STATUTORY INSTRUMENTS

1966 No. 1477

PRICES AND INCOMES

The Prices and Incomes (General Considerations) (No. 2) Order 1966

Made - - - -	*25th November* 1966
Laid before Parliament	*25th November* 1966
Coming into Operation	*28th November* 1966

The Secretary of State, in exercise of the powers conferred on him by section 4 of the Prices and Incomes Act 1966(a), hereby makes the following Order:—

1.—(1) This Order, which may be cited as the Prices and Incomes (General Considerations) (No. 2) Order 1966, shall come into operation on 28th November 1966.

(2) The Interpretation Act 1889(b) shall apply for the interpretation of this Order as it applies for the interpretation of an Act of Parliament, and as if for the purposes of section 38 of that Act this Order were an Act of Parliament and the Order revoked by Article 3 of this Order were an Act of Parliament thereby repealed.

2. The considerations set out in the Schedule to this Order (which reproduces a memorandum entitled "Prices and Incomes Standstill: Period of Severe Restraint"(c) which was presented to Parliament by the Secretary of State by command of Her Majesty in November 1966) shall:—

(*a*) for the period commencing with the date of coming into operation of this Order and ending on 31st December 1966, be added to the considerations set out in Schedule 2 to the said Act of 1966 (as substituted by the Schedule to the Prices and Incomes (General Considerations) Order 1966(d)) as the considerations to which the National Board for Prices and Incomes are to have regard in accordance with section 4 of that Act; and

(*b*) on and after 1st January 1967, be substituted for the considerations set out in the said Schedule 2.

3. The Prices and Incomes (General Considerations) Order 1966 shall be revoked on 1st January 1967.

Given under the Hand of the First Secretary of State and Secretary of State for Economic Affairs on 25th November 1966.

Michael Stewart,
First Secretary of State and Secretary of State for Economic Affairs.

(a) 1966 c. 33. (b) 1889 c. 63. (c) Cmnd. 3150.
(d) S.I. 1966/1021 (1966 II, p. 2459).

SCHEDULE

PRICES AND INCOMES STANDSTILL: PERIOD OF SEVERE RESTRAINT

I. Introduction

The need for a standstill on prices and incomes was explained by the Prime Minister on 20th July, 1966 and the way in which it was proposed that the standstill should be applied was set out in the White Paper on the Prices and Incomes Standstill (Cmnd. 3073).

2. The object was to avoid increases in prices or in incomes so far as possible during the period from 20th July to the end of 1966 and to regard the first half of 1967 as a period of severe restraint by all who are concerned with determining prices and incomes. The Government undertook to consult the Confederation of British Industry, the Trades Union Congress and other interested parties on the form which the stringent criteria for the first half of 1967 should take. These consultations have now been completed and have shown a wide measure of agreement about the national need for exceptional restraint although it cannot be said that the criteria as set out below have been wholly endorsed.

3. The national response to the call for a standstill has been extremely encouraging. Management and unions, with very few exceptions, have done their utmost to support the standstill and the public generally have shown their willingness to comply with the requirements of the standstill, even though this has entailed sacrifices by many people.

4. Although the Government have been obliged to bring Part IV of the Prices and Incomes Act 1966 into operation they hope that severe restraint will be observed on a voluntary basis, and that the same general responsible attitude which has marked the period since 20th July will continue. The Government will use their statutory powers for the sole purpose of ensuring that the voluntary support of the majority is not undermined by the actions of a few.

5. The six months of severe restraint will call for a continuation of personal restraint and readiness to accept some sacrifice of immediate personal benefit in the interests of the whole community. The guiding principle must be that of national economic and social priorities. The Government are determined to see that prices, employment incomes and other forms of money incomes, including professional fees and dividends, are subject to the conditions of severe restraint. During the coming months, the Government will consult the interested parties about the best way of carrying forward the productivity, prices and incomes policy after 30th June, 1967.

