supplement to earnings. This should be the total
increase over the year however the earnings are determined. The policy will entail the temporary suspension of systems of pay determination based on traditional links in the private and public sector, and the suspension in particular of civil service comparability exercises. Already established incremental and wage-for-age scales are payable provided that this does not raise the overall wage bill by more than £6 per head. The General Council would, if it is considered necessary, agree to legislation to relieve employers of contractual obligations which would compel them to increase pay above the limits set out in this document. This is necessary to enable this policy to be applied voluntarily in every case.

5 The twelve month interval between major pay increases must continue to apply. This rule means that when a new settlement is negotiated thereafter, it should be on a flat rate basis of £6. Where current agreements provide payments in the 12-month period, any new agreement should ensure that only the balance between the amount paid and the £6 should be applicable in the period up to August 1 1976.

6 However, final steps towards the attainment of equal pay for women by the end of 1975, in line with the equal pay legislation and TUC policy objectives, will be in addition to the £6 figure.

7 Negotiators will be expected to offset any improvements in non-wage benefits against the pay figure. In this period of high unemployment, negotiators should of course continue to give priority to improving job security.

8 In the current situation there may be understandable pressure for work-sharing arrangements. To be effective these must take the form of a cut in actual hours worked...
per employee. They should not be used as a method of obtaining a disguised increase in incomes out of line with the pay limit. Negotiators should therefore give priority to securing actual reductions in hours, and to reducing normal hours to 40 in sectors where this has not been attained. The 35 hour week remains a longer term objective.

There may be isolated instances of negotiators experiencing difficulties in applying or observing the pay limit; the existence of any such difficulty does not remove from negotiators and their executives the responsibility of doing all they can to ensure that the limit is observed. Where unions and employers both agree that there is a serious difficulty, they can make a joint submission to the TUC and the CBI, who will jointly examine the problem and determine whether this should be submitted to ACAS for arbitration.

In this process of reducing the rate of inflation, the more prosperous can more easily bear the burden of helping the economy and should be prepared to take a cut in their current standards of consumption; those with incomes over £7,000 a year should forgo any increase in their incomes in the present period of difficulties. The Government should apply this principle in the public sector. Top pay review bodies will need to take this fully into account. And unions will be looking for a definite response from executives in companies with whom they negotiate.
Prices

Pr 1 The General Council welcomed the fact that the Prices Secretary reduced the profit margins of retailers in her major autumn review of the price code in the spring of 1974 and resisted the demands from industrialists that the price code should be abolished. Nevertheless the General Council are concerned that not enough is being done to control prices or win public confidence in the present system.

Pr 2 As the rate of inflation is brought down substantially, real national income can begin to grow again, and living standards as a whole and employment can be maintained. For this reason the General Council believe that a price target to be achieved by the middle of next year should be set. The aim should be that the Retail Price Index by Autumn 1976 will be less than 10 per cent above the figure a year earlier. This will mean that from this September onwards the figures for the RPI increase over the past year will gradually decline from the present level of 25 per cent to a figure of 10 per cent some time next year. This means that the monthly rate of increase in the RPI can be expected to fall over the period well below present rates to less than 1 per cent a month.

Pr 3 The achievement of this target will require action on a number of fronts. With the combination of a lower rate of wage settlements and favourable factors such as constant or falling import prices it is essential that lower cost increases are reflected in lower price increases by manufacturers and distributors. The Price Code involves not only the control of prices but the control of profit margins.
As the economy expands to meet the expected increase in world trade and turnover increases it is essential that the Price Code does not operate in such a way as to cause a big increase in absolute profits.

**Pt 4** In order to encourage compliance by employers with the policy the General Council would support an amendment to the Price Code which will disallow wage increases above the pay limit being passed in price increases. In effect the productivity deduction should be increased from 20% to 100% for all increases above the pay limit. In order not to penalise firms and sectors with below average wages the pay limit for the firm should be taken as equivalent to £6 times the number of workers in that firm rather than 10 per cent of the total pay bill. The Government have indicated that they may need to take measures to allow all wage increases to be disallowed for price purposes if firms pay above the limit.

