

Answer. As noted in the question, Britain acted in response to emergency conditions. The emergency may reasonably be attributed, in part, to failure to adopt an incomes policy earlier. Because of the seriousness of the situation that Britain faced last summer, the government was unable to rely on the voluntary incomes policy that it had previously contemplated and that is still intended for the long run. As of July 20, 1966, a "prices and incomes standstill" was imposed which took the form of a "freeze" until the end of 1966, followed by the current 6-month "period of severe restraint". The standstill, however, is *not confined to wage limitations*, as the question suggests. It is far broader in its application to incomes than the U.S. guideposts which cover only wages fixed through collective bargaining. The approach taken, in fact, is that of an incomes policy. The White Paper on the "freeze" (Cmnd. 3073), for example, deals not only with wages and prices but also with rents for both housing and business premises, "scales of charges and fees for self-employed persons, including all sorts of professional fees", salaries and other forms of remuneration not fixed by collective bargaining "including that of company directors and executives", and "all company distributions, including dividends paid by companies". In addition, the White Paper notes, "The Government have already pledged themselves to use their fiscal powers or other means to prevent any excessive growth in aggregate profits."

Question. The incomes policy that you favor concentrates, as I understand it, on the relative shares of real income that go to labor and the other factors of production. Elsewhere in your statement you indicated that labor and capital should be free to bargain over the shares of income that each shall receive. Aren't these contradictory? Doesn't an income policy tend to stabilize the share of income going to labor? We would be interested in hearing how you reconcile these two.

Answer. Perhaps the best way to answer this question is to quote from the British White Paper on "Prices and Incomes Policy" issued in April 1965 (Cmnd. 2639). (This White Paper later was attached to the Prices and Incomes Act adopted in August 1966 as a "schedule" setting forth the considerations to be taken into account in the administration of that Act.) The pertinent paragraph says: "The requirement that total money incomes should rise in line with the growth of real national output *does not mean that all forms of income should increase at the same rate. It is necessary not only to create the conditions in which essential structural readjustments can be carried out smoothly but also to promote social justice.*" The general review of money incomes of all kinds to be carried out by the National Economic Development Council will involve not only the assembly of the facts about the movement of the main categories of income—wages, salaries, income from self-employment, profits (distributed and undistributed) and rent—but also an appraisal of the way the distribution of the national income is developing under the impact of the prices and incomes policy. The Government have pledged themselves to use their fiscal powers or other appropriate means to correct any excessive growth in aggregate profits as compared with the growth of total wages and salaries, after allowing for short-term fluctuations." [Italic added.]

One of the problems with the guideposts is that the Council, in applying them, has tended to forget its own statement that:

"... there is nothing immutable in fact or in justice about the distribution of the total product between labor and nonlabor incomes."

The Council, in practice, has attempted to apply its wage guidepost in a manner that would freeze the labor income share in the unlikely event of an absolutely stable price level and that reduces the labor share when prices increase.

There are important economic considerations, as well as equity and social justice considerations, for not freezing the shares going to labor and nonlabor incomes. The increasing productivity of capital, noted in my prepared statement, calls for a long-term increase in the labor share. Other factors that should be taken into account have been summarized by Professor Neil Chamberlain of Yale University as follows:

"... the distribution of income affects the balance between consumption and investment. Under changing circumstances this balance too may have to change if the economy is to make full use of its assets. The balance may have to swing more toward savings and away from consumption when more private investment is needed to satisfy rising household demand; more toward private