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GOVERNMENTAL POLICIES TO DEAL WITH PRICES IN KEY INDUSTRIES IN SELECTED FOREIGN COUNTRIES

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LETTER OF TRANSMITTAL

OCTOBER 31, 1963

To Members of the Joint Economic Committee:

Transmitted herewith is a brief survey of public policies pursued in selected countries of Western Europe in dealing with prices and price increases in key industries. This is one of a series of staff materials being issued as aids to understanding of the international implications of various economic policies which, for the respective countries are likely regarded as essentially domestic issues. No precise pattern will be followed in the series. I believe however that, by making data more readily available for a comparison of national policies and practices in various areas, members of the committee, other Members of Congress, and the general U.S. reader will be aided in understanding economic problems within the framework of the enterprise and free market "rules of the game" as practiced by the leading industrial nations.

Faithfully,

PAUL H. DOUGLAS, *Chairman.*

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FOREWORD

The free flow of world trade and commerce, especially among the Western nations, depends upon relative production costs in the various countries and the price competitiveness of commodities and services. It is useful, therefore, to know how other countries handle the problem of price increases.

In the "President's Economic Report for January 1962" (pp. 185–190), the Council of Economic Advisers suggested as U.S. economic policy a set of criteria as "guideposts for noninflationary wage and price behavior." These proposals were again referred to in the report for January 1963. These suggestive guideposts are, for the convenience of the reader, summarized in appendix 1.

In view of the prevailing concern over the balance of payments and the competitive game as played by the world's leading industrial countries, members of the Joint Economic Committee, at the suggestion of Represetative Henry S. Reuss, have asked the committee staff to present brief statements on devices employed in dealing with price rises in key industries in selected Western European countries. With full recognition of the briefness and uncritical nature of these comments, we feel that the materials collected may nonetheless be of interest to Members of Congress and students of the competitive position of the United States.

ECONOMIC POLICIES AND PRACTICES

BELGIUM

Governmental Policies To Deal With Prices in Key Industries

Belgian Government policy on prices has undergone several changes since World War II and is currently under further review, the Government being now in the process of revising the basic legislation.

The basic legal authority remains the Regent's decree-law of January 22, 1945, adopted under the wartime (though postliberation) regime of plenary powers and thus having the force of law. In general, it authorized the fixing of maximum prices and declared that even where no specific maximum prices were established, it was illegal to sell at more than "normal" prices, as determined by a tribunal, but which should not be more than 2.75 times those prevailing for the same article during the first half of 1939. The Government was given powers to cut off the supply to establishments which violated price orders, and if necessary to close them down.

In practice, the administration was not as severe as the ordinance seemed to suggest, since action depended largely on complaints being brought by injured parties. The real sanction against unjustified price increases was the power of the Minister of Economic Affairs to fix maximum prices, and this power could usually be effective without being actually implemented. Whether a price increase is "justified" or "excessive" now rests upon a determination by a regular magistrate, taking into account the findings of the Minister of Economic Affairs as assisted by the consultative Commission des Prix described in a later paragraph. Legislation recently under consideration would give this power of determination on national interest aspects to the Minister, confirming his power to fix maximum prices.

During the late forties there was a gradual administrative decontrol, but with the inflationary pressures generated by the Korean war, the Government moved toward closer surveillance of prices. There were decrees requiring the posting of meat prices, and a new basic decree regarding the power to fix maximum prices.

The main new element introduced during the 1950's, and what is still the chief instrument to avoid excessive price increases, has been the requirement of advance notice of the intention to increase prices. An initial ministerial decree of December 20, 1950, was replaced by the ministerial decree of October 10, 1959, which still is the prevailing code in this field. It requires producers and importers of some 82 specific goods and services to give 21 days' advance notice to the Ministry of Economic Affairs before putting into effect price increases. The notice should contain justification, in terms of cost factors, for the proposed increase. The headings involve mostly processed foods,

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household articles and appliances (e.g., washing machines, heaters, flatirons, and radio and TV sets), basic items of clothing and furniture, basic construction materials (bricks, roofing, tiles, cement, and tar), petroleum and gas products and a few critical chemical products (sulfuric acid, ethyl alcohol, products of soda and potassium, and fertilizers). The only service charges included are those for haircuts, laundry, drycleaning, and motion picture admissions.