**Pt 5** The lower rate of wage increases and a faster growth in the economy will also allow a higher level of productivity deduction for wage increases up to £6. In the past pay round firms have had to absorb a fifth of wage increases. As these have been around 25 per cent firms have had to absorb 5 per cent of the wage bill instead of passing it on in prices. Keeping the productivity deduction at one fifth once wage increases reach the ten per cent level would mean that firms would only have to absorb 2 per cent of the wage bill. To increase the productivity deduction to one half would maintain the figure of 5 per cent. The increase in the productivity deduction from one fifth to one half should be seen as a direct way of breaking into the price and wages spiral.
Special measures might need to be taken to encourage compliance by highly capital intensive firms, and a much higher general level of productivity deduction is needed anyway for these firms. Companies which export a high proportion of their products might be able to escape the financial sanction of the 100% productivity deduction, though such companies will be subject to heavy international competitive pressure as world trade increases. Extra effort will be needed from the Price Commission to ensure that small firms in manufacturing and distribution who are only subject to spot checks are not excluded from the new arrangements. A number of other measures outside the Price Code might also wish to be considered for example the withholding of aid under the Industry Act.

The self employed should also be covered by the flat rate approach. All self employed people should be subject to Price Commission control over their net profit margins. This means that the Stage 4 concession to small traders must be reversed. In addition, and in the interests of social fairness, the self employed should be subject to a ceiling on profit increases. The self employed should also be subject to the cut off point of £7,000 per annum. Part of the overall approach is that dividend control should continue and the Chancellor has already imposed a 10% per cent limit on dividends, instead of the previous 12 1/2 per cent limit.

Subsidies

The role of subsidies needs to be examined further as
The present food subsidies have had a very marked effect in helping the low paid and the pensioners. The benefit conferred by food subsidies is nearly four times as great proportionally for the low income household as it is for the highest income group. In helping to prevent price increases and subsequent wage increases food subsidies have more than paid for themselves. Under current economic conditions any reduction in the level of food subsidies should be viewed with concern as adversely affecting income distribution and cost inflation. For these reasons the General Council will be looking to the Government to rescind their decision to cut food subsidies by between £150 and £200 million in the coming financial year.

Paragraph 9

One vital requisite for a successful price control policy is a public understanding of that policy and how it bears on everyday purchases. The General Council recognise the efforts made by the Government in controlling prices, but more needs to be done, not least in explaining to the average shopper the prices policy.

Paragraph 10

In particular, an intensified effort needs to be made at shop level, through the publication of price lists, unit prices and price range orders, which can all help the shopper. Over the past year the TUC has been encouraging trades councils to press their local authorities to set up high street consumer advice centres. Trades councils have been actively pursuing this, but on many occasions local authorities have replied that they have insufficient funds to set up such centres.
There are now 60 consumer advice centres in the High
streets of Britain. In March 1974 there were only 5.
Another 30 are due to open by the end of the year but
extra financial help from the central Government is
needed as many local authorities have shelved plans
for these centres. Only a small injection of central
central Government money, perhaps £1 million, to help
local authorities set up these centres could reap
very substantial rewards in terms of public confidence
in the price control system.

The General Council welcome the introduction of
price range lists in the shops for the subsidised goods.
Massive publicity is needed in the national and local
media to tell the shopper about the valuable new
information to be gained from these lists, and the
price range lists themselves should be prominently
displayed in the shops.

However what would be most valuable to the shopper is
to have up to date information about prices in a partic­
ular shopping area. In the light of the surveys carried
out at Southend, Glasgow and Bury, the Government should
now make a massive effort to establish weekly price
monitoring in all major shopping areas of the country.
Each week the prices of about 30 key grocery items
together with prices of some standard quantities of
fresh foods should be collected by local government
officials working in conjunction with local consumer
groups. The Department of Prices and Consumer Protection
should ensure that adequate funds and manpower resources
are available. The TUC would encourage trades councils
to take an active part in the surveys and the publication
of the results.

Pr 14 The aim would be to present to the shopper the individual prices of key goods in all the main shops in a locality together with a total showing which shop offers the best value both for branded goods and own brands. The result should be published in local papers, displayed in high street consumer advice centres, local authority offices, post offices and libraries and other forms of publicity should be tried. The Government should also consider whether the shops themselves should display the comparative price information.

Pr 15 In addition every pub should publish price lists which would help to put a stop to overcharging. Instances of this have been brought to light by West Midlands Trading Standards Officers.

Pr 16 Unit pricing - i.e., compulsory labelling of goods with the price per unit of weight - also should be greatly extended in order to give the shopper a better idea of value for money.

