STATUTORY INSTRUMENTS

1969 No. 1891

PRICES AND INCOMES

The Prices and Incomes (General Considerations) Order 1969

Made - - -	30*th December* 1969
Laid before Parliament	7*th January* 1970
Coming into Operation	8*th January* 1970

The Secretary of State, in exercise of the powers conferred on her by section 4 of the Prices and Incomes Act 1966(**a**) and after consultation, in accordance with subsection (3) of that section, with organisations appearing to her to represent to a substantial extent the interests of those particularly concerned, hereby makes the following Order :—

1.—(1) This Order, which may be cited as the Prices and Incomes (General Considerations) Order 1969, shall come into operation on 8th January 1970.

(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 this Order and the Order hereby revoked were Acts of Parliament.

2. The considerations set out in the Schedule to this Order (which reproduces certain sections of a memorandum entitled "Productivity, Prices and Incomes Policy after 1969"(**c**) which was presented to Parliament by the Secretary of State by Command of Her Majesty in December 1969) shall be substituted for 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 1968(**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.

3. The Prices and Incomes (General Considerations) Order 1968 is hereby revoked.

Signed by order of the Secretary of State.

30th December 1969.

Edmund Dell,
Minister of State,
Department of Employment and Productivity.

(**a**) 1966 c. 33.
(**b**) 1889 c. 63.
(**c**) Cmnd. 4237.
(**d**) S.I. 1968/616 (1968 I, p. 1425).

Article 2

SCHEDULE

A. The Aims of the Policy

1. From the beginning, the policy has tried to give the community an opportunity of achieving three aims:—

to keep prices more stable than in the past;

to achieve faster growth in the real standard of living;

to get a more rational and fair relationship between the incomes of various groups, and in particular to improve the position of low paid workers.

2. Stopping prices rising as much as in the past means relating increases in money incomes to the rise in output. But it also means seeing that producers of goods and services do not exploit their market power at the expense of other sections of the community.

3. Raising the real standard of living of the country means more capital investment in industry and more rapid adoption of new techniques. But it also means making much more effective use of the time workers spend on the job, and persuading them to accept links between increases in their pay and increases in their productivity.

4. To secure a fairer distribution of incomes means that some of us must accept a little smaller increase in our incomes over the years in order that those who are worse off can have more. There is no magic fund out of which we can improve the position of low paid workers.

5. In all these aims, the community has a choice which the Government cannot make for it. If we want price stability, then we cannot all have large increases in pay every year regardless of the rise in productivity. If we want our real standard of living to rise, we must be prepared to change the way in which work is organised and carried out. If we want to improve the position of those who are worse off, the rest of us must be prepared to accept a little less ourselves.

6. The Green Paper "The Task Ahead" suggested that the rise in output per worker over the next few years would be of the order of 3% a year. In 1968, there was a particularly large increase in output per worker. But this does not appear to have been repeated in 1969; and it would be most imprudent, and totally at variance with past experience, to base policy on the hope that there will be an early change in the rate of increase of output per worker. So if incomes rise by an average of more than about 3% a year, the result will inevitably be a rise in prices caused by higher labour costs.

7. Over the past decade, incomes have in fact risen by much more than 3% a year. The average increase in earnings has been 6 or 6½% a year. The simple and inevitable result of this has been a rise in prices year by year averaging something like 3%. Everyone objects to rising prices. The lowest paid workers and those on small fixed incomes suffer most from them. Yet the country as a whole has not been prepared to accept that stable prices are simply incompatible with large increases in incomes year by year which have not been earned by higher productivity.

8. Moreover, the evils flowing from a rise in money incomes faster than the rise in output are not confined to a rise in prices. It reduces the incentive to save. Our export position deteriorates and this requires deflationary measures to put the balance of payments right.

9. The Government believes that what the community as a whole really wants is a steady rise in real incomes coupled with a broad measure of price stability. This is what the policy aims at giving the community a chance to achieve over the next few years. Whether it succeeds depends not just on what the Government does, but on what choices individual men and women make. People can have large increases in pay—but with inflation which takes away much of the benefit. Or they can have smaller

money increases whose real value is greater because prices are kept stable and steady expansion is possible. In this sense any incomes policy is essentially a voluntary policy operating through the decisions of employers and trade unions.

10. None of these aims can be achieved by a prices and incomes policy narrowly conceived or operated in isolation from the other measures the Government is taking to strengthen the economy, increase industrial efficiency, improve the structure of the labour market and create a just society. But within this wider strategy, a prices and incomes policy is essential to achieve the following aims:—

establishing on a firm and continuing basis the principle of links between pay increases and the more effective use of labour;

securing fundamental improvements in the methods of pay negotiation and settlement;

creating wage and salary structures which will avoid successive leap-frogging settlements and eliminate friction;

improving the position of low paid workers, particularly by reorganisations which will make better use of their efforts, and by the introduction of equal pay for women;

raising the efficiency with which labour and capital equipment are used in all sectors of the economy—private industry, publicly owned industry, and the public services;

ensuring that the larger industrial units now being brought into existence use their resources efficiently and to the benefit of the consumer, and do not use their increased market power to operate pricing policies or pay policies which fail to take proper account of the wider public interest.

B. Guidance for Pay Negotiations

General Character of Pay Settlements

11. To keep prices as stable as possible has been an objective of the policy since the Joint Statement of Intent was signed by representatives of employers, unions, and the Government in December 1964. The cost of living can be affected by a number of factors including the level of import prices and of indirect taxation. During 1968 prices were unavoidably inflated by the effects of devaluation and the measures necessary to make it work. But price rises due to these influences are now levelling out and the main determinant of price levels in the coming months will be how far we are successful in relating increases in money incomes to increases in output.

12. In the next few years output per worker is likely to go up by about 3% a year. Therefore if we are to avoid a steep increase in the cost of living money incomes should only rise at about this rate. This was the basis of the "norm" of 3-3½% for pay increases which formed the starting point of the policy in 1965. If productivity rises faster than expected then so can incomes. The princple was accepted in 1965. It is still true today.

13. This means that most wage and salary settlements need to fall in the range of 2½-4½% increase in a year if this aim of greater price stability is to be achieved. A range within which most settlements need to fall has been given because no single figure can be appropriate to the circumstances of all negotiations. Nor indeed will the average figure be the same from one year to the next. The appropriate level for a particular settlement within this range will depend on a variety of factors affecting the firm or industry, including the rate of increase in labour productivity, the extent to which low paid or women workers are involved and the labour market situation. Opportunities must be given for changes in the relative pay of different groups of workers.

14. Special care must be taken where basic rates are negotiated at the national level but a substantial part of total earnings springs from payments of various kinds fixed by individual employers. If these local elements tend to rise faster than the basic rates—as they do in some industries—then increases in the national basic rates need

to be kept at a lower level than in settlements which effectively determine the real level of earnings. In the former cases a national settlement needs to be in the lower part of the range if it is not to be inflationary. This principle is recognised by the TUC in its own guidance to unions on pay claims contained in its 1969 Economic Review.