The decree permits professional groups to make the advance notice on behalf of their members. It contains no requirement that the proposed price increases must actually be approved by the Minister, and the merchants are in fact legally free, after complying with the advance notification requirement, to implement their proposed increases. The sanction is primarily that of moral pressure, in that the producers or merchants would be reluctant to defy the Minister's expressed disapproval, but the ultimate sanction of a maximum price order is always available in the background.

In deciding whether to approve or disapprove a proposed price increase, the Minister of Economic Affairs has, since April 1960, had the assistance of a consultative Commission des Prix. The royal decree of that month, creating the commission, specified that its members should be appointed from the following interest groups:

4 members representing industry.
3 members representing agriculture.
1 member representing local handcrafts (artisanat).
1 member representing importers.
4 members representing wholesale and retail merchants.
4 members representing larger chain and department stores.
1 member representing the transport industry.
1 representative of credit institutions.
9 representatives from the most representative trade unions.
4 representatives of "family interests."
1 delegate each from the Ministries of Economic Affairs, Middle Classes, the Prime Minister's Office, Agriculture, Finances, Labor and Social Security, Communications, Public Works and Reconstruction.

A permanent committee was created within the Commission, with a representative chosen by the members representing each of the major interest groups: Industry, agriculture, commerce, trade unions (three members), and family affairs, together with the delegate of the Ministry of Economic Affairs.

The Commission is entrusted with the broader task of keeping a general watch over price movements and making appropriate recommendations to the Minister. Although purely consultative, it exerts in fact considerable power, as a Minister would be reluctant to disregard its advice.

Rationale of proposed new legislation

Some months ago the Ministry of Economic Affairs prepared a new draft law which would have given the Minister increased powers in the matter of price controls. At present, the regular magistrates are asked to decide on complaints that given prices are "abnormal." Although they can rule on whether costs have actually increased to the point of justifying a price increase, they have not felt competent to rule on the aspect of national interest. The draft bill would give this power of determination, on the national interest aspects, to the Minister. It would also confirm the Minister's existing power to fix maximum prices and extend such power to apply not merely to categories of products but to specific products, by brand name. Finally, it would prohibit retail price maintenance agreements and would establish certain definite rules on fair competition, such as a prohibition against false sales claims and a prohibition against selling below cost except in certain defined situations such as on traditional seasonal sales (e.g., stock clearance sales after Christmas). Many provisions of this last part of the bill, dealing with fair commercial practices, already exist in other individual laws, and there has not been much opposition to having them reasserted and strengthened. But there is strong opposition to the grant of power to the Minister to determine whether prices are abnormal and to the proposal to give him special investigatory powers, including authority to requisition company records. There is also criticism in some quarters of the bill's proposal to grant the Minister power to prohibit "imposed prices."

The Central Economic Council—a consultative body with representatives from industry, labor, and other interest groups—has received the draft law and issued an opinion, as requested by the Government. It would uphold the Minister's power to issue orders fixing maximum prices or margins, though of limited duration (e.g., 6 months). In emergencies he could issue orders for a shorter validity, of say 1 or 2 months, without recourse to the consultation required for 6-month orders.

The Central Council opposed giving the Minister power to fix prices by specific trade-named product. On the proposed power to prohibit "imposed prices" by a manufacturer, the Council's opinion was divided. Some members of the Central Economic Council would confer this power on the Conseil du Contentieux Economique, an arbitral body which now handles trade complaints, notably between trade associations and individual firms, and which plays a role in hearing complaints under the law against the abuse of economic power of 1959.

Having received these criticisms and suggestions from the Central Economic Council, as well as widespread protests from certain business circles, the Government is restudying its original draft law and it is generally conceded that the powers of the Minister will be more restricted in the revised draft.