Pr 17 Further measures may well be needed to bring home to people that the rate of inflation can be reduced in the coming year. The Government should aim to ensure that maximum advantage is taken of seasonal falls in fresh food prices. A special price restraint programme should be concentrated on the key items of particular importance in the expenditure of families.
Although prices charged by manufacturers are controlled, distributors are controlled by their gross percentage margins. The Government should take steps to ensure, possibly through agreement with manufacturers and distributors, that the benefits of a lower rate of cost increases are brought through in actual shop prices as early as possible and that the benefits are concentrated on the limited range of key products. Much greater imagination is needed in the system of price control. The Government might well look to foreign experience. In France, for example the Government has inspired price cuts in school requirements in the Autumn. Similar action in this country and action on children's shoes and clothing would help in maintaining public confidence in the price control system. If the Government is unable to get agreement with manufacturers and distributors, the TUC would favour a six-months gap between price increases.

Pr 18 The General Council recognise the substantial progress made by the Government in increasing rent subsidies. Total subsidies for the present financial year are forecast at £1,200 million, compared with £736 million in 1973/74 and only £500 million in 1972/73; despite the rate of inflation this represents a very sizeable real increase. However the Government have announced that housing subsidies are to be cut by £65 million in 1967/77. The General Council will be looking to the Government to at least maintain the level of housing subsidies, and if possible these should be increased next year. This could well be accomplished by a cut in the arms bill.
Employment

E1 On present trends the level of unemployment may soon near the one million mark and rise even more through the coming winter. If the rate of inflation can be brought down and if the economy can expand through high investment and exports, then this will have a beneficial effect on the level of employment. The General Council believe that the targets for pay and prices have to be related to an objective for employment. They believe that the aim should be to secure a major reduction in the level of unemployment in 1976.

E2 It is vital that the fastest possible progress should be made in introducing the Temporary Employment Subsidy. At present it is proposed that TES should only operate in the Development Areas. While recognising the problems of the regions, it is important to realise that the problem of firms dispersing skilled work forces in the present recession and not being able to recruit them again when the upturn in economic activity comes is one which goes wider than the Development Areas. The TES should therefore be extended. The subsidy will be especially important for those firms who will be best able to take advantage of the upturn in world trade. Trade unionists should play a part in the administration of the TES.

E3 There is need for monitoring the employment situation and the General Council will be looking to the Government to take appropriate action, as and when necessary, in the coming year to ensure that the aim is met. A reduction in the rate of inflation will greatly strengthen the Government's ability to take direct action through public expenditure. The level of employment and unemployment is one of the factors which should be monitored by the TUC and Government. To ensure that a planned reversal
of the unemployment trend does in fact occur will entail a higher target for economic growth — in the region of 3 per cent — as it is likely that productivity will be rising at this rate. Nor can it be ignored that it is the rate of growth of output and productivity which will determine Britain's place in the international league table of living standards. The Chancellor should therefore be prepared to take selective measures by the Autumn to meet this growth target.

In line with monitoring of the employment scene at national level there should also be monitoring at sector level through EDCs, and at company level through planning agreements in which manpower planning will be a key part.

In a period of high unemployment the Government should improve the operation of the various national insurance and supplementary benefit rules, and remove the unfairness with which the existing rules operate against those on short-time working.

The level of unemployment depends mainly on the level of economic activity. However, the Manpower Services Commission can play an important role in examining structural unemployment problems and it should have adequate resources to meet priorities such as developing work creation schemes, in particular to relieve unemployment among young people. A number of selective measures are currently being carried out by the MSC including the expansion of the Employment Services Agency, the training award scheme, special assistance to the construction industry, special schemes for assisting redundant apprentices, the expansion of the TOPS scheme, and new forms of training for young people. A number of other measures could also be quickly introduced. These include improved mobility allowances for the Employment Transfer Scheme, Training Contracts providing finance for employers whose
young workers have completed a training award, the MSC's work creation scheme, which could provide 15,000 places a year, and a selective recruitment subsidy for certain groups such as young workers.
Social Contract

S1 Achievement of the wider objectives of the social contract will all be assisted by agreement on any effective counter-inflation programme. These wider measures are, in turn, vital to the continuing support for the general conception within the trade union Movement.

Investment, Planning Agreements and Industrial Democracy

S2 Despite the public expenditure cuts which have been announced for 1976-77 public investment is forecast to grow by 2 per cent between the first half of 1975 and the first half of 1976. On the other hand private fixed investment is forecast to decline by 4 per cent. The continuing fall in private fixed investment underlines the urgency of the new industrial legislation which the Government is introducing.