II. Prices and Charges

6. The Government recognise that there has been some concern during the standstill period about increases, particularly in retail prices and charges by the service industries and trades. It was recognised from the outset by the Government that it would not be possible to rule out limited increases in some prices and charges as a result of changes in world prices, seasonal fluctuations in supply or increased taxation. There has been considerable success in holding the general level of prices so far, but this in no way lessens the need for all concerned to strive to keep any increases to a minimum and to work continually for price reductions.

7. Throughout the period of severe restraint until the end of June, 1967, just as in the standstill period to the end of 1966, the criteria for increases in prices or charges must necessarily be much more stringent than those set out in the White Paper on Prices and Incomes Policy (Cmnd. 2639, Part I, paragraph 9). During the period of severe restraint, all enterprises both in the private and the public sectors will be expected to make as great an effort as possible to absorb increases in cost whatever the circumstances in which these arise. The Government believe that they can rely with confidence on the voluntary co-operation of the great majority of those who are in a position to determine the movement of prices and charges. In appropriate cases proposals will be referred to the

National Board for Prices and Incomes. Where those responsible for determining prices act in clear breach of the severe restraint criteria the Government, in consultation with the C.B.I. and the T.U.C., will consider action under Part IV to ensure that the national interest prevails.

8. Reductions in prices wherever these can be achieved are very important both for their own sake and in order to offset unavoidable increases elsewhere. The criteria for price reductions which were set out in paragraph 10 of Part I of Cmnd. 2639 remain valid. These laid emphasis on the principle that reductions in costs per unit of output should normally be reflected in reduced prices. The removal of the import surcharge at the end of November should offer scope for price reductions.

9. It is recognised, however, that some increases in prices may prove unavoidable. The circumstances in which such increases may be justifiable are set out in the following paragraphs.

Criteria for Price Increases

10. As indicated in paragraphs 4 and 5 of Cmnd. 3073, price increases may be justified where there has been a marked increase that cannot be absorbed in the costs of imported materials or in costs arising from changes in supply for seasonal or other reasons, or which are due to action by the Government, such as increased taxation; or where an enterprise finds itself faced by increased costs which it is unable to restrain, and which are too large to absorb fully, such as the cost of bought-in components forming a large part of its total costs. There may also be exceptional circumstances in which without some increase in price the receipts of an enterprise are not adequate to enable it to maintain efficiency and undertake necessary investment.

11. In examining proposed price increases, it will be necessary to take into consideration, where appropriate, the relationship between particular increases in costs that have been sustained and the total costs of the enterprise concerned and the relationship between the efforts made to absorb increases in costs and the overall profitability of the enterprise.

12. In general, it is to be expected that restraint upon incomes, under the strict criteria set out below, will keep down increases in labour costs. This should increase the opportunity to absorb them and thereby to hold or reduce prices.

Type of Price Covered

13. These criteria for price behaviour during the first half of 1967 will apply to all prices and charges of goods and services for the home market, whether provided by public or private enterprise. It is essential that wholesalers and retailers should apply these same criteria to their prices just as much as manufacturers.

14. All concerned in the negotiation of prices under individual contract during the period of severe restraint should equally have full regard to the above criteria.

Arrangements for Notification

15. The effectiveness of the policy of severe restraint on prices, and public acceptance of the restraint which as wage and salary earners and pensioners they are expected to observe require that the Government should have an adequate opportunity to consider in advance proposed increases in prices. It would not, however, be possible to require prior notification of every price change across the whole field of wholesale and retail trading involving a vast number of different items.

16. In many cases, detailed arrangements for advance notification of proposals by manufacturers to increase prices already exist by agreement between Government Departments and representatives of various industries and trades under the early warning scheme described in the White Paper on Prices and Incomes

Policy: An "Early Warning" System (Cmnd. 2808). It is intended that these arrangements should continue to be applied during the period of severe restraint together with similar arrangements made with other industries with which discussions are now in progress.

17. The Government intend that there should be sufficient flexibility in these arrangements to ensure that they adequately reflect the differing circumstances of different industries. It is envisaged that arrangements of this type agreed in accordance with paragraph 8 of Cmnd. 3073 or arising out of arrangements made in accordance with paragraph 10(*a*) should progressively replace the existing general request for advance notification, made in paragraph 9 of Cmnd. 3073, which continues to apply until so replaced.