Press critics of the new bill, as originally proposed, declare that it is based on the assumption that competition is inadequate as a regulator of prices. Officials concerned with the bill reply that to an extent this is true, and that competition is imperfect as a regulator, either because of the existence of oligopoly or because, as for instance in some retail fields, the entry of new firms in an already crowded field may cause existing firms to raise their margins in an effort to maintain the same income from a reduced share of the trade. But they declare that the main justification for new legislation lay in the fact that the tribunals were not technically competent to decide on complex commercial questions.

FRANCE

Governmental Policies To Deal With Prices in Key Industries

Confronted with recurring inflationary pressures, and in keeping with the extension of the area of Government responsibility which evolved in the early post-World War II years, French governments have accumulated a relatively full range of devices designed to contain or limit price increases. These same two factors, however, have led to broad-spectrum price control measures, rather than to a key industry approach. The relaxation of controls and changes of policy which accompanied the economic recovery of the 1950's were so accomplished that the present system is complex and often applied on a product-by-product or case-by-case basis.

The devices and techniques which the French Government presently employs to deal with price increases may be grouped as follows:

1. Direct price (and rent) controls.
2. Administration of the prices of the nationalized sector.
3. Formulation of an incomes policy.
4. Persuasion and publicity.
5. Reduction of import duties and turnover taxes.

Excluded from the foregoing listing are the usual indirect means of reducing price pressures—broadly speaking, monetary and fiscal policy.

1. Direct price (and rent) controls

Direct price controls presently employed in France are based on authority established in 1945 (Ordinance No. 45–1483, June 30, 1945), as amended. (An ordinance is an action taken by the Government under special authority which would normally be the subject of legislation.) Under this system, four different regimes are distinguished:

(*a*). *Liberte totale.*—This may sometimes mean no control at all, as might be inferred, or it may only mean that a product's price is not controlled at one or several stages of production and/or distribution.

(*b*) *Liberte surveillee.*—This regime differs from the preceding in that producers and/or distributors must inform the price control authority of prevailing prices and of price changes.

(*c*) *Liberte controlee.*—While producers and distributors may fix their prices freely, they are required to inform the price control authority of prevailing prices and of price changes. The price control authority may, within 15 days, refuse to approve price increases.

(*d*) *Taxation.*—In this case, the Government fixes a precise price for the product involved, and/or a ceiling price, and/or the permissible margin (or markup).

Frequently a combination of two or three of the above systems is applied to the same product, according to the stage of production or distribution.

The extent of recourse to direct price controls has varied considerably in the postwar period, and in recent years the trend has been toward liberalization. In April of this year, however, a series of decrees involving some 80 products provided new evidence of the Government's willingness to resort to these direct controls if necessary.

Due to the complexity of the system and the lack of any comprehensive compilation of the degree of control employed on a product-by-product basis, it is difficult to generalize as to the extent to which direct price controls are used in connection with key industries. They have been or are applied for certain key products, such as wheat, milk, and gasoline, for both political and economic reasons.

In a certain number of urban areas, notably including Paris, rents are still controlled on older (pre-1948) buildings. Unfreezing of rents is taking place progressively, but rent control still represents a significant characteristic of the housing market in France.

2. Administration of the prices of the nationalized sector

Nationalization of important sectors of the economy gives the Government control over the prices of several key products and industries. Particularly noteworthy in this connection are the railroads, the Paris transport system, coal, gas and electricity. In fixing prices for the products of these industries, the effect of increases on the general price level is a prominent consideration. It should be noted that the granting of government subsidies to certain of the nationalized industries has been and still is frequently one of the most important alternatives to price increases.

3. Formulation of an incomes policy

In 1962, the Government sponsored important steps toward formulation of an incomes policy within the framework of the French planning mechanism. The desire was to obtain a consensus on the distribution of future increases in the national income by discussion among income groups—including wage and salary earners as well as other income recipients. In this manner, it was hoped that excessive claims on real resources might be avoided, and inflationary pressures brought under control. A roundtable discussion in the fall of 1962 on this question was unable to reach agreement, at least in part because of difficulties in compiling adequate statistics on present income shares. The Government plans to continue this line of approach.