S3 The General Council hope that the fullest use will be made of the new industrial powers presently being legislated for, and the negotiation of planning agreements with major companies will be a priority. In this context progress in establishing a National Planning Centre would help bring together trade union representatives, managers and civil servants to study the best methods of implementing planning agreements and improving the performance of British industries. The nationalisation legislation for shipbuilding, aircraft and the BNOC should proceed as quickly as possible, and there will be a need to extend public ownership through the NEB. Major legislation on industrial democracy, based on trade union organisation, is a further key priority for the next year in order to extend the concept of joint planning and control to all the levels of the economy.
A policy of greater public direction of private investment should be specifically related to the employment objective. In Sweden spending by the Labour Market Board accounts for 8 per cent of total government spending; in contrast in the UK spending by the MSC is just over 0.6 per cent of total government spending. However in Sweden the Labour Market Board controls the release and direction of funds in the Investment Reserve Scheme. The TUC has already suggested in the 1975 Economic Review the adoption of a blocked investment balance system similar to that operating in Sweden.

A policy of greater direction of investment also requires greater control over the financial system. The system of Competition in Credit, although much modified since its inception in September 1971, has had a deleterious effect on the steering of funds into manufacturing industry. Between November 1970 and May 1974 total bank advances to manufacturing industry rose by 24 per cent, but advances to finance companies rose by 71 per cent, and advances to property companies rose by 80 per cent.

Greater efforts need also to be made in controlling flows of capital overseas and in attracting inward investment providing that safeguards are met. Special attention should be paid in planning agreements to any plans by firms to invest overseas.

Import Controls

Despite the welcome improvement in the balance of payments the level of imports, particularly of sensitive manufactures, is still causing concern. The importation of certain goods such as textiles, clothing, footwear, glass, electronics and motor cars is having a serious effect on
employment levels in the UK. Evidence of dumping of some of these commodities is clear and the Government should not hesitate to act in these cases. There is also a case for introducing more widespread import controls on manufactured goods as a temporary measure until the economy begins to expand again. Imports should be covered in planning agreements and should also be one of the information disclosure provisions in the Industry Bill.

Social Wage

As part of the pay, prices and employment policy the General Council will be looking for further improvements in the social wage to meet particular needs such as extra help for the disabled, a generous level of child benefits, and educational priorities such as nursery school provision, day release and adult education. One of the most important parts of the social wage is pensions. Already the Government have announced a £2.70 increase for a married couple. The General Council will be looking for subsequent early reviews to maintain the real level of pensions in relation to average earnings/Defence cuts have already been announced which will help allow increases in the social wage within total public expenditure, but more should be done in this connection, whilst bearing in mind the employment implications.
IV IMPLEMENTING THE CONTRACT

1 It is not sufficient for the trade union movement at Congress to give formal endorsement to a report of this kind.

2 Just as important as the formula itself is winning its acceptance by members and their negotiators. There is therefore still a major job for everyone to do in ensuring that this understanding is disseminated to the ten million trade unionists. Ultimately, the narrow wage and salary aspects will only be seen in their perspective by the mass of trade union membership if they too have comprehended what it is that the trade union movement is endeavouring to achieve. There must be a far greater degree of association in the future between trade unionists themselves and the Congress position. There has to be an identification and a commitment to the action to follow.

3 Many trade union leaders themselves may unwittingly give the impression that the social contract is something which concerns the Government and concerns the TUC but does not concern and involve them personally. There can be no failure of the social contract if there is an identification by trade unionists themselves, and by all members of the Government as well. The social contract will succeed provided that union members feel this sense of identification and association. Without the understanding, support, commitment and action on the part of trade union members, the TUC can achieve little.
Establishing a Consensus for Action

4 Unions should act to secure acceptance and involvement at all stages via the normal processes of policy formulation - branch discussions, conference debates and pre-negotiation meetings. It is intended that this policy statement on the development of the social contract should be given the fullest possible circulation to, and discussion within, trade unions down to branch and shop-floor level, prior to full discussion at the September Congress. Union policies on collective bargaining should be formulated in the light of this statement and of branch discussions on it. Where necessary, union executives will need to meet and review previous Conference decisions in the light of the new situation. The implication is not that existing union objectives will be removed, but that in the present period of difficulties they will be deferred, and their attainment phased in with the exigencies of the current situation.

Joint monitoring of developments in the economic situation - output, employment, investment, prices, dividends and pay - against policy objectives will be carried out by the TUC, the Government and the CBI. For this purpose the TUC will consider with the CBI arrangements for the collection of relevant information about pay settlements.

An effective joint publicity campaign involving the TUC, the Government and the Labour Party will be set up to get the message across to the membership on the shop floor and to the general public and secure their involvement in these objectives.