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CABINET

INTERIM REPORT OF THE WORKING PARTY ON STABILISATION
OF WAGES

Memorandum by the Minister of Labour and National Service

The Working Party on the Stabilisation of Wages have presented the attached interim report which I circulate for the information of my colleagues. As explained in that report, I have found it necessary in view of the urgency of the matter to address letters to the two sides of certain industries engaged in current wage negotiations. My colleagues should be aware that the General Council of the Trades Union Congress have already expressed alarm that these letters should have been sent in these circumstances, and I think it probable that they will seek to press their views on the Government in the near future. It is important that the draft statement which the Working Party propose for discussion with the National Joint Advisory Council should be considered as a matter of urgency.

G.A.I.

Ministry of Labour and National Service, S.W. 1,
23rd September, 1947.
OFFICIAL WORKING PARTY ON THE STABILISATION OF WAGES

INTERIM REPORT

Origin and Functions of the Working Party

(1) In the course of a debate in the House of Commons on 6th August, 1947, the Prime Minister announced certain decisions which the Government had reached on the means for overcoming the economic crisis. In the course of his speech the Prime Minister said -

"I appeal to workers in all industries and employments not to press at this time for increases of wages or changes in conditions which would have a similar effect, especially where increases are put forward on the basis of maintaining differentials between various categories of workers on the basis of former practice. Equally I would appeal to employers not to seek to tempt workers away from essential work by offering higher inducements to work in less essential industries thus creating a vicious spiral" (Hansard, 6th August, 1947, Column 151).

(2) The Working Party was set up in accordance with a minute circulated by the Secretary to the Cabinet on 13th August, 1947 (GEN. 179/22) which contained the following paragraph:

"Stabilisation of wages

The Ministry of Labour will discuss with the Treasury, Board of Trade, Ministries of Supply, Fuel and Power, Works, Agriculture and the Scottish Office, what further steps can be taken with a view to preventing increases in wage rates; and in the light of that discussion will prepare a report for consideration by Ministers before discussions are opened with representatives of industry."

It seemed desirable that certain other Departments should be associated with the Working Party in their discussions on the stabilisation of wages. In addition, therefore, to the Departments mentioned in the remit, the following have been represented:

Offices of the Cabinet (Economic Section), Office of the Lord President of the Council, Central Economic Planning Staff, Ministry of Health and Ministry of Transport.

(3) The Working Party took as its terms of reference "To consider what further steps can be taken with a view to preventing increases in wages or changes in conditions which have a similar effect" read in the context of the Prime Minister's appeal.

(4) We are informed by the Ministry of Labour that an examination of the outstanding claims showed that at the beginning of September there were several of considerable importance on which an early decision must be anticipated.
They included claims in six of the retail distributive trades, the wholesale grocery trade, road haulage, boots and shoes, milk distribution, inland waterways and quarrying.

(5) Obviously it was essential to take special steps in regard to the more urgent of these claims and accordingly, in view of the short time available, the Minister of Labour addressed a letter on the lines of Annex A to the following industries:

- Retail drapery, furnishing, pharmacy, meat, food, hairdressing, milk distribution, road haulage and boots and shoes.

(6) In addition to requests from the Building Trade Employers for an assurance that despite the changes in the economic position, the Government did not wish to alter the terms of some suggestions made to them on that date on the basis or which negotiations were proceeding, both sides of the industry were informed that the suggestion was made as a basis for their further consideration of the problem before them and that when they resumed their negotiations the Minister assumed they would recognize the altered circumstances with which they had to deal and would take the Prime Minister's statement fully into consideration.

(7) Only in the case of the Retail Drapery J.I.O. has agreement been recorded. This provides for wage increases of about 10/- per week and a reduction of hours from 48 to 46.

(8) The Ministry of Labour have explained that action of the kind taken would not normally have been contemplated without first discussing the matter with the National Joint Advisory Council and that this consultation will need to take place at the earliest possible moment. Moreover, the disadvantages of proceeding industry by industry in this way are that some industries may deal with a claim without the knowledge of the Government and that individual employers are not in any way directly approached. For these reasons the Ministry of Labour feel that a general statement supplementing the Prime Minister's appeal should be issued by the Government at the earliest opportunity in agreement, if possible, with the two sides of industry.

(9) With these proposals the Working Party are fully in agreement and feel, moreover, that the opportunity should be taken of announcing the steps the Government intends to take to discourage wage increases that might be contrary to the national interest.