4. Persuasion and publicity

Due to the wide sphere of direct and indirect governmental control in France, and to the existence of a planning mechanism which brings Government and business together, possibility exists for the Government to exert considerable influence on the price decisions of key industries. One highly publicized recent case where persuasion is thought to have been effectively employed involved proposed increases in steel prices in France in 1962. Contact by French Ministers with business and industry leaders and representatives is quite extensive, and ministerial advice on price questions is probably frequently heeded, especially since the possibility of imposing direct price controls usually exists.

Publicity is probably not as important a device in France as is persuasion, and is not particularly associated with key industries. At times in the past, governments have undertaken campaigns to convince the public of the need for restraint, or even to bring about decreases in prices. Such campaigns have usually been short lived, although the Government's more general pleas for price (and wage) restraints are, of course, a recurring theme.

5. Reduction of import duties and turnover taxes

To a limited degree, France has adopted the practice of reducing import barriers specifically in order to combat price increases. A recent step of this nature was aimed at a number of specific products (i.e., not generalized), and involved the anticipation of tariff reductions which were to take place within the Common Market framework in any case 2 months later. In the same line, the quantitative import restrictions which France still maintains on certain food products (e.g., fresh apples and pears) are temporarily relaxed from time to time when prices on the French retail market rise above a specified level.

Reduction of the turnover tax has also been employed as an anti-inflationary tool, to some extent. Since, in order that domestic prices come down as a result of a decrease in a turnover tax, producer or distributor prices must not be increased; such action may be accompanied by agreement on the part of sellers to maintain or lower their own prices.

GERMANY

Governmental Policies To Deal With Prices in Key Industries

Germany's theory of a "social free-market economy" (Soziale Marktwirtschaft), as expounded by Ludwig Erhard, has no place for a government price policy except where necessary for pressing social reasons. Except in rare instances, therefore, the Government has not tried to influence pricing directly, but has relied instead on general economic policy measures, particularly monetary policy, aimed at controlling the overall level of demand.

The exceptions for social purposes consist primarily of direct controls over pricing of medicines and medical supplies, certain basic foodstuffs (mainly milk and sugar), and rents for social housing. In addition, there are the usual controls over pricing in the public utilities and transportation fields, and the cartel law provides protection from monopolistic practices.

Despite the limited use of price control techniques, the Federal Government possesses vague, and dubious, legal authority to prohibit any price rise which could result in a "basic change in the general price level, especially the cost of living." This authority is contained in the price law (Preisgesetz) of 1948, which was designed to give protection against possible inflation while postwar controls were being dismantled. Thus far, it has only been used to meet emergencies resulting from temporary shortages. The law is widely recognized as being very weak, and its constitutionality has been questioned. It was to have been replaced by a new law over 10 years ago, but the need for price control legislation is not generally recognized at present and there has been no move to draft a substitute law.

In recent years, the Government's approach to the problem of inflation has shown some signs of changing, as basic economic conditions have changed. Until recently, the inflationary threat was primarily—one might even say solely—of the classical, overdemand variety. It is only in the past 2 or 3 years, as demand has gradually subsided, that attention has begun to shift to the possibility of autonomous cost-push inflation. The Government's Economic Report for 1963, for example, includes the following passage:

> * * * In order to restore stable prices it is not sufficient to bring supply and demand within the economy into harmony with each other. Action must therefore also be taken in a third direction with the object of checking the rise in costs. In certain circumstances the rise of prices can continue for some time even during a recession, if the upsurge of costs is not ended. Precisely for 1963 there is a danger in the Federal Republic that despite progressive relaxing of cyclical tensions, the movement of wage costs will not allow the rise in prices to stop.

The Volkswagen price increase in the spring of 1962 was an important milepost in the evolution of government thinking. The episode closely paralleled the well-known steel industry case in the United States which came only a few weeks earlier. In the midst of a Government campaign for price-wage moderation, spearheaded by Minister

Erhard, Volkswagen announced increases in automobile prices of 5 to 8 percent. This provoked a highly publicized attempt by Erhard to get the increase rescinded, including a threat to reduce tariffs on imported automobiles. Volkswagen refused to yield, however, and tariffs on automobile imports from EEC countries were reduced by an average of about 50 percent. Tariffs would have been reduced at a later date anyway, under the EEC Treaty, but this action advanced the reduction by as much as 4 years.