Criteria after June, 1967

18. Guidance for those concerned with the determination of prices and charges after 30th June, 1967 will be given after consultation with the C.B.I. and the T.U.C.

III. Rents and Rates

Private Housing Rents

19. 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. The Government are continuing to keep the movement of rents of private housing under close scrutiny.

Local Authority Housing Rents

20. Local authorities are by law responsible for determining the rents they charge and are required by statute to balance the housing accounts year by year. Increased costs not met from rents must generally be recouped from the rates, and authorities are under a legal duty to hold the balance fairly between tenants and ratepayers. By their responsible attitude during the period of standstill they have already given significant support to the Government's policy on prices and incomes. Only 32 out of 1,600 authorities in Great Britain have found it necessary to increase rents in this period. During the period of severe restraint the Government will look to them to avoid or limit any increase as far as they can; and where rent increases prove inevitable they will expect them to protect tenants of modest means by the application of rent rebates.

Rates

21. 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 Land

22. Because of their effect on the prices of goods and services, it is important that increases in the rents of business premises and of land should be severely restrained up to the end of June, 1967, and Government Departments have given a lead by arranging to forgo, until the end of June, 1967 negotiated rights to higher rents for business premises, and for land, which become effective during the standstill or the following period of severe restraint. Private landlords are expected to have full regard to the need for severe restraint.

IV. Incomes

23. The main objectives on the incomes side during the period of severe restraint are to ensure that any rise in money incomes in the first half of 1967 is kept to the minimum; to develop arrangements for assessing claims for special treatment according to the criteria for the period of severe restraint set

out below and to ensure a planned growth of money incomes in line with productivity after it has ended; and to promote social justice. The need is to secure that in future the parties concerned are influenced to a greater extent by a more objective assessment, against the wider background of the national interest, of the merits of a particular case before a final decision is reached.

Employment Incomes

24. As stated in Cmnd. 3073 it would defeat the intention if any attempt were made to make good in subsequent negotiations increases forgone as a result of the standstill and severe restraint.

25. As in the case of the standstill, severe restraint will apply to increases in pay and reductions in working hours (including increases in holidays) but not to other conditions of service, except in so far as these are likely to add significantly to labour costs. Paragraphs 17 and 18 of Cmnd. 3073 will continue to apply for the purpose of determining "increases in pay" during the severe restraint period.

26. During the first six months of 1967 the considerations affecting incomes policy agreed between the Government, management and unions in April, 1965, and set out in Cmnd. 2639, will continue to be in abeyance. In particular, the "norm" for the annual rate of increase in money incomes per head must be zero. Increases in incomes during this period will be justified only in exceptional cases where they can be shown to meet the following criteria for exceptions, and even then only on a severely limited scale. These criteria apply to private and public sectors alike. They apply equally to arbitration and similar awards and to negotiated settlements.

Productivity and Efficiency

27. Agreements designed to increase productivity and efficiency have an important part to play in improving our national economic performance and will be given priority during the severe restraint period. It will be necessary to ensure, however, that increases in pay or reductions in hours which are claimed on grounds of contribution to productivity serve the national interest as well as the interests of the workers and managements concerned. As stated in Cmnd. 2639, the employees concerned should make a direct contribution towards increasing productivity, for example, by accepting more exacting work or a major change in working practices and some of the benefit should accrue to the community as a whole, in particular, in the form of lower prices or improvements in quality. Payment of increases on these grounds should be dependent upon a firm assessment of the improvement in productivity and not paid "on account".

Lowest Paid Workers

28. Improvement of the standard of living of the worst-off members of the community is a primary social objective. As in practice the needs of individual workers are largely determined by the extent of their family commitments, the Government will continue to give a high priority to measures specifically designed to meet family needs. However, it will be necessary to ensure that any pay increases justified on this ground are genuinely confined to the lowest paid workers and not passed on to other workers. It will be necessary to take into account both earnings and hours worked.