(10) The Working Party considered that the fullest possible use should be made of subsidies, grants and price-fixing arrangements under Government control to discourage undesirable wage increases. Proposals on policy in regard to the price control aspect of this matter were contained in the report by the Steering Committee (L.P. [47] 23). The Working Party think that in the light of present conditions some modifications in the direction of greater severity are desirable. In so far as grants and subsidies are concerned, increases should not be given to meet increased costs arising from wage increases unless it is clearly not contrary to the national interest that such wage increases should take place, and the Working Party feel that a statement to this effect would materially influence the course of
negotiations in industries receiving such subsidies or grants, and particularly influences the attitude of the employers when considering claims involving increased wages. So far as prices under Government control are concerned, consideration should be given to the possibility of refusing to make allowances even up to the limited extent permitted in the past, for additional wage costs resulting from an increase in wages or change in conditions of employment unless the same consideration of national interest applies. It must be clearly recognised that the policy involves the Government being prepared -

(c) to give definite guidance as to which wage increases or changes in conditions of employment are "clearly not contrary to the national interest"; and

(b) to refuse full or even in some cases any price adjustments in cases where the changes might be contrary to the national interest even if they are told that this will involve the refusal of a wages claim.

We recommend that the Government's intention to follow this policy should be announced in general terms in the statement suggested in paragraph 8 above and it must be clear that the policy would be applied by all price-controlling Departments.

Care must, however, be taken to avoid any suggestion that the Government are either ignoring the terms of the Fair Wages Resolution or intending to depart from it. That Resolution provides that the contractor must -

"pay rates of wages and observe hours and conditions of labour not less favourable than those established for the trade or industry in the district where the work is carried out by machinery of negotiation or arbitration to which the parties are organisations of employers or trade unions representative respectively of substantial proportions of employers and workers engaged in the trade or industry in the district".

This means that where an agreement is reached and becomes operative there can be no attempt to disregard it in negotiating contract prices. But this is a different matter from fixing controlled maximum prices or settling the amounts of Government grants or subsidies, and with regard to these it appears to the Working Party that so long as all concerned have advance notice of the Government's intention the question of observance of the Fair Wages Resolution should not arise. The Ministry of Transport dissent from this in view of their special position vis-a-vis Highway Authorities who act on the one hand as agents for the Ministry in carrying out trunk road work and on the other hand receive grants from the Ministry towards work which they carry out for themselves on classified roads.

In recommending this action the Working Party feel that the following weaknesses should be mentioned. In general subsidies and grants are made to, and price control arrangements exist in, the more essential industries and there is a very wide range of industry which cannot be influenced by these methods, and on the whole these sections include the less essential activities. Consequently, if this policy is adopted it is most important to obtain the co-operation of those sections of industry which cannot be affected by it in observing the same principles and in taking
steps to avoid undesirable wage increases. As an immediate measure to achieve this latter objective the Government statement which it is suggested should be made, contains the positive suggestion that all claims formulated before 6th August should be re-examined whatever the stage reached. Secondly, the price control arrangements vary considerably from industry to industry, and in many cases they cannot be made sufficiently close to prevent employers from recouping themselves to some extent in various ways, even if an increase in controlled prices is refused. It is desirable, nevertheless, for the price control arrangements to be reviewed in the light of this decision in the immediate future. Thirdly, it must be recognised that there are bound to be cases in which it would not in fact be possible to ignore wage increases in fixing prices. For instance, it would be quite impossible to commit the National Coal Board or the National Transport Commission to accepting the burden of future wage increases without recouping themselves in higher prices and charges. The suggested statement cannot be more than a general declaration of policy which may have to be modified in particular cases, but as such it should we think be valuable.

Undesirable wage movements in industry frequently result from the action of individual employers who, to gain a temporary advantage in labour recruitment, pay in excess of the agreed rates or vary the agreed conditions such as hours, holidays, etc. Many instances of this could be quoted and indeed in the reply by the Employers' Side of the National Joint Industrial Council for the Retail Furnishing etc. Trades to the Minister of Labour's letter (Annex A) it was stated that the Employers' Side felt compelled to agree with the Trade Union Side that there was very little relation between the rates specified in the existing agreement and the rates actually being paid. They added that, "on the whole, it seemed desirable to bring the agreement more into line with existing conditions". Similar conditions, of course, exist in other industries and arise from the inflationary pressure caused by the excessive demands of the community for all kinds of goods and services which make their production profitable whether they are essential or not. In general, in such conditions it is more profitable for employers to grant wage increases than to run the risk of a loss in numbers or in the average quality of their labour.

While, therefore, strict adherence to agreed rates is an important element in the problem of securing any measure of stability of wages, this is made more difficult by these conditions. Moreover, action that might simply result in the agreed published rates being obviously lower than the prevailing rates would react detrimentally on organisation. In the Wages Councils Trades machinery exists for enforcing minimum payments. Only in the case of the Building Industry has any attempt ever been made to establish agreed rates as statutory maxima. We have not attempted to consider whether any generally applicable machinery could be devised for preventing payments in excess of agreed rates, but there must be some attempt to bring home to the individual employer his responsibilities in this regard. We feel little doubt that organised industry will welcome some declaration on the part of the
Government in favour of strict adherence to agreed rates and we have included a reference to this in the statement.

(15) We recommend that this statement should be discussed with the National Joint Advisory Council and issued without delay.