ITALY

Governmental Policies To Deal With Prices in Key Industries

The Italian Government has full authority to control the prices of goods and services under a law (No. 347 of Oct. 19, 1944, as amended) which established an Interministerial Price Committee (Comitato Interministeriale Prezzi, usually known as the CIP) composed of the President of the Council of Ministers (the Prime Minsiter) and the Ministers of Finance, Treasury, Agriculture, Transport, Industry and Commerce, Public Works, Labor and Welfare, Foreign Trade, Budget, and State Holdings.

The Price Committee is assisted by a subcommittee, composed of the Ministers of Industry and Commerce, Treasury, and Agriculture, which supervises the activities of a secretariat which prepared staff studies for consideration by the subcommittee or the full committee, and which publishes a biweekly review of domestic and international price and economic trends. This review (Relazione Quindicinale sull'Andamento dei Prezzi) is circulated only within the Government.

Although there is no legal limit to the authority of the Interministerial Price Committee, at the present time it controls only the following types of prices:

(1) Industrial products: solid and liquid fuels (coal and petroleum), cement, lime, fertilizer, daily newspapers, specialty medicines (pharmaceuticals);

(2) Foodstuffs: Wheat, rice, beets, beet seeds, sugar, molasses; and

(3) Public services: electricity, gas, telephone, water, radio-television license fees, hotel and boarding-house (pensions) rates, railway passenger and freight rates.

Basing its decisions on the recommendations of its secretariat and subcommittee, the Interministerial Price Committee fixes maximum prices for those commodities which it decides should be controlled. The controlled prices are imposed upon publication in the form of decrees in the Official Gazette (Gazetta Ufficiale), and are effective upon publication. The actual administration of the control system is delegated to Provincial price committees, under the chairmanship of the prefect, in each of the Provinces of Italy.

Affected industries or businesses may apply to the Interministerial Price Committee for reconsideration of the existing level of controlled prices, if they believe that increases are justified. Prices of commodities which are not presently under control may be increased without reference to the committee.

The following penalties, depending upon the degree of seriousness of the offense, were established (by law No. 896 of September 15, 1957) for violation of the system of controlled prices:

(1) Fine of 15 million lire ($24,000);

(2) Fine of 10 million lire ($16,000) and up to 3 years in prison; or

(3) Fine of 20 million lire ($32,000) and up to 6 years in prison.

An offender may also have his business license suspended for up to 1 year, and, in addition, may be denied the right to engage in import-export trading for up to 1 year.

THE NETHERLANDS

Governmental Policies To Deal With Prices in Key Industries

The Netherlands Government deals with price control matters through its price policy and its wage policy.

Ever since the Korean boom, the Netherlands Government has exercised some form of control over prices which has varied in strictness depending largely on the cyclical situation.

The Economic Minister's legal authority to control prices originally derived from the 1939 Hoarding Act (Hamsterwet), which in 1961 was replaced by the Price Act (Prijzenwet, see Embdesp. 320, Nov. 23, 1960). Under provision of the latter, Economic Minister can (1) impose price ceilings through so-called price decrees (Prijsbeschikking), (2) establish accounting rules which will show how prices are formed, (3) lay down rules for price marking. At present any contemplated increase in price must be reported in writing to the Minister of Economic Affairs according to procedures established in 1958. Within the Ministry of Economic Affairs, the Economische Controledienst is charged with supervision of price controls.

In practice price controls in recent years have been administered flexibly and primarily through moral suasion. There is an understanding between the Ministry of Economic Affairs and national associations of industrial employers whereby latter cooperate in persuading their members to follow certain criteria in pricing their products. The principal rule is that only cost increases caused by external factors may be reflected in higher prices (e.g., higher raw material prices). Conversely, any reduction in such factors is supposed to lead to a lowering of prices; in practice this has rarely happened, however. Any proposed price increase must be limited to the increment in the external cost factor, i.e., the profit component may not be recalculated to yield the same percentage margin as before but must be maintained in terms of guilders per unit. Since wages are not an "external" cost factor, pay increases may not be reflected in higher prices even when they are not wholly offset by increased productivity.