Distribution of Manpower

29. During the severe restraint period only in the most exceptional cases can a pay increase be justified in order to attract or retain manpower. Such cases will be subject to the closest scrutiny in the national interest. Where there is a shortage of labour to undertake essential work, every effort must be made to meet the shortage by a more effective use of the manpower available.

Comparability

30. Similarly, pay increases will not in general be regarded as justified during the period of severe restraint on the grounds of comparison with the level of remuneration for similar work or on the grounds of narrowing of differentials. There may be exceptional circumstances in which some immediate improvement in pay is imperative to correct a gross anomaly. Such cases will have to be strictly examined to ensure that severe restraint is not undermined. It will be necessary to ensure that any such improvement is strictly confined and not used as an excuse for "catching up" increases for other groups.

31. Claims based on existing links with other groups must be considered individually on their merits against the criteria for incomes set out above.

Existing Commitments

32. The operative dates of commitments to increase pay or reduce hours by specified amounts entered into on or before 20th July, 1966, which were originally due to be implemented before the end of 1966, should be deferred for six months in accordance with Cmnd. 3073. The operative dates of such commitments which were originally due to be implemented in the first six months of 1967, should be deferred until at least 1st July, 1967, unless they are regarded by the Government as satisfying the criteria for the period of severe restraint set out above. As stated in Cmnd. 3073, it will also be open to the parties to existing commitments to renegotiate their agreements in order to conform with the severe restraint criteria.

33. Where, however, the operative date of a previous commitment for a pay increase or reduction in hours (other than a relatively minor improvement or an increase under a cost-of-living sliding scale agreement) relating to the same group of workers has already been deferred as a result of the standstill, the operative date of a commitment for a subsequent improvement need not be deferred.

34. Where a commitment existed on or before 20th July, 1966 to review pay with effect from a prior date, but the amount of any improvement had not been determined by 20th July, the operative date should be deferred by six months. Where, however, a commitment existed on or before 20th July to review pay with effect from a later date, but the amount of any improvement had not been determined by 20th July, the operative date should be deferred until at least 1st July, 1967, except in so far as an earlier payment can be shown to be justified against the severe restraint criteria. This applies to wage and salary increments other than those covered by paragraph 18(iv) of Cmnd. 3073.

35. The operative dates of pay increases under cost-of-living sliding scale agreements which were originally due before the end of 1966 should be deferred for six months in accordance with Cmnd. 3073. The operative dates of such pay increases which were originally due in the first six months of 1967 should be deferred until at least 1st July, 1967.

36. In the case of the public services, no actual payment of an increase (other than an increase justified against the considerations set out in this section) should be made before the end of the period of severe restraint; and payments which have been postponed until after this period and are substantial should, in the Government's view, be made in instalments.

Arrangements for Guidance on Claims and Proposals to Increase Pay

37. Under the "early warning" arrangements, which were described in Cmnd. 2808, the C.B.I. and the T.U.C. receive information about claims and proposals to increase pay from their own members. The Ministry of Labour receive similar information about claims and proposals to increase pay from the C.B.I. and the T.U.C., from organisations which are not members of either of these bodies and directly from firms and employers' organisations

in the case of local and company negotiations. These arrangements, and the similar arrangements which have been made for the public sector, will continue and will be of even greater importance during the severe restraint period.

38. Information is required about claims and proposals to increase pay or reduce hours (including pay and productivity proposals) relating to national, local and company negotiations. For practical reasons, however, such information covering less than 200 employees need not be notified to the Ministry of Labour unless it is regarded as significant either because of the nature of the claim or because of the possible repercussions on the pay of other groups. All the parties to claims and proposals to increase pay, whether at national, local or company level, are expected to conform to the severe restraint criteria, whether or not the claim or proposal has been notified.

39. On receipt of information under these arrangements the Government will consider whether the proposals are consistent with the criteria described above and will make any further enquiries that may be necessary. The object will be to ensure that any settlement reached (or pay increase awarded) is consistent with the national interest. Appropriate cases will be referred to the National Board for Prices and Incomes. If the parties concerned reach a settlement in clear breach of the severe restraint criteria the Government, in consultation with the C.B.I. and the T.U.C., will consider action under Part IV of the Prices and Incomes Act 1966, to ensure that the national interest prevails. It will be the aim of the Government, in consultation with the C.B.I. and the T.U.C., and with the help of the National Board for Prices and Incomes in individual cases, to secure the effective and consistent application of the severe restraint criteria to claims and proposals to increase pay.