(16) As regards the content of the statement, we feel, with the exception of the representative of the Board of Trade, that it should be on the lines of the draft annexed (Annex B). The Board of Trade representative has explained that the President may wish to suggest a draft on somewhat different lines and his position must be regarded as reserved.

(17) We would emphasise that we present this interim report because of the need for immediate action in view of the number of claims for wage increases under consideration in industry. We think the action we propose will reinforce the Prime Minister's appeal of 6th August and bring the appeal directly to the notice of both sides of industry in an endeavour to secure that it is taken fully into account before any of the present claims are conceded or new claims presented.

(18) There can be no doubt of the advantages to be derived from an agreement with the two sides of industry on this matter. Such agreement would pave the way to further steps that might be possible with their continued co-operation. In the circumstances, whilst we have considered a number of other measures, we have not pursued them until the reactions of the National Joint Advisory Council to the present proposal are known. We would wish to review the position in the light of these discussions.

Summary of Recommendations

To sum up, the Working Party recommend as a first step-

(1) that in so far as Government grants and subsidies are concerned, increases should not be given to meet increased costs arising from additional wage costs unless it is clearly not contrary to the national interest that such increases should take place.

(2) that as regards prices under Government control, consideration should be given to the possibility of refusing to make allowance even up to the limited extent permitted in the past for additional wage costs unless the same consideration of national interest applies.

(3) that the Trade Unions should be asked to review any wage claims formulated before 6th August whether or not an application has already been lodged and whatever the stage that any joint negotiation may already have reached.
(4) that individual employers should be pressed to adhere strictly to agreed rates.

(5) that the draft statement in Annex B based on these recommendations should be discussed with the National Joint Advisory Council at the earliest possible moment.

(6) that the problem of stabilisation of wages should be further considered by the Working Party when the reaction of the National Joint Advisory Council to these proposals are known.

Signed on behalf of the Working Party
R.M. Gould.

Ministry of Labour and National Service,
22nd September, 1947.
I understand that the Drapery Joint Industrial Council is meeting on Monday next, September 8th, to consider an application by the Trade Union side for an increase in wages and a reduction in hours.

In view of the serious economic position of the country at the present time I feel that I must draw the attention of both sides of the Council to the following statement made by the Prime Minister in the House of Commons on August 6th:

"I appeal to workers in all industries and employments not to press at this time for increases of wages or changes in conditions which would have a similar effect, especially where these increases are put forward on the basis of maintaining differentials between various categories of workers on the basis of former practice. Equally, I would appeal to employers not to seek to tempt workers away from essential work by offering higher inducements to work in less essential industries, thus creating a vicious spiral."

I hope that in the discussion at your meeting on Monday you will keep the Prime Minister's statement fully in mind.

I have sent a similar letter to the Secretary of the Trade Union side.

(Signed) G.A. ISAACS
ANNEX "B"

Statement

In his statement to the House of Commons on 6th August last the Prime Minister made the following appeal to the two sides of industry, employers and workers:

"I appeal to workers in all industries and employments not to press at this time for increases of wages or changes in conditions which would have a similar effect, especially where these increases are put forward on the basis of maintaining differentials between various categories of workers on the basis of former practice. Equally, I would appeal to employers not to seek to tempt workers away from essential industries, thus creating a vicious spiral."

The Government have considered what additional guidance can be given to the two sides of industry. There must in the first place be a thorough understanding of the absolute need in the interests of every member of the community that industries vital to our economic recovery shall receive the maximum support from all quarters in the tasks that lie before them.

This can be illustrated by reference to agriculture - a vital industry in which production must increase and for which new recruits must be obtained. The Agricultural Wages Board has recently substantially increased the minimum wage in England and Wales. The Government have welcomed this proposal as a means of improving the conditions of employment and the attractiveness of the industry and it has been taken fully into account in the preparation of the agricultural expansion programme, including the financial inducements attached to it. Wage movements in other industries might, however, have the effect of completely upsetting these new arrangements.

Similar considerations arise in connection with Government plans for increasing production in other vital industries.

In the second place, there must be a full realisation of the need to avoid any general wage movement which will still further increase the inflationary pressure that is affecting our economy. It is essential that all concerned in the determination of wages and conditions of employment should be fully aware of the dangers of such a movement. Much will depend on individual employers, particularly in less essential industries adhering to the terms of generally negotiated agreements and not seeking to obtain an advantage in the recruitment of labour by offering inducements not included in these agreements.

Equally, it must be recognised that the facts of the present economic position must be taken fully into account in the formulation and negotiation of wage claims. This requirement can only be fully met if wage claims formulated before 6th August are re-examined, whether or not an application has already been lodged and whatever the stage short of final settlement that any joint negotiation may already have reached.
The Government have for their part decided that so far as increase of wages may be advanced as a reason for adjustments in controlled prices, margins or other financial matters requiring Government action, there can, in future, be no presumption that allowance will be made for any wage increases that may be agreed by the two sides. The Government must be free to consider in each case whether or not such increases are contrary to the national interest. They trust that all concerned will recognise and accept the need for this policy.