While retail trade margins are no longer fixed as they were in 1951 to 1956, Ministry of Economic Affairs continues to keep a close watch over trade margins for certain consumer articles. Maximum prices for milk and bread continue in effect.

Price decrees in 1962 imposing price ceilings did not affect key industrial items but were limited to food and beverages; namely, potatoes and soft as well as alcoholic drinks served in restaurants and hotels.

UNITED KINGDOM

Governmental Policies To Deal With Prices in Key Industries

1. Although the United Kingdom has a comprehensive price and income support program for agriculture the only presently existing statutory control of prices is the control of the maximum retail price of liquid milk. This price is established by the Minister of Agriculture.

2. The Government has a significant degree of direct influence over the establishment of prices in nationalized industries, i.e., the railroads, coal, electricity, and gas. Although the basic responsibility for establishing prices in these industries rests with the executive agencies responsible for their administration, these inform the Ministers concerned (the Minister of Transport and the Minister of Fuel and Power) of substantial price changes they intend to make and obtain the views of the Ministers regarding the price changes in advance of action. The Minister and his staff unquestionably have a significant influence over decisions. In recent years the Government has probably reduced the frequency and force with which it intervenes to change price increases proposed by the nationalized industries. It should be noted that the Government is responsible for providing finance for capital expansion programs of the nationalized industries and has assumed responsibility for substantial deficits in some of them. As a result the price policy followed by the nationalized industries has direct repercussions on the ultimate financial responsibility of the Government for their operations.

The white paper entitled "The Financial and Economic Obligations of the Nationalized Industries" (Cmnd 1337 of April 1961) states:

> Although the Government possesses no formal power to fix prices in the nationalized industries, nationalized undertakings have, in fixing their prices, given great weight to considerations of the national interest brought to their attention (par. 29).

It also says:

> The Government recognizes, however, that the industries must have freedom to make upward price adjustments especially when their prices are artificially low (par. 30).

It is possible that the British Railways Board is marginally more free to fix its rates than other nationalized industries as a result of the Transport Act of 1962 and the fact that it need not publish the rates it charges but probably this freedom extends more to discriminatory price concessions to obtain business than it does to price increases.

3. The British iron and steel industry is in a special situation under existing legislation, the Iron and Steel Act, 1953, under which "denationalization" of the industry is nearly completed. Its prices are controlled by the Iron and Steel Board which is subject to Government influence and advice. (The Government appoints the members of the Board.) Proposed price increases in the iron and steel industry

are almost certainly discussed with the Minister of Fuel and Power and he is in a position to influence them. However, the Board, in its annual report explains and justifies the prices it sets (Cf. ch. 4, Annual Report for 1961).

4. Aside from the more or less direct influence on price rises in key industries summarized above, British governments have for some time constantly emphasized the dependence of the British economy on the competitiveness of British industry, particularly export and import competing industries. Although no legislation or formal machinery for investigating the significance of price rises exists, two recently established agencies potentially have a significant role to play in the price field. The National Incomes Commission whose establishment was announced by the Prime Minister in July of 1962 was given its formal terms of reference by royal warrant on November 5, 1962. This five-man commission, headed by Frederick Geoffrey Lawrence, a Queen's counsel, is intended to consider any current claim or specific questions relating to pay or other conditions of service or employment, matters referred by Ministers for review relating to pay or other conditions of service or employment where the cost is met in whole or in part by the Exchequer, and any particular settlement referred by a Minister relating to pay or other conditions of service or employment, except an award at arbitration. In considering these matters the Commission is to have regard to the circumstances of the case concerned and to the national interest including in particular:

(a) The desirability of keeping the rate of increase of the aggregate of monetary incomes within the long-term rate of increase of national production;

(b) The desirability of paying a fair reward for the work concerned;

(*c*) The manpower needs of the service, industry or employment concerned, taking into account any regional or local differences in such needs, and the importance of securing the most efficient deployment and use of national resources including manpower;

(*d*) The policies and practices in the service, industry or employment concerned in such matters (where appropriate) as pricing, profit margins, dividends, efficient use of manpower and equipment, and organization;

(*e*) The repercussions which a particular settlement in the case concerned might have in other employments.