15. If the other objectives of incomes policy are to be achieved—encouraging a more rapid rise in productivity and securing a better relationship between the pay of various groups of workers—some settlements in any year will come above the top of the normal range. But such settlements need to be exceptional, not normal, if there is to be reasonable price stability.

16. In the rest of this section, the main factors which come under consideration in individual pay negotiations are reviewed. In most cases what needs to be considered is their bearing on the point *within the range* of 2½-4½% at which a settlement should fall. This section also reviews the exceptional circumstances in which it might be appropriate for a settlement to be concluded for a group of workers at a level outside the normal range.

17. The factors considered are:—

Productivity and Efficiency Agreements

Reorganisation of Pay Structures

Low Paid Workers

Equal Pay for Women

Labour Market Requirements

Pay in the Public Services.

18. The various reasons which may exist for increasing pay should be considered together. For example, there is no logic in arguing that an increase in pay of x% is needed in order to recruit an adequate labour force, and then in addition paying an extra y% as the workers' share of a productivity deal. The y% increase may well in itself raise pay sufficiently to recruit the necessary labour. All increases in pay, in any industry or firm, including those within the range, should, as far as possible, be covered by an increase in output per worker in that industry or firm if unit costs are not to rise.

Productivity and Efficiency Agreements

19. A central feature of the productivity, prices and incomes policy throughout its development has been to encourage management and workers together to find ways of increasing productivity and to relate pay to performance. And under the stimulus of the policy, productivity bargaining has in the past four years spread widely through industry. Over 6 million workers have been involved in over 3,500 productivity agreements.

20. The rapid spread of productivity bargaining has not occurred without raising some doubts, and indeed criticism. Some have felt that productivity deals represented little more than the sale of restrictive practices ("selling the rule-book") which should never have been allowed to develop. This is too narrow a view of most productivity agreements. But more fundamental criticisms were also made.

21. Productivity agreements usually provided for changes in working practices to be accepted by the workers concerned in return for higher pay. But what then of the position of workers who had never placed any restrictions on changes in working practice, and readily accepted the role of management to organise work in the most effective way? Would not the trend to productivity bargaining encourage such workers in future to demand a price for their acquiescence in change?

22. Other critics argued that the real scope for productivity bargaining was relatively narrow; that many productivity agreements would have little effect in raising output per worker; that some agreements were "phoney", designed simply to comply with the

form of incomes policy and not its substance; that there were some workers for whom it was inappropriate to specify changes in working practice; and that increases in one firm led to claims from those doing similar work in other firms with no similar justification.

23. Thirdly, concern was growing at the possible repercussions of productivity agreements covering particular groups of workers rather than all workers in a firm or industry. Specially large increases might be earned by a particular group in return for a change in working practices. But this tended to lead in due course to consequential increases to other workers in the establishment (supervisors, maintenance workers, office staff) in order to maintain what was regarded as a sound pay structure. Moreover, specially large increases in one year might raise expectations of similar increases in later years, when no similar increases in productivity would be possible.

24. In these circumstances, the Government decided it would be helpful if the NBPI carried out a fresh review of the situation. The following conclusions emerge from the Board's Report No. 123, "Productivity Agreements" (Cmnd. 4136) of August 1969:—

productivity agreements have on the whole promoted good industrial relations;

productivity bargaining has reduced costs: its effect was that productivity rose more than earnings;

productivity agreements should not be once-for-all affairs: negotiations linking pay and productivity are a continuing possibility: efficiency should be constantly raised on the basis of close and continuing co-operation between managements and workers;

non-manual workers can contribute as effectively as manual workers to a more economical use of all the factors of production: and forms of agreement are needed which can be used for their particular circumstances.

25. The NBPI concluded that the kind of points raised in paragraphs 20-23 above required that its earlier guidelines for effective productivity agreements should be revised and broadened. In particular the Board wished to formulate them in terms clearly applicable to all types of workers, both manual and non-manual, including those workers for whom is it not appropriate to specify changes in working practices. The revised guidelines for efficiency agreements, including productivity agreements, are set out in Appendix 1.

26. In all cases there must be clear links between increased efficiency and increased pay. In some cases it may be possible to achieve this in a national or industry-wide agreement. This may be so, for example, in the nationalised industries. In the private sector it will be more common for efficiency agreements to be concluded at the level of the company. It is then important to ensure that companies' agreements are not impeded as a result of national agreements and the process of collective bargaining itself taking forms more appropriate to the days when the aim was to reach all the important decisions about pay at industry level. In these industries both sides need to look again at their arrangements. Sometimes it would be right to concentrate nationally on setting adequate minimum standards and providing a proper framework within which efficiency agreements can be concluded at company level. Guidance from the centre, both by employers' associations and by trade unions, can greatly help efficiency bargaining to develop on sound lines.

27. In the next phase of the policy pay increases should wherever practicable be negotiated in the context of an efficiency agreement, which should aim at increasing the efficiency with which use is made of the capital equipment and labour in the undertaking. The principles set out in Appendix 1 are clearly applicable to most workers—maintenance workers as well as production workers, office staff as well as factory workers, supervisory and professional staff as much as any other workers, workers in the public sector as well as those in private industry and commerce. This overcomes the difficulty previously experienced in applying a more narrowly conceived "productivity bargaining" in respect of many groups of workers.

28. More thorough costing and monitoring of agreements is needed in many cases. The NBPI in its report drew attention to the shortcomings of many firms in this respect. Full account must be taken of possible consequential pay increases to other workers in the establishment, and full allowance made for an adequate return on extra capital employed.

29. Consumers must share in the benefits of higher productivity through stable or lower prices if all sections of the community are to share in rising national prosperity. In most cases rising productivity does not spring entirely from major changes in working practice or working methods. In some parts of the economy modern technology enables output per worker to be increased specially rapidly and without extra effort. In these cases particularly it would be quite wrong for all the benefits of increased productivity to be enjoyed by workers and shareholders in the enterprise. So a reasonable share must be used for the benefit of the community as a whole.

30. Incomes policy has always accepted that workers who have contributed by their efforts to a rise in productivity are entitled to share in its benefits through higher pay. In some cases a reasonable share for the workers concerned may permit a pay increase higher than the normal range for settlements. But in many cases the rise in productivity will be no more than sufficient to enable pay increases within the normal range to be made. Increases in productivity should not in any case be treated as an isolated element in pay settlements divorced from other grounds for raising pay.

Reorganisation of Pay Structures

31. The efficient use of labour and other resources can be made impossible by out of date—even chaotic—pay structures which have grown up over years, even decades, and which bear little relation to the realities of present day working methods. Where such a state of affairs has developed there may be no alternative to a thorough-going rationalisation of the whole grading and pay structure and where necessary of the distribution of duties amongst the workers.