Criteria after June, 1967

40. Guidance for those negotiating settlements to take effect after 30th June, 1967, will be given after consultation with the C.B.I., the T.U.C. and other interested parties. In the meantime, however, it is the Government's view that the country cannot at present afford any further general reduction in the standard working week or general movement towards longer holidays. The economic effects of shorter hours and longer holidays can be as important as those of straight pay increases. Thus improvements in pay, hours and holidays and other conditions of service likely to add significantly to labour costs need to be considered together for the purposes of incomes policy. The recent tendency to seek improvements in pay or hours (or both) at intervals of 12 months or even less has added considerably to our economic difficulties. It should also be generally understood that if the cost of living is to be stabilised in future, there should not be increases based on automatic cost-of-living sliding scales in addition to negotiated pay increases. A more co-ordinated approach to wage and salary questions among employers and trade unions will be needed to help determine the relative economic and social priorities of competing claims on behalf of different groups and sections of the community.

Other Forms of Income

41. The criteria for employment incomes during the period of severe restraint should be applied to all other forms of personal income. Those who are responsible for determining or are capable of influencing the incomes of self-employed persons should therefore be guided by these criteria. In some cases, however, it may be more appropriate to apply the criteria for price behaviour, e.g. in relation to charges or fees of self-employed persons. Appropriate cases involving non-employment incomes will be referred to the National Board for Prices and Incomes.

Pensions

42. The same considerations apply to proposals to increase existing occupational pensions and simliar benefits as apply to proposed increases in employment incomes. The incomes of many occupational pensioners are still small and some increases may therefore be justifiable and should be accepted as a priority

by those still in employment who are being asked to exercise restraint, as well as by the better-off pensioners whose claims are less urgent. New pension schemes or improvements to existing pension schemes which do not involve an increase in pensions already in payment may be introduced during the period of severe restraint. In considering any pension proposals, regard should be had to the cost of pension provision as an element in labour costs.

Profits and Dividends

43. The Government are pledged to use their fiscal powers or other means to deal with any excessive growth in aggregate profits. The Government have already made it clear that the standstill will continue to apply to all company distributions in the first half of 1967 (paragraph 31 of Cmnd. 3073). Up to 20th July, 1967, companies should not distribute more to shareholders in respect of a financial year than in the preceding financial year, nor should they pay out more in the twelve months after 20th July, 1966, than in the twelve months before that date. If any company thinks that there might be imperative reasons for not observing this standstill, the Treasury should be consulted beforehand.

V. National Board for Prices and Incomes

44. The National Board for Prices and Incomes has been reconstituted on a statutory basis in accordance with Part I of the Prices and Incomes Act 1966. The Government, the Confederation of British Industry and the Trades Union Congress believe that the process of independent examination by the Board will be of particular importance during the period of severe restraint and the Government will refer to the Board appropriate cases relating to prices and incomes for examination in the light of the above criteria. The Government will also continue to refer to the Board matters of longer term significance in the field of productivity, prices and incomes.

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order, which is to be read with the Prices and Incomes (General Considerations) Order 1966 (S.I. 1966/1021), sets out the considerations to which the National Board for Prices and Incomes are required to have regard in examining questions relating to prices, incomes and other matters referred to them under section 2 of the Prices and Incomes Act 1966 and in complying with instructions to keep such questions under continuous review under section 3. The Order provides that from the date of its coming into operation until 31st December 1966 the said considerations shall be those set out in the Schedule to this Order (which reproduces the White Paper "Prices and Incomes Standstill: Period of Severe Restraint"—Cmnd. 3150) in addition to those set out in the Schedule to the Order referred to above (which reproduces the White Paper "Prices and Incomes Standstill"—Cmnd. 3073). From 1st January 1967 the said considerations shall only be those set out in the Schedule to this Order and on that date the earlier Order is revoked.