It is also intended to report upon the need for action necessary to restrain by fiscal or other appropriate means any undue growth in the aggregate of profits which may follow from restraint in earned income.

The Commission operates by publishing its findings and recommendations. The British Trades Union Congress and individual trade unions have refused to participate in the Commission. The Commission has so far produced a report on the Scottish plumbers and builders agreements made in 1962. This report stated that there was no evidence before the Commission that the general level of profit margins and dividends of the Scottish construction industry at the present time are excessive or unreasonable. It implied it expected that the costs of the wage agreement made by the industries would be passed on in price increases but took no position regarding the acceptability of such action. However, it suggested a means of implementing the wage increases agreed which it described as limiting the inflationary aspects of the agreement.

Additional wage agreements have recently been referred to the NIC and future reports by it are to be expected.

The National Economic Development Council, established in 1961, has been given responsibility for developing agreed policies contributing to more rapid and sustained economic growth in the United Kingdom. In the reports which it has prepared and published it has discussed the necessity of avoiding undue increases in costs and prices if economic growth is not to endanger the balance-of-payments position of the United Kingdom and thereby to require the imposition of restraints on the economy. The opinions the NEDC has expressed regarding prices (and incomes) are general, emphasizing the importance of insuring that British exports are sufficiently competitive so that regular increases in them are possible. The NEDC has not suggested any measures of price control. The principal emphasis of its rather general comments has been on the desirability of developing an incomes policy, that is to say, of restraining the growth of wages and other incomes so that this growth does not exert so much pressure on prices that British exports lose their competitiveness.

5. Two other sources of public comment on price increases and price policy should be noted, although they are not, properly speaking, "devices used by the Government to deal with price rises." A Member of Parliament by putting a question to the responsible Minister in the House of Commons can focus attention on a price rise. Price rises, or the ability to raise prices without fear of effective competition, may be relevant to the reasoning and recommendations of the Monopolies Commission or the Restrictive Practices Court here. A price rise could be the principal factor persuading the Government to refer a particular situation to the Monopolies Commission.

APPENDIX

UNITED STATES

Guideposts for Noninflationary Wage and Price Behavior [1]

Individual wage and price decisions assume national importance when they involve large numbers of workers and large amounts of output directly, or when they are regarded by large segments of the economy as setting a pattern. Because such decisions affect the progress of the whole economy, there is legitimate reason for public interest in their content and consequences. An informed public, aware of the significance of major wage bargains and price decisions, and equipped to judge for itself their compatibility with the national interest, can help to create an atmosphere in which the parties to such decisions will exercise their powers responsibly.

How is the public to judge whether a particular wage-price decision is in the national interest? No simple test exists, and it is not possible to set out systematically all of the many considerations which bear on such a judgment. However, since the question is of prime importance to the strength and progress of the American economy, it deserves widespread public discussion and clarification of the issues. What follows is intended as a contribution to such a discussion.

Mandatory controls in peacetime over the outcomes of wage negotiations and over individual price decisions are neither desirable in the American tradition nor practical in a diffuse and decentralized continental economy. Free collective bargaining is the vehicle for the achievement of contractual agreements on wages fringes, and working conditions, as well as on the "web of rules" by which a large segment of industry governs the performance of work and the distribution of rewards. Similarly, final price decisions lie—and should continue to lie—in the hands of individual firms. It is, however, both desirable and practical that discretionary decisions on wages and prices recognize the national interest in the results. The guideposts suggested here as aids to public understanding are not concerned primarily with the relation of employers and employees to each other, but rather with their joint relation to the rest of the economy.

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Prices and wages in individual industries.—What are the guideposts which may be used in judging whether a particular price or wage decision may be inflationary? The desired objective is a stable price level, within which particular prices rise, fall, or remain stable in response to economic pressures. Hence, price stability within any particular industry is not necessarily a correct guide to price and wage decisions in that industry. It is possible, however, to describe in broad outline a set of guides which, if followed, would preserve overall price stability while still allowing sufficient flexibility to accommodate objectives of efficiency and equity. These are not arbitrary guides. They describe—briefly and no doubt incompletely—how prices and wage rates would behave in a smoothly functioning competitive economy operating near full employment. Nor do they constitute a mechanical formula for determining whether a particular price or wage decision is inflationary. They will serve their purpose if they suggest to the interested public a useful way of approaching the appraisal of such a decision.

If, as a point of departure, we assume no change in the relative shares of labor and nonlabor incomes in a particular industry, then a general guide may be advanced for noninflationary wage behavior, and another for noninflationary price behavior. Both guides, as will be seen, are only first approximations.

The general guide for noninflationary wage behavior is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of overall productivity increase. General acceptance of this guide would maintain stability of labor cost per unit of output for the economy as a whole—though not, of course, for individual industries.

[1] Excerpt, report, Jan. 12, 1962, Council of Economic Advisers, pp. 185–190.

The general guide for noninflationary price behavior calls for price reduction if the industry's rate of productivity increase exceeds the overall rate—for this would mean declining unit labor costs; it calls for an appropriate increase in price if the opposite relationship prevails; and it calls for stable prices if the two rates of productivity increase are equal.

These are advanced as general guideposts. To reconcile them with objectives of equity and efficiency, specific modifications must be made to adapt them to the circumstances of particular industries. If all of these modifications are made, each in the specific circumstances to which it applies, they are consistent with stability of the general price level. Public judgments about the effects on the price level of particular wage or price decisions should take into account the modification as well as the general guides. The most important modications are the following:

(1) Wage rate increases would exceed the general guide rate in an industry which would otherwise be unable to attract sufficient labor; or in which wage rates are exceptionally low compared with the range of wages earned elsewhere by similar labor, because the bargaining position of workers has been weak in particular local labor markets.

(2) Wage rate increases would fall short of the general guide rate in an industry which could not provide jobs for its entire labor force even in times of generally full employment; or in which wage rates are exceptionally high compared with the range of wages earned elsewhere by similar labor, because the bargaining position of workers has been especially strong.

(3) Prices would rise more rapidly, or fall more slowly, than indicated by the general guide rate in an industry in which the level of profits was insufficient to attract the capital required to finance a needed expansion in capacity; or in which costs other than labor costs had risen.

(4) Prices would rise more slowly, or fall more rapidly, than indicated by the general guide in an industry in which the relation of productive capacity to full employment demand shows the desirability of an outflow capital from the industry; or in which costs other than labor costs have fallen; or in which excessive market power has resulted in rates of profit substantially higher than those earned elsewhere on investments of comparable risk.

It is a measure of the difficulty of the problem that even these complex guideposts leave out of account several important considerations. Although output per man-hour rises mainly in response to improvements in the quantity and quality of capital goods with which employees are equipped, employees are often able to improve their performance by means within their own control. It is obviously in the public interest that incentives be preserved which would reward employees for such efforts.

Also, in connection with the use of measures of overall productivity gain as benchmarks for wage increases, it must be borne in mind that average hourly labor costs often change through the process of upgrading or downgrading, shifts between wage and salaried employment, and other forces. Such changes may either add to or subtract from the increment which is available for wage increases under the overall productivity guide.

Finally, it must be reiterated that collective bargaining within an industry over the division of the proceeds between labor and nonlabor income is not necessarily disruptive of overall price stability. The relative shares can change within the bounds of noninflationary price behavior. But when a disagreement between management and labor is resolved by passing the bill to the rest of the economy, the bill is paid in depreciated currency to the ultimate advantage of no one.

It is no accident that productivity is the central guidepost for wage settlements. Ultimately, it is rising output per man-hour which must yield the ingredients of a rising standard of living. Growth in productivity makes it possible for real wages and real profits to rise side by side.

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