32. Such a fundamental reorganisation may well involve increases in pay which, on average, work out above the normal range. This may be justified both for the employer and for the community at large if it opens the way to substantial improvements in the efficiency with which labour is used. A more rational pay structure based on job evaluation may also reduce the risks of leap-frogging pay claims amongst the various groups of workers, and eliminate causes of dissatisfaction among workers. The NBPI has produced a valuable report on Job Evaluation (Cmnd. 3772).

33. The full gains from such a reorganisation will however only be realised in the long term. This makes it particularly important to associate a fundamental reorganisation of pay structure with the conclusion of an efficiency agreement through which the gains expected from the reorganisation are achieved.

34. Of course all pay systems and structures need to be kept in line with changes in the methods of work and systems of organisation. But this should be a continuous process, and there should be no need for exceptionally large pay increases to be given in connection with such limited changes. Major reorganisations should become necessary only infrequently—perhaps once in a decade.

35. Major reorganisations of pay structure have been carried through in many firms and industries in the past five years. But others also require major changes. Some have already been examined by the NBPI, or in other ways. The Government accepts the responsibility for carrying through changes which become necessary in the public services with which it is concerned. It will give all the help it can to those trying to achieve reforms in other sectors of the economy.

Low Paid Workers

36. One of the weaknesses of the system of free collective bargaining has been its inability to solve the problem of the low paid. Many of them are poorly organised, and even where they are well organised they do not command economic power. That is one of the reasons why they are low paid. Under a system where wage increases go to

the strong, the low paid have difficulty in holding their own, let alone improving their position.

37. One of the main aims of any productivity, prices and incomes policy must be to remedy this failure of a free-for-all system. Since 1965 the policy has offered opportunities for improving the relative position of the low paid. (For instance, under the criteria laid down in the policy for 1968-69, low pay was held to be sufficient justification for increases up to the ceiling—and indeed above the ceiling if other workers in the group were willing to let the low paid have priority). But the decision whether to take these opportunities was left to the employers and unions concerned; and although the gap between low paid and higher paid industries narrowed slightly it was not greatly reduced.

38. The challenge which faces us as a socially just society is what steps we can now take to improve the lot of the low paid in an increasingly affluent society. This will call for a conscious, deliberate effort by all those involved—Government, employers and trade unions. The first step must be to identify who are the low paid and why they are low paid. The initiative taken by the Department of Employment and Productivity in launching a new Earnings Survey in September 1968 covering all industries and occupations now enables us to discover the exact distribution of earnings behind the averages, by occupation, age and region, and thus to locate the lower paid groups. It has also sought to identify some reasons for low pay: whether for example it is associated with any particular age level, with payments in kind or with mental or physical disability.

39. The survey shows that in September 1968 1 in every 12 adult male workers in this country had total earnings before tax for a full week of less than £15, and nearly 1 in 30 less than £13 a week, at a time when the average adult male worker earned more than £25. The position of women was much worse; one in every 4 adult women had earnings for a full week of £10 a week or less, and nearly 1 in 12 less than £8 a week. The survey shows that certain industries have a particularly large proportion of workers below these levels (farming, catering, and retail distribution are obvious examples). But detailed analysis reveals that the great majority of low paid workers are scattered throughout industries whose workers, taken as a whole, are well paid. It shows too, that the reasons for low pay vary from group to group, almost from individual to individual. In some cases the reasons for their low pay would be difficult to overcome. For example, some people are low paid because they are young and inexperienced; others because they have passed the productive peak. Some workers prefer low paid jobs because they are less exacting and more suited to their abilities, and therefore offer them their best hope of having a job. Earnings are also affected in some cases by the number of hours worked or by the existence of tips or payments in kind. All this means that no single figure can represent a general definition of "low pay" applicable to workers in all circumstances. And the problem is in many cases too complex to be met by blanket increases covering a whole industry, or even a whole occupation.

40. In recent years it has been suggested that the inequalities of a system of free collective bargaining could be redressed by introducing a statutory national minimum wage or minimum earnings level. The Government set up an inter-departmental working party to study the implications of a national minimum wage and its report* was published for the purpose of providing a factual basis for informed discussion which the Government hopes will now take place. The study shows the complexity of the problem of helping the low income groups. For instance about two-thirds of the households in the country with an income of less than £15 a week would not benefit from a national minimum wage as they do not contain any wage earners. Again, a national minimum wage would have a very uneven effect in relieving poverty because it could not take account of family circumstances. The question of low pay cannot therefore be separated from social service policy. But an even greater difficulty arises from the fact that by far the greater number of low paid workers are scattered through industries where the general level of pay is relatively high. If, therefore, other wage earners in these industries merely took the establishment of a national minimum as a new base on which to rebuild their existing differentials, the cost of living

*National Minimum Wage. Report of an Inter-Departmental Working Party. HMSO 1969

would rise sharply; and the low paid would in the end be no better off. Unfortunately there is at present little evidence that higher paid workers would not take advantage for their own purposes of the attempt to help the low paid through the establishment by law of a national minimum.

41. How, then, can the problem of low pay be tackled? The first need is to strengthen trade union organisation among these low paid groups and this will be one of the aims of the Industrial Relations Bill. Many of the occupations where low pay predominates are at present covered by Wages Councils and it is arguable that this protection, which was once essential, is actually a hindrance today to the development of effective voluntary collective bargaining. The Industrial Relations Bill will make it easier to dismantle the Wages Council machinery in those industries where this has become desirable in the workers' interests.

42. Secondly, many groups of workers are low paid simply because their productivity is low. Much could be done by employers, with the co-operation of unions, to change working methods and so help the low paid to achieve higher earnings by sharply raising their productivity. Here again the Government has given a lead by the emphasis it has laid on the productivity aspects of the policy. The NBPI has spelt out the possibilities for improving the earnings potential of low paid workers in such activities as clothing manufacture, local government and the National Health Service. In some cases good progress has been made in applying the Board's suggestions; in others management still seems unaware of, or indifferent to, the new techniques required. One of the tasks of the recently created Manpower and Productivity Service of the DEP has been to help management and unions to follow up the possibilities opened up by the Board's reports. The Government intends that the MPS shall play an increasingly active role in seeing that the proposals of the Board (and later the CIM) for improving the productivity—and therefore the earnings—of the low paid are followed up urgently.

43. But when all this has been done the solution of this problem will still depend primarily on the attitude of negotiators in industry. The only hope of the low paid lies in a conscious decision by their fellow workers that they will accept a reassessment of differentials both between different industries and within an industry. Some differentials are of course fully justified, properly reflecting additional responsibility or rewarding the acquisition of new skills. But this is by no means true in every case; and that is why the Government has welcomed the increasing use of job evaluation, not only in manufacturing industry but for such groups as local government manual workers and ancillary workers in the National Health Service, in order to establish the worth of jobs on an objective basis. This can often lead to a reappraisal of the worth of jobs which are at present low paid.

44. One way of helping many low paid workers is to give priority to the improvement of minimum earnings levels, as has been done in engineering, rubber manufacturing, food manufacturing and the motor vehicle retail and repairing trade. This enables much larger increases to be given to the low paid workers than to the rest of the workers in the industry.

45. But neither job evaluation nor minimum earnings levels nor any other techniques will succeed in improving the real position of low paid workers unless employers and unions wish to do so. There can be no lasting improvement in the position of the low paid, either relatively or in real terms, if every increase they win becomes a new "floor" on which the existing spread of rates of pay is re-erected automatically, thus engendering not social justice but inflation. Recent wage claims by dustmen and firemen aroused a good deal of public sympathy in the belief that the pay of these groups of essential workers had fallen behind those of workers in manufacturing industry. Yet once substantial increases had been granted, others—many of whom are on higher levels of pay—promptly began to argue that these settlements entitled them to similar increases. It is this attitude of mind which, if it continues, will stultify the Government's efforts to improve the position of the low paid.

46. What is needed is a real improvement in the position of those who are low paid in the context of particular situations, of particular needs, and of particular systems of

pay negotiation. To do this the Government intends to ask the NBPI (and later the CIM) to initiate investigations in depth into those cases where low pay is a major problem and to suggest the means by which progress can be made case by case, industry by industry.

47. Where low paid workers form comparatively small pockets in more highly paid industries, it should be possible to improve their position as part of a pay settlement falling within the normal range. In a few industries, however, the general pay level is low; here any radical improvement in the position of the low paid can only be achieved by a settlement above the normal range, and the Government recognises that in these cases such a settlement may be appropriate, particularly in association with measures to increase efficiency. That is why the Government accepted as justified in February 1969 a wage increase above the ceiling for farm workers. However, the numbers involved in these generally low paid industries form a very small part of the national labour force; and increases above the normal range in such industries should not mean an intolerable addition to the national wages bill *provided that workers in other better paid industries do not take this as a signal to step up their own claims.*

48. The Government will be guided by the approach in this White Paper in dealing with its own employees. But here too the unions will have the responsibility of deciding whether, and to what extent, they are prepared to co-operate in giving priority to the low paid.

49. The Government invites unions and employers to join with it in working out, within the context of the policy outlined above, solutions to the problems of those low paid workers who have been unjustifiably left behind in the scramble of wage bargaining. Only in this way can social justice be achieved without imperilling our economic recovery.

Equal Pay for Women

50. As the national minimum wage report points out, women comprise the great majority of low paid workers. Any policy designed to lift the levels of low pay will therefore be concerned to a very great extent with women.

51. There are many reasons why women earn less than men. Women may be employed in the less skilled jobs or may work little or no overtime. But women also earn less because their rates of pay, including Wages Council rates, are commonly only four-fifths of the corresponding men's rates, and because industries where very low pay is found tend to have a relatively high proportion of women who are employed in small firms, and whom the trade unions find it very difficult to organise.

52. It is for these reasons, as well as on grounds of natural justice, that the Government has decided to legislate on equal pay. It has announced its intention to introduce legislation which would make discrimination in remuneration on grounds of sex illegal by the end of 1975. The full implementation of equal pay means that there will be a statutory obligation to give many women substantial increases over the next six years to bring their rates up to the level of men's rates. In negotiations between now and 1975 there will therefore need to be increases in many women's rates substantially greater than those in men's rates.

53. Overall, the Government estimates that the introduction of equal pay will increase the national wage and salary bill by between 3% and 4% between now and the end of 1975. This is not a large amount in comparison with the increase of perhaps 20% in output per head which is likely to occur during that period. Overall it should be possible to accomodate it without raising significantly the average yearly increase in money incomes throughout the economy. Indeed in many individual firms it should be possible to move towards equal pay without taking pay settlements outside the normal range.

54. The cost of introducing equal pay will however be spread unevenly over the economy, and will fall particularly on firms employing a high proportion of women at rates well below those of men doing similar work. In such cases the Government recognises that the introduction of equal pay will be possible only through pay settlements which on average work out about the normal range.

55. As with low paid workers generally women workers are, in many cases, used less efficiently than they might be. Indeed low rates of pay have in the past reduced the incentive to use women's labour more productively. Surveys in many industries have revealed the opportunities for reorganising women's work so as to raise their productivity. And if these opportunities are taken this in itself will cover at least part of the cost of introducing equal pay.

56. By definition moves towards equal pay for women cannot be used as arguments for increasing men's rates of pay; nor should they be used as arguments for increases in the pay of those women who already enjoy equality in rates. Equal pay for women is one move towards a fairer and more rational structure of pay. Like all such moves it involves changes in traditional pay differentials. The community must accept these changes—as a necessary consequence of accepting the principle of equal pay.

Labour Market Requirements

57. Many pay increases are defended by employers on the grounds that they are necessary to keep their pay in line with "market rates" and so enable them to retain their workers or recruit additional labour. These arguments are not confined to situations where there is an immediate labour supply problem. Employers often argue that they need to increase the pay of their workers either to match rates paid in other undertakings, or changes in rates or earnings elsewhere, because otherwise labour supply difficulties would soon emerge. They argue that it is both foolish, and unfair to their workers, to wait until the situation deteriorates visibly. For their part, unions often place great weight in negotiations on changes in the pay of other groups of workers who have had increases since their last settlement.

58. Without doubt some weight must be given in pay negotiations to the effects of pay on the maintenance of an adequate labour force. Clearly for this purpose some account must be taken of comparisons with the pay of workers doing similar jobs in the same area, or with the pay for different jobs to which workers could move. And in jobs requiring special skills or training, pay has got to be kept at levels which will encourage an adequate rate of recruitment in the long term.

59. The question which needs to be asked in terms of incomes policy is how much weight should be attached to these factors, as compared with the linking of pay to performance, or with producing a stable and equitable pay structure. In practice arguments based on so-called labour market requirements and, therefore, on comparisons with the pay of others have often played—and continue to play—too large a role in pay negotiations; when this happens they are an inflationary element in pay settlements.

60. In national negotiations immediate labour supply difficulties will rarely constitute a sound argument for an increase in pay above the normal range. The labour supply situation differs from one part of the country to another—often from one firm to another. No single increase in pay is likely to be apt for all. An individual employer may however find himself unable to recruit enough labour to meet an expansion of his buisness; or may face an increase in labour turnover, and in particular may find some of his best workers leaving for other jobs where they can get higher pay.

61. However, simple comparisons with levels of pay in other firms or with changes in rates paid by other firms are usually so over-simplified as to give only poor guidance as to the case for a pay increase on labour supply grounds. As regards *absolute levels of pay* there is now ample evidence of the fact that quite large differences in earnings by the same type of worker between one firm and another in the same area can exist for long periods of time without leading to a loss of labour by the firms with lower pay. In such cases the differences probably reflect other factors making it preferable to work for one employer rather than another. Many factors may influence an individual worker's choice of employer and job. A case for a pay increase on the grounds that rates or earnings in a particular enterprise are below those of similar jobs in other enterprises demands (even if other conditions are satisfied) a most careful analysis of all the facts about the conditions of employment, the job itself and actual earnings.

