The Unacceptable Face

CIS

Special Report on the Conservative Government 1970/74

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Introduction

The economic scenario currently being presented by the Conservative government is that a brave try for all-out growth has been halted by a combination of greedy workers, greedy foreigners and bad luck. Unfortunately, such an explanation of the economic debacle of the past three and a half years bears little resemblance to reality. Perhaps it is for this reason that the emphasis has been shifted from the economic realities to such interesting questions as 'Who governs Britain?'

When the Conservative government came to power in 1970, the balance of payments was running in credit at a rate of £724m. The rate of inflation was around 5½% per annum – not unreasonable considering the devaluation of late 1967 and that the money supply was under control after actually falling in mid-1969. There are many who would say that these advantages were bought too much at the expense of the worse-off members of the community, particularly with regard to unemployment. Be that as it may, the advantages, in economic terms, for the incoming government were substantial.

There was considerable slack in the economy, which would have given room either to build a fairer society without leaning too heavily on the middle wage earners or to ensure that resources were transferred into investment for future growth. The Conservatives chose instead to give substantial tax benefits to the better-off, to promote higher immediate consumption and increase the money supply at an unprecedented rate. By mid-1972 their early advantage had been totally dissipated. Their socially divisive policies had led to the worst industrial unrest since 1926 and as they 'freed the currency', prices began to rise.

The UK's long term failure to put enough into capital investment meant that the policy was doomed from the start. The increase in credit led to vast imports of such items as cars and colour TV's for which British industry could not meet the demand, the balance of payments deteriorated as exports were sucked into the home market and the pound began to fall. This, of course, was a basic factor in the rise in prices, particularly of food where Britain imports some 45% of its needs. By the third quarter of 1973, the balance of payments was in deficit to the tune of £1,600m per annum, twice the worst previous deficit. The oil crisis was but the final straw.

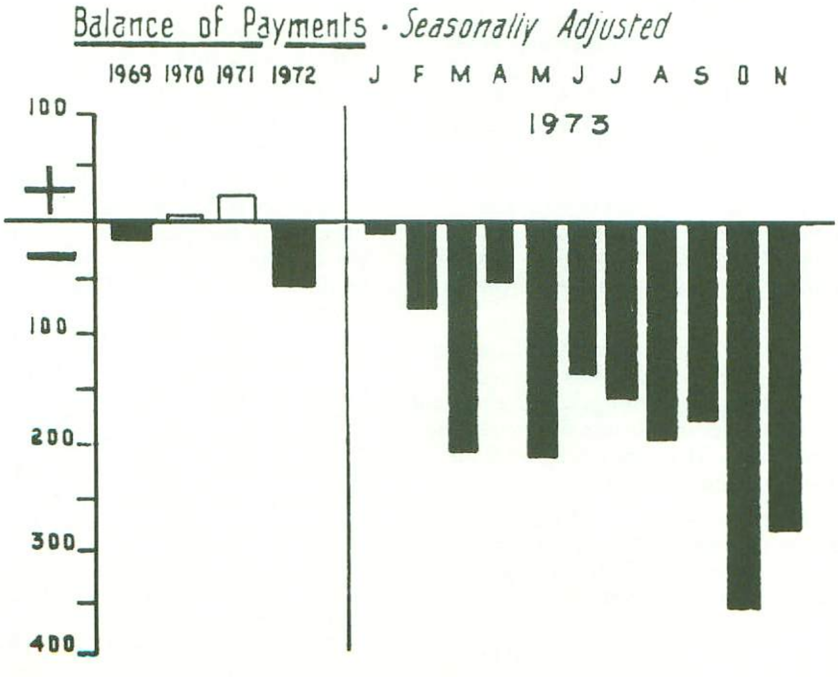
The government's reaction to this policy has been to blame the workers for demanding high enough wages to keep abreast of the cost of living. The worst-off have suffered most, the number of homeless is rising rapidly – little wonder that the 1970 manifesto promise that the Tories would 'lay down a more sensible definition' of homelessness was never met.

Yet the Government can provide some £55m a year in tax-free grants to property speculators. This is the amount of money given in the form of improvement grants to the said gentlemen – who 'contribute' so much to the economy.

