Cabinet

Statement on Personal Incomes, Costs and Prices

Note by the Lord President of the Council

At their meeting on 29th January (C.M. (48) 8th Conclusions, Minute 7), the Cabinet invited me to examine, in consultation with the Chancellor of the Exchequer and the Minister of Labour, the revised draft of the proposed statement on personal incomes, costs and prices, copies of which had been handed to them during the course of their discussion.

We have agreed on certain minor amendments and the draft, as revised, is now circulated for the approval of the Cabinet.

H.M.

Office of the Lord President of the Council,
S.W.1.

30th January, 1948.
1. The Government's economic policy depends largely for its success upon our ability to make and sell the exports necessary to buy the imports we need to feed our people and keep our industry going. Our costs of production are of vital importance and they depend to a considerable extent on the amount which industry has to pay in profits, salaries and wages. These in turn in the form of individual incomes effect the total volume of money available in relation to the quantity of goods. A further factor affecting the situation is the relationship between personal incomes in different occupations.

2. As regards costs of production, it was pointed out in the "Statement on the Economic Considerations affecting Relations between Employers and Workers" issued in January, 1947, with the endorsement of the National Joint Advisory Council, that "if costs of production and in consequence prices rise in relation to world prices, it may make it impossible for us to pay our way in the world and buy all the imports we need". We shall all suffer as a result and it is therefore the duty of everyone to play his or her part in averting the danger.

3. The Government has taken many steps already to prevent the development of a dangerous inflationary situation. But the danger is ever present and will be accentuated by the drive to achieve a balance of payments, which will reduce the total volume of goods available on the home market.

4. It is essential therefore that there should be no further general increase in the level of personal incomes without at least a corresponding increase in the volume of
production. Unless we are prepared to check this tendency we shall find ourselves unable to fulfil our export task owing to the rise in costs which will also be reflected in rising prices on the home market.

5. Already steps have been taken by high direct taxation on personal incomes and upon distributed profits to curtail the amount of profits available for spending. Similarly the rate of interest paid upon the securities issued for the purchase of the nationalised industries will reduce the amount distributed annually to those who were formerly shareholders in those undertakings, though of course giving them a greater security. These measures are of assistance in checking the danger of inflation in respect of personal incomes derived from investments, rents and profits.

6. The same restraining influence has been applied as regards lower scale earned incomes by the introduction of P.A.Y.E. tax and by the increase of indirect taxation, though this has to some extent been counteracted by the continuance of State subsidies in the cases of certain commodities, notably the principal foodstuffs.

7. But these measures against inflation cannot in themselves be conclusive if personal incomes are allowed to rise continuously so as to evade their corrective influence. It is obviously of no benefit to any one if the increases in personal incomes are swallowed up by rising prices or have to be taken away by increased taxation.

8. Experience has shown that, in the race between rising prices and personal incomes, prices will always win in the long run, so that conditions become progressively worse for the holders of all personal incomes but particularly for the lower income classes.
9. It is therefore essential in any consideration of the dangers and evils of inflation to have regard to the movements that take place in the general scale of personal incomes.

10. Over the last century particular economic considerations have developed traditional or customary relationships between personal incomes in different occupations, which have no necessary relevance to present-day conditions and necessities. The relation which different personal incomes bear to one another must no longer be determined by this historical development of the past, but by the urgent needs of the moment. In the changed world of today and with our present economic difficulties these old relationships of income must, for the very sake of our survival, be altered the better to conform to the national interest. Relative income levels must be such as to encourage the movement of labour to those industries where it is most needed, and should not, as in some cases they still do, tempt it in a contrary direction.

11. In the circumstances detailed above the Government feel bound to take the exceptional step of setting out the following general considerations as a guide to all those whose deliberations and actions contribute to the settlement of the amount of personal incomes, from whatever source.

(a) It is neither possible nor desirable for the Government to interfere directly with the income of individuals otherwise than by taxation. To go further would mean that the Government would be forced itself to assess and regulate all personal incomes according to some scale which would have to be determined. This would be an incursion by the Government into what has hitherto been regarded as a field of free contract between individuals and organisations.
(b) In the view of the Government it is essential that there should be the strictest adherence to the terms of collective agreements. One of the main advantages of a system of collective bargaining is that it tends to ensure that wage and salary movements take place in an orderly manner and with due regard to the general as opposed to the individual interest. Departure from the agreed conditions by individual employers, whether public authorities or private concerns, will inevitably constitute a grave danger to the stability of the system of collective bargaining, and may well lead to competitive bargaining, and this to general but unjustifiable increases in wages and salaries and to serious inflation. The value of the system of collective bargaining and the justification for its maintenance at the present time rest upon the assumption that the terms of collective agreements will be observed loyally by all employers and workers, and the Government cannot stress too highly the importance which they attach to this principle.

(c) In present conditions, and until more goods and services are available for the home market, there is no justification for any general increase of individual money incomes. Such an increase will raise costs of production and cannot make more goods available and so can have only an inflationary effect. Unless related to a substantial increase in production, it would drive up prices, adversely affect pensioners, children and other recipients of social services benefits, increase the money cost of our exports and so reduce their salability and by black market pressure make it almost impossible to operate the
controls necessary in view of the continuing scarcity of supplies and manpower.

(d) It does not follow that it would be right to stabilise all incomes as they stand today. There may well be cases in which increases in wages or salaries would be justified from a national point of view, for example where it is essential in the national interest to man up a particular undermanned industry and it is clear that only an increase in wages will attract the necessary labour. It does mean, however, that each claim for an increase in personal incomes must be considered on its national merits and not on the basis of maintaining a former relativity as between different occupations and industries.

(e) If there should be a marked rise in the cost of living the level of those personal incomes which as a result became inadequate to provide a decent standard of living would need reconsideration.

12. It will be observed from the above principles that there is no justification at the present time for any rise in incomes from profits, rent, or other like sources and that rises in wages or salaries should only be asked for and agreed upon in one of the exceptional cases mentioned above.

13. In order to avoid the undesirable necessity for interference with the existing methods of free negotiation and contract the Government must press upon all those engaged in negotiations or decisions which might result in an increase in personal incomes to keep these principles firmly before them, and not to depart from them. The State will itself observe these principles in any negotiations in which it is directly concerned.

14. In these circumstances the Government have decided and wish it to be clearly understood that, if, notwithstanding these considerations, remuneration is increased in any class of
employment, whether in private industry or under a public authority, there can be no presumption, whatever may have been the practice in the past, that the resulting costs will in future be taken into account in settling controlled prices, charges or margins or other financial matters requiring Government action. Each case will have to be considered on its merits in relation to the principles enunciated above.

To sum up, if general increases in individual money incomes take place without more goods being made available, no-one can obtain any real benefit except the black market operator; the rest of the community has to endure the dislocation and hardship which inevitably accompanies inflation. In short, the alternatives now before us are either a general agreement by the people to act together upon sound lines or a serious and prolonged set-back in our economic reconstruction accompanied by a persistent low standard of living.