Jobs which, on the face of it, appear to be the same may be found under detailed examination to have significant differences; or earnings may turn out to be much the same, although rates differ.

62. Simple comparisons made with *changes in pay* in other jobs are also unlikely in themselves to provide clear grounds for any particular increase. In the first place, all depends on the assumption that at some previous date the relationship with pay in the other jobs was appropriate, and there is seldom much evidence of this. In the second place, comparisons are only too often with changes in some general index of wage rates or earnings and not with the changes in pay of jobs in the same area to which the workers concerned could move.

63. In any case, an effort to deal with actual or impending labour supply difficulties simply by increasing pay is seldom likely to be the solution. Employers need to consider with their workers whether:—

an efficiency agreement (or a revision of an earlier one) would meet the situation by both reducing the labour requirement and increasing the rewards for the job;

full advantage has been taken of all possible scope for internal transfers, training and retraining of the existing work force;

the causes of any excessive overtime, absenteeism or labour turnover have been established and appropriate action taken;

methods of attracting and recruiting labour are themselves adequate.

64. Such measures are particularly important since straight increases in pay are often unlikely permanently to secure extra labour or to prevent a loss of labour. A labour shortage in a particular firm is often no more than a reflection of a general shortage of that kind of labour in the area. In such cases an increase in pay by one firm is likely simply to be copied by other firms; in the end the pay increases will not have helped significantly to meet the labour shortage concerned.

65. All this means that too much weight must not be placed simply on keeping rates of pay in line with those of other workers as a means of maintaining an adequate labour force. Nevertheless, it is one factor which employers need to consider; and it may well affect the level of pay increase within the normal range which is appropriate in a particular case. But to make pay increases above the normal range merely on labour supply grounds is something which needs very strong justification indeed. And it should only be contemplated if, after taking account of the considerations mentioned in paragraphs 63 and 64:—

detailed information is available about comparative pay and earnings for clearly similar jobs; and

the discrepancy revealed is so substantial that even with an increase in pay at the top of the normal range the employer is still likely to be left with serious labour supply difficulties.

66. Even when no special problems of labour supply exist, comparisons with the level of pay in similar occupations, or with average increases in pay of all workers, often assume a crucial role (either implicit or explicit) in pay negotiations. This springs perhaps from a widespread, and no doubt natural, feeling that when the national wealth is increasing year by year the increase should be shared throughout the working population. No doubt it also springs from an equally widespread, if less admirable, feeling that each worker is entitled to have as large an increase as the next man or woman.

67. If the general level of pay increases were no greater than the increase in national production, the use of comparisons as the basis for pay increases might not be positively harmful, although it would obstruct many desirable changes. But in present circumstances, general use of the "comparability" argument as a basis for pay increases is a recipe for inflation. This is particularly true of claims based on:—

the mere maintenance of traditional relationships which have no economic justification;

the restoration of differentials between higher and lower paid workers following an increase given deliberately to improve the position of the lower paid;

the restoration of pay relativities which have altered over the years as a result of changes in the social structure;

the matching of pay increases earned by other workers under efficiency agreements.

68. This is not to say that comparisons with changes in the pay of other workers are wholly irrelevant in considering pay. Supervisors need to be paid more than line workers, and craftsmen should normally earn more than unskilled workers in the same plant. Chaotic pay structures can only lead to future trouble. Moreover, in skilled occupations the question of future recruitment may be highly relevant. But in these cases, as elsewhere, it is necessary to seek continually to raise efficiency, and to ensure that wherever possible there is a link between rising efficiency and increased pay.

Pay in the Public Services

69. Subject to what is said below, the guidance set out in this White Paper applies to the settlement of pay in the public services as much as to the settlement of pay in the private sector and in the nationalised industries. The Government's continuing policy is that workers in the public services should be treated on the same basis as workers in these other sectors of the economy.

70. Some special problems always arise in settling pay in the public services. In the first place, the nature of the jobs done by many workers in the public services (e.g. teachers, doctors and nurses) makes it impracticable to measure their output for the purpose of making a direct link between efficiency and pay. This does not mean their efficiency cannot be raised, but it has to be done by other means. Secondly, though the cost of labour can be measured as readily as elsewhere, a market price cannot normally be assigned to the value of its output because the output is not sold in a competitive market. This removes one of the major factors which bear on pay in other sectors of the economy. Thirdly, movement in and out of the public services tends to be restricted not only by the career nature of much of the employment, but also by the limited opportunities for employment elsewhere in the same kind of job for some occupations in the public services. This means that an unduly low level of pay in a public service, if it were allowed to develop, might take a relatively long time to show itself in labour supply difficulties. Finally, since the Government is directly or indirectly involved in all pay settlements in most of the public services, there are strong pressures for broad uniformity of treatment, in spite of the large numbers and varied occupations involved.

71. These problems mean that, for many public servants, more reliance has to be placed in determining pay on the closest comparisons possible with the pay of workers doing similar jobs in the private sector. In some cases, of which the police are an example, there are no counterparts in the private sector. In other cases, such as nurses and teachers, the public sector is the dominant employer, and there are too few counterparts in private employment for their pay to be useful as a guide. Where close comparisons with similar jobs in the private sector are not possible, or are of limited value, regard will have to be paid to more generalised comparisons with pay elsewhere as well as to other relevant considerations. Special considerations also apply to the Armed Forces, for whom the present arrangements for regular review under the standing reference to the NBPI will continue.

72. The use of comparisons as a basis for determining pay does not mean, however, that work measurement or method improvement are not applicable in the public services. Even where these techniques cannot be used to create a direct link between efficiency and pay, they are a guide to all concerned with pay negotiations as to whether labour in these cases is being used as effectively as possible. Indeed, where comparisons are used in determining the pay of public servants the results may be inflationary unless every possible step is taken to maximise the efficency with which their labour is used; and this places a special responsibility on employers, unions and workers to ensure that this is done.

73. The Government will continue its practice of asking the NBPI—and later the CIM—to consider particular pay issues arising in the public services in relation to the guidance set out in this White Paper. But even more important, the Government intend to

use the Board and its successor to make periodic reviews of the pay structures in various parts of the public services and, in particular, to advise on ways in which changes in pay structures and the organisation of the work can increase the efficiency of the service concerned.

Some General Considerations

74. The guidance set out in the previous parts of this section has been related primarily to pay settlements. It is mainly concerned therefore with increases in rates of pay, whether at the national or local level, whether of wage or salary earners, rather than with individual earnings, which will be affected by the number of hours worked; by levels of output under payment by results schemes; by pay increments or merit awards within pay scales; by pay increases on promotion to more responsible jobs. These factors, if under proper control, do not increase labour costs per unit of output.