Numerous pieces of research show that the result is to increase the cost of accommodation beyond the means of the original tenants – rents in 'improved' dwellings usually rise between two and five times. Hence the tenant has generally to leave, adding to the pressure in areas of housing stress.

Despite the fact that the Government must be well aware of the results of this highly inflationary policy, its 1974 manifesto announces that it intends to continue with its policy of improvement grants.

Yet the government is prepared to ensure that the mining industry cannot get the workers it needs to counter the balance of payments problems from the oil crisis. 'Fair but firm?' or just 'raving mad'.



Wages & Incomes

In spite of the doubtful proposition that wages are the main cause of price increases, the government has made the restriction of wages the basis of its entire anti-inflation policy. Indeed, it is this obsession that has led it to declare the General Election. It was the same obsession that provoked the bland assumption that the wage increase won by the miners in 1972 was a cause of the subsequent escalation of prices.

It also led to the abolition of free collective bargaining, by the introduction of the Industrial Relations Act and the tightening-up of picketing laws.

Yet the facts on wage-rates in the past three years show a completely different picture. The average earnings of workers cannot be said, by any stretch of the imagination, to have experienced a boom period.

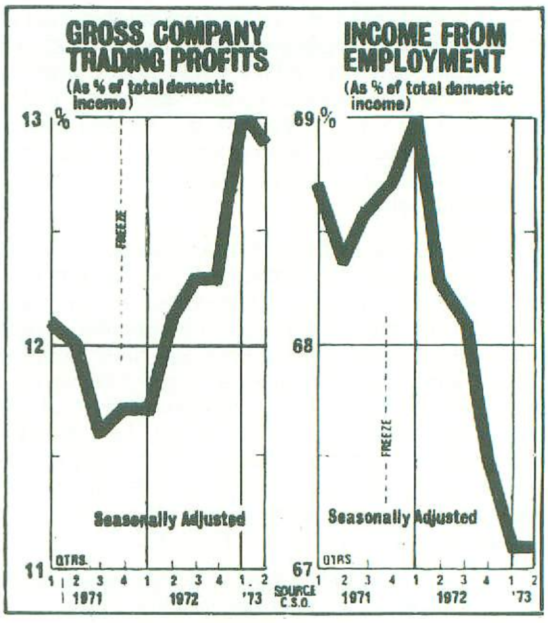
Of all the variables in the British economy, wages have been particularly hit by price inflation and taxation. The Prices and Incomes policy of the government has also restricted earnings.

The published average earnings of full-time male workers obscures the fact that three-quarters of manual workers earn below the average. For instance, in 1973 15.4% of manual workers earned less than £25 pw; 18% of all those in non-manufacturing sectors earned less than £20 pw, and 56% of agricultural workers earned less than £25 pw. **Further, in the case of women workers the situation is even worse.** In 1972, they earned 64%, or less than two-thirds of what men earned. The two million women working in manual occupations earned in April 1973, an average gross wage of £19.07 pw. Ninety-one per cent of nurses earned less than £25 gross pw.

If the above cases are taken to be exceptional, the so-called average figures are not much better. Between October 1970 and October 1973 the average male gross earnings per week rose by £12.25 pw. After deductions for taxation and national insurance, this sum was reduced to £9.66 pw. At October 1970 prices, the real take-home pay was increased in three years by a paltry £2.13 pw. **The actual change in take-home pay was a meagre 42p in 1971, £1.79 in 1972 and an absolute decline of 8p pw in 1973. In the last year, therefore, real average earnings of male workers declined by 0.3%** (Michael Meacher *The Times* 21.1.74). This dramatic decline in living standards began with the introduction of the government's incomes policy in November 1972. In the case of women, the gross weekly average earnings of manual workers rose from £14 pw in 1970 to £19.07 pw in 1973.

The rise in earnings in 1973, registered by official publications, was also achieved by more overtime work. **For instance, 25% of the gross earnings of male manual workers was from overtime. In the case of women the equivalent figure was 16%.** The earnings figure is also inflated by the fall in unemployment.

Since 1970, both national insurance and tax contributions on average earnings have increased. The combined contributions increased from 6.68% of earnings to 9.67% in 1973. Thus gross earnings may have gone up, but more people are paying more tax than they did three years ago. As a result real take-home pay has considerably diminished.



(Financial Times 9.10.73.)