75. However, increases in rates of pay need to take account of some other major factors affecting earnings. For example, a reduction in normal hours or an increase in the length of holidays must be treated on all fours with an increase in rates of pay. Such changes will increase unit costs of production just as much as a pay increase.

76. Although increases in rates of pay above the normal range represent the biggest inflationary risk, other elements in pay can easily be handled in an inflationary manner by employers, as enquiries by the NBPI have repeatedly shown. Overtime can be used simply as a way of raising earnings rather than because it is essential. Payment by results schemes can easily get out of control or posts may be upgraded or merit pay given as an alternative to raising basic rates. Some types of incremental scale may be found in practice to cost more year by year, creating a kind of "salary drift" corresponding to "wage drift"*. In such cases the resultant increase in earnings can well be seriously inflationary. There is no virtue in an employer keeping a pay settlement within the normal range if increases in average earnings far exceed the range in these ways.

77. It is wholly undesirable for pay settlements to be reached at intervals shorter than twelve months. If one pay settlement follows another at an interval of less than a year it is impossible to assess properly the effects of the earlier one in achieving what it set out to do. Time is needed to assess the working out of the costs and benefits of an efficiency agreement, or to see whether a rise in pay has had the effect expected on recruitment or labour turnover. Moreover, increases at short intervals for workers in one industry are disturbing to those who work in other industries. In many cases, pay agreements covering periods longer than twelve months would be appropriate.

78. Where an agreement takes effect after an interval of more than a year from the last one, the normal range can be adjusted proportionately to take account of the longer period. But there is no reason why a settlement whose operative date is more than twelve months after the last one should, merely on this account, be above 4½%.

C. Guidance for Determining Prices and Charges

79. An effective prices policy forms an essential part of any attempt to secure steady expansion without the inflation which usually accompanies it. In a modern industrial society in which many industries are dominated by a small number of firms it is increasingly difficult to rely on traditional competitive market forces alone to protect consumers. Indeed, there are many parts of the economy where conditions of even near perfect competition do not exist. In this situation continuing vigilance over prices is needed.

80. Such vigilance is the more important because price rises inevitably tend to intensify the pressure of wage demands. Unnecessary price rises will therefore exacerbate the problem of keeping the rise in incomes in line with the rise in output.

*This possibility is discussed fully in the NBPI Report "Salary Structures" (Cmnd. 4178).

If workers are to be persuaded not to press inflationary wage claims, they must have confidence that greater price stability will follow. They must be confident also that their co-operation in increasing productivity, and technological developments in industry, will be reflected not simply in higher profits but also in a reduction in prices as costs are reduced.

81. The need for a positive prices policy grows as the movement towards larger industrial units proceeds. Market power is being concentrated in a smaller number of firms. The Government recognises the need for this concentration. If industry is to make full use of technological development, and is to command the resources needed for modern research and development, production must in many cases become concentrated in fewer units. That is why the Government established the Industrial Reorganisation Corporation. That is why it has itself brought forward proposals for rationalisation in certain industries. That is why it has raised no objections to the great majority of industrial mergers.

82. Production in many industries will therefore be concentrated in a few large firms. But the Government has always recognised that this greater size and greater concentration may involve risks to the public interest against which proper safeguards must be created. That was one reason why the Government in 1965 extended the monopolies legislation to cover service industries and mergers. That is one reason why the NBPI has been asked to examine proposed price increases in several industries where production is concentrated in a small number of firms. That is one reason why it is proposed to establish the new Commission for Industry and Manpower.

83. The possible dangers from the creation of oligopoly in many manufacturing and service industries have been clearly recognised. Concentration is intended to yield economies of scale in production and marketing which should be reflected in lower prices. But where an industry is dominated by a small group of firms their actions must be influenced to a greater extent by the likely reactions of their few main competitors. In such a situation the significance of price competition may be lessened and other forms of competition assume greater importance. Or a highly efficient firm may set prices at a level above that which would yield an adequate return on capital, thus taking the pressure off the less efficient firms in the industry.

84. Another danger is that the pressure to explore all possible methods of reducing costs may be lessened by the relative ease with which prices can be raised. This is a particular problem in relation to labour costs. There is a risk that a dominant firm, or a small group of firms, may not consider it worthwhile to try to secure productivity-based pay settlements rather than inflationary ones if it seems not too difficult to pass on the resultant costs through higher prices. In some cases a further stimulus may be needed to achieve fully efficient use of labour and other resources, to ensure that pay structures and negotiating procedures are designed to relate pay to performance and to avoid leap-frogging settlements. For example, the development of plant bargaining as against national pay agreements could have inflationary effects unless there are adequate incentives to avoid such inflationary settlements.

85. Enlightened management can and does ensure that these dangers in industrial concentration are avoided, and its advantages secured. The principles underlying the prices policy are widely accepted by industry. Moreover as import tariffs are being reduced British industry has to take greater account of competition from firms abroad, and this provides a new protection to the consumer in some parts of the economy. But the need will remain for machinery through which the community can be satisfied that the principles are being applied in particular cases.

86. The conditions to be satisfied before price increases are made were first set out in the White Paper of April 1965 on Prices and Incomes Policy (Cmnd. 2639). They are reproduced in Appendix 2. Two major points are involved. First, there can be no question of simply passing on in higher prices particular increases in costs of labour, materials or capital. The economic and financial position of the enterprise must be considered as a whole. An increase in labour costs or material costs may well be offset by reductions in other costs. Any attempt automatically to pass on particular increases in costs is quite contrary to this principle.

87. The second major point is that full and realistic account must be taken in considering price levels of the possibilities of cost savings to offset cost increases in whole or part throughout the activities of the enterprise. This must include not only savings already achieved but also the opportunities that exist to reduce costs in the future. This is the principle which has been applied by the NBPI in considering proposals for price increases in both the private and public sectors.

88. Taking the economy as a whole, labour costs are overwhelmingly the largest single element in the final prices of the goods and services bought by consumers. However, the upward trend in productivity means that unit labour costs will not be rising as fast as wage and salary rates. Proposals for price increases which include any element to cover increases in labour costs therefore need the most careful scrutiny. Most firms ought to be able to absorb all, or most, of the cost of pay settlements which fall within the normal range. Firms will be expected to show good grounds for not absorbing at least this amount of the cost of any pay settlements. The cost of any pay increases arising from an efficiency or productivity agreement should automatically be met—indeed more than met—from the savings flowing from the agreement.

89. The prices of some products—particularly foodstuffs and raw materials—are much affected by changes in the supplies available for seasonal or other reasons. Increased prices will then be unavoidable; but where prices rise for these reasons they should fall again when supplies are plentiful.

90. Decisions on price levels inevitably involve decisions on the appropriate level of return on the capital employed in the business. No single figure can be appropriate either for all industries, or for all firms in a particular industry. Exceptional efficiency, rapid technical innovation or a high degree of risk may properly be associated with a higher return on capital in a particular firm or industry than would be appropriate for others. The return on capital achieved in recent years in a particular firm is however not something sacrosanct. It requires to be examined in the light of changing circumstances, and is always relevant to the consideration of price increases. In some cases increases in costs can and should be absorbed in whole or in part by a reduction in profit margins. The Government will continue to examine with special care proposed price increases where the return on capital has been maintained at a high level in a situation where price competition is weak. On the other hand, price increases may sometimes be essential if firms are to secure, either by ploughing back profits or by attracting capital in the open market, resources essential to enable them to modernise and expand their production and to reduce costs. Indeed in some efficient enterprises the return on capital may over a period for special reasons have fallen to so low a level as to jeopardise their long-term future. The Government does not believe that any general reduction in the level of return on capital invested in British industry, whether privately or publicly owned, would be helpful in the context of the essential modernisation of the economy. But what is true in the case of the average level is not necessarily true of individual enterprises.

91. In short, the aim of prices policy is not to keep all prices low at any cost. It is to ensure in each enterprise that changes in prices genuinely reflect unavoidable costs and take account of the possibility of cost savings. General price stability can be achieved only if in certain sectors price reductions occur to offset inevitable increases elsewhere. In these sectors of the economy, where technical innovation or rationalisation of facilities offers opportunities for cost reductions well in excess of the national average, this needs to be reflected in price reductions. A prices and incomes policy which works fairly for the whole community requires that the whole benefit of the cost reductions in these sectors should not go to the workers and shareholders in the firms concerned. The circumstances in which price reductions are called for are set out in Appendix 2.

D. Guidance in Relation to Dividends

92. From the outset of the policy in 1964 the Government has emphasised its intention to use its fiscal powers, or other appropriate means, to correct any excessive growth in aggregate profits, whether distributed or not, as compared with the growth of total wages and salaries, after allowing for short-term fluctuations in profit levels.

Total company profits, as well as the profits of individual companies, may fluctuate considerably from year to year, whereas the total of wages and salaries increases year by year. The *trend* in profits and dividends is therefore normally more relevant to prices and incomes policy than the figures for particular years for individual companies.

93. In 1968 the Government introduced a 3½% ceiling on increases in individual company dividends as a necessary reinforcement of the more general policy of restraint. It was always intended as a short-term measure associated with the stringent powers over other incomes and prices introduced at that time. Although the policy provided for increases in the dividends of individual companies the total of dividends paid on ordinary shares in 1968 was in fact less than the amounts paid in either 1965 or 1966. The figures are given in the following table:—

Dividends on Ordinary Shares

	£ million
1965	1,735
1966	1,687
1967	1,576
1968	1,630

Source: CSO

94. On general grounds a ceiling for dividends paid out by individual companies is undesirable as a long-term policy, and it involves substantial disadvantages in particular cases. For example, fixed dividend limits can affect the ability of companies to raise in the open market additional capital needed for the efficient functioning of their business. A fixed limit may expose firms to take-over bids on terms which do not fairly reflect the value of the undertaking to be acquired. In time also, fixed limits would impede the flow of capital into the most productive channels.

95. Moreover, a rigid control of dividend payments by individual companies may not in itself reduce in the long term the share of the national product accruing to owners of capital. Enforced retention by companies of profits may to some extent be reflected in the long term in capital gains which can be realised. Although therefore limitation of dividends may be helpful as a short term measure, it is not necessarily in the long term an effective instrument of greater social equity, which is better achieved by taxation and other means.

96. For these reasons the 3½% ceiling scheme for dividends will come to an end on 31 December 1969. However, the need for moderation in the distribution of profits to shareholders remains as a proper counterpart to the other elements of the prices and incomes policy. Under Part II of the Prices and Incomes Act 1966, the Government will continue to have the power to require notification of individual dividend increases if this seems desirable. It will also continue to have the power to refer to the NBPI—and later to the CIM—cases where the growth of profits and dividends appears to be based on price levels made possible by excessive market power; and will do so in appropriate cases.

E. Rents and Rates

Rents

97. Rent affects the household budget of millions of families. During 1968 and 1969 the Government successfully prevented undue increases in rents.

98. In the private sector, the great majority of unfurnished tenancies other than those which are still controlled are subject to the rent regulation system set up by the Rent Act 1965. In general the rent of such tenancies can be increased only as the result of the determination of a fair rent by a rent officer or rent assessment committee. In some cases the rent will previously have been low, and the determination of the new rent can involve sharp increases. Under Part III of the Prices and Incomes Act 1968 the Housing Ministers have ensured that such increases occurring during the latter half of 1968 and in 1969 will have been spread out, or "phased", in annual stages.

99. Part III of this Act also required local authorities to obtain the consent of the Housing Ministers to any increase in the rents of council houses. Many local authorities followed the Government's advice and voluntarily refrained from making avoidable rent increases. But in some cases the Housing Ministers had to use their powers to prevent rent increases which were not justified by rising costs or which an authority could avoid by, for example, using housing account balances. In addition the Government adopted the recommendation of the National Board for Prices and Incomes that the rents of any Council should not be increased by more than 7s. 6d. on average in a twelve-month period. Ministers have also been unwilling to authorise increases of more than 10s. a week for any individual house in any year.

100. The powers in the 1968 Act governing rent increases expire at the end of 1969. The Government considers that restraint in rent increases must continue to be an integral part of prices and incomes policy. Measures are therefore being taken to continue the restriction of sharp rent increases for a further period, and a Bill is before Parliament.

101. For regulated tenancies, the Government has brought forward legislation under which phasing of rent increases is to continue for two more years. This will apply to rents registered up to the end of 1971, and will complement the phasing arrangements already introduced under the Housing Acts of 1969 for rent increases resulting from the conversion from rent control to rent regulation of houses in good repair, or from grant-aided improvements.

102. As regards council rents, the Government believes that the principles justifying increases are now well established and understood, and should as far as possible be applied by the local authorities themselves. The Housing Ministers have accordingly agreed with the local authority associations that rents should be increased only to meet unavoidable increases in costs on the basis of guidelines which are being recommended to their members for observance during the period 1 January 1970 to 30 June 1971.

103. The legislation provides that any increase which in any twelve-month period exceeds 7s. 6d. a week on average, or 10s. a week for any individual house, will require the prior consent of the appropriate Minister. This is unlikely to be given save in the most exceptional circumstances.

104. Ministers will continue to ensure under the existing arrangements that restraint in rent increases is applied to houses owned by New Towns and the Scottish Special Housing Association.

Rates

105. Rates, as a form of taxation, are outside the scope of prices and incomes policy: they are necessary to help pay for the range of services provided by local authorities. Better services are bound to cost more money. The Government has taken steps to reduce the impact of rates on householders by providing special grants which have reduced the amount in the £ they have to pay. In England and Wales the reduction has been 5d. in the £ in 1967/68, 10d. in the £ in 1968/69 and 1s. 3d. in the £ this year; the reduction in 1970/71 will be 1s. 8d. in the £. As a result of this, and of the savings made by local authorities, domestic rates were held steady, on average, in 1967/68 and 1968/69, and went up by only 4¼% in 1969/70. In addition the income limits for rate rebates were raised from October 1968 and this has helped many householders with small incomes, particularly those with large families. In Scotland, where rate poundages are higher than in England and Wales, special grants have reduced the amount which householders would otherwise have had to pay by 10d. in the £ in 1967/68, 1s. 8d. in the £ in 1968/69 and 2s. 6d. in the £ this year. With this assistance, domestic rates increased on average by only 7d. in the £ between 1966/67 and 1968/69. It is not yet possible to say what the position will be in 1969/70, because of the later rating year in Scotland.

APPENDIX 1

NATIONAL BOARD FOR PRICES AND INCOMES GUIDELINES FOR EFFICIENCY AGREEMENTS (INCLUDING PRODUCTIVITY AGREEMENTS)

The following guidelines are reproduced from paragraph 133 of NBPI Report No. 123, "Productivity Agreements" (Cmnd. 4136). Each guideline is accompanied by a brief note intended by the Board to clarify its meaning and intended practical application.

1st Guideline

It should be shown that the workers are contributing towards the achievement of constantly rising levels of efficiency. Where appropriate, major changes in working practice or working methods should be specified in the agreement.

The objective of efficiency agreements is to make possible the constant raising of efficiency; this will require close and continuing co-operation between managements and workers so as to achieve and maintain the highest standards in the use of both equipment and manpower. The second sentence has special reference to agreements which specify major changes in working practice to which workers have agreed. Such changes should always be spelled out if there is any possibility that commitments in more general terms will lead to difficulties of interpretation or will not be given full expression in practice.

2nd Guideline

Measurements of efficiency should be based on the application of relevant indices of performance or work standards.

Managements should devise and use appropriate yardsticks for measuring the contribution of workers of all kinds towards achieving rising levels of efficiency and develop an information system which makes full use of the data obtained as a result. For many manual operations work-studied standards are applicable and should be used, but work measurement can also be applied to a wide range of clerical and other non-manual work. For other workers in other situations it will be necessary to use more broadly-based indicators of performance, if necessary on a group basis.

3rd Guideline

A realistic calculation of all the relevant costs of the agreement and of the gains attributable to the workers' contribution should normally show that the effect is to reduce the total cost of output or the cost of providing a given service.

"Relevant costs" may include, for example, the cost of redundancy payments or a proportion of consultants' fees where they are an integral part of an agreement, and these should be apportioned as necessary over a reasonable period rather than charged only to the first year following the agreement. The "gains attributable to the workers' contribution" may result from more effective working methods, the fuller utilisation of existing capital equipment, the adaptation of working practices to enable full and prompt use to be made of new equipment and reduced capital investment (if for example revised scheduling and shift-working make possible a smaller transport fleet). The reference to a reduction in costs assumes a calculation for the purpose of which unrelated costs, e.g. the price of raw materials, are left out of account.

4th Guideline

There should be effective controls to ensure that projected increases in efficiency are achieved and that higher pay or other improvements are made only when such increases are assured.

In order to observe this guideline managements must operate effective controls, including an information system which makes it possible to estimate in advance and subsequently monitor the extent to which increases in efficiency are in fact being achieved. In so far as the information system shows that progress exceeds or falls short of the original projection, some adjustment may need to be made. In any case due allowance should be made for the accrual of some of the achieved gain to the consumer. Particular care also needs to be taken to distinguish the contribution of workers from other sources of more efficient working.

5th Guideline

There should be clear benefits to the consumer by way of a contribution to stable or lower prices.

This guideline is of particular importance in areas of rapid economic expansion, since the most needs to be made of opportunities to reduce prices in these areas in order to contribute as much as possible to raising the real incomes of the community as a whole. In some cases the community may benefit by an improvement in quality while prices remain unchanged or by the use of the gains to compete more effectively in export markets.

6th Guideline

An agreement applying to one group of workers only should bear the cost of consequential increases to other groups, if any have to be granted.

An example would be if supervisors have to be given a pay increase to prevent the disappearance of a differential as a result of a pay increase granted to the workers whom they supervise. The need for consequential increases unrelated to increases in efficiency should, however, be reduced as much as possible by enabling other groups of workers to conclude their own efficiency agreements or by including them within the scope of the original agreement.

7th Guideline

Negotiators should avoid setting levels of pay or conditions which might have undesirable repercussions elsewhere.

Where large increases in pay are shown to be justified negotiators should consider the possibility of staging the increases over a period of time or, alternatively, of a non-recurring lump sum payment. Failure to do so might raise expectations for future increases which could not be fulfilled and might also because of the exceptional size of the increases have repercussions which would eventually rebound on the undertaking granting the original increase.

APPENDIX 2

CRITERIA FOR PRICE INCREASES AND REDUCTIONS

1. Circumstances in one or more of which price increases may be necessary were first set out in April 1965 in the White Paper "Prices and Incomes Policy" (Cmnd. 2639): they are as follows:—

(i) if output per employee cannot be increased sufficiently to allow wages and salaries to increase at a rate consistent with the guidance on incomes without some increase in prices, and no offsetting reductions can be made in non-labour costs per unit of output or in the return sought on investment;

(ii) if there are unavoidable increases in non-labour costs such as materials, fuel, services or marketing costs per unit of output which cannot be offset by reductions in labour or capital costs per unit of output or in the return sought on investment;

(iii) if there are unavoidable increases in capital costs per unit of output which cannot be offset by reductions in non-capital costs per unit of output or in the return sought on investment;

(iv) if, after every effort has been made to reduce costs, the enterprise is unable to secure the capital required to meet home and overseas demand.

2. The circumstances in one or more of which price reductions are called for were also first set out in Cmnd. 2639: they are as follows:—

(i) if output per employee is increasing faster than the rate of increase in wages and salaries which is consistent with the guidance on incomes, and there are no offsetting and unavoidable increases in non-labour costs per unit of output;

(ii) if the costs of materials, fuel or services per unit of output are falling and there are no offsetting and unavoidable increases in labour or capital costs per unit of output;

(iii) if capital costs per unit of output are falling and there are no offsetting and unavoidable increases in non-capital costs per unit of output;

(iv) if profits are based on excessive market power.

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order 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 8th January 1970, the said considerations shall be those set out in the Schedule to this Order (which reproduces certain sections of the White Paper "Productivity, Prices and Incomes Policy after 1969"—Cmnd. 4237) in substitution for those set out in the Schedule to the Prices and Incomes (General Considerations) Order 1968.