The retail price index, which underestimates the rise in housing costs, rose from 140.2 in 1970 to 188.2 in 1973, taking monthly averages. These figures mask the full extent of the prices problem, since food prices were well above the average. 'The food price index is up from a monthly average of 140.1 in 1970 to 194.9 last year. It reached 210.5 in December, an increase of 48.7% on the June level.' (*Observer*, 3.2.74) The rise in food prices cannot be attributed entirely to the rise in world commodity prices. The devaluation of sterling and the Common Market costs have had a marked effect on them. In May 1973, it was estimated that the gap between British and EEC farm prices would have to be increased by some 30% as a result of the fall in the value of sterling.

The rise in prices has obviously hit the lower-paid sections of the population hardest. **Twenty per cent of the population have suffered a rise in their living costs of some 30% during 1973.** 'Since the poor also suffer from the 'poverty trap' in terms of marginal tax and loss of welfare benefits – especially large families – they have suffered doubly in real standards. A wage increase of 8% . . . is worth only 5½% in take-home pay to a father of three or more children. To cover the rise of more than 10% in living costs which this group has suffered, he would need to raise his gross pay by some 18%.' (*Financial Times* 28.9.73) This group in fact includes all families with two or more children, earning less than £25 pw. During 1973, the poorest 5% of the population have suffered fered a rise in their living costs nearly 30% greater than the average.

Michael Meacher, the Labour MP, has calculated that 'for most people, their living standards declined by an average 2.8% in 1973', as a result of inflation and government restrictions.

THE MINERS

The miners' wage dispute with the National Coal Board has now been elevated to a confrontation with the government. The economic ills of the country are being blamed on the action of the miners. **Yet the wage claim of the NUM has irrefutable economic logic.**

The recent rise in the price of crude oil 'makes coal up to a third or a half cheaper for most uses. Oil with a thermal equivalent of that of coal the average miner produces in a week costs nearly £250 to get; including the miners' average earnings of about £41 a week, it costs the NCB about £83 to produce one miners' average weekly output.' (*The Times* 25.1.74) The shift to coal would also have beneficial effects on the Balance of Payments. The savings in foreign exchange would not, of course, be the difference between £250 and £83, but the entire £250.

The second factor is that the coal industry is losing about 17,000 miners a year, because of better pay and conditions elsewhere. In 1972, 10,000 left the mines for 'voluntary reasons'. In addition, 'wastage' in the months January to October 1973 has shot up to 14.4% of the average number of men on colliery books. In 1972, 64% of mineworkers were over the age of 40 years. In 1973, 1,500 men died while still in employment. **The Department of Applied Economics in Cambridge suggests that with the current mining to manufacturing wage differentials, 22,600 men will leave each year to seek employment elsewhere. Given a shift in demand for coal over the next year to 10% of present output, an extra 25,000 miners will have to be found.** 'On these assumptions, which must be considered reasonable and possibly optimistic, wages offered by the NCB must be high enough to turn about 55,000 men from a job elsewhere. This is the scale of the recruiting problem.' (*The Times* 28.1.74)

The conclusion of the Cambridge study is that, given the differentials between wages in mining and manufacturing, the present demand by the NUM is too low. A 10% reduction in the differential would 'save' 4,000 men for the mines. Even if the present differential were raised to 25%, there would still in the short term be a serious shortfall. **This being so, the miners' wages should be raised by 35% to ensure the future manpower of industry in the short term.**

Since 1972, the median weekly wages of miners has slipped from fourth to eleventh place, compared to 25 other industrial wages. An Associated Press Survey revealed (5.2.74) that **'Britain's miners are Europe's lowest-paid. . . France is closest to paying Britain's low wages to miners. West German miners receive the most, closely followed by Belgians and then the Spaniards.'** (*The Times* 5.3.74)

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Profits & Dividends

The real facts about what has happened to pay and profits since the Tories came in should help us make up our minds about Heath's claim that the government's policy is 'fair'. According to official statistics, quoted in *The Times* by Labour MP Michael Meacher, take-home pay went up by 1.8% in the twelve months from October 1970 to October 1971. In the same period profits rose by 8.7%; in both cases the figures are adjusted to take account of tax and the changing value of money. In the twelve months that followed, take-home pay rose in real terms by 7.6%, and profits, only 6%. This led to the 'wages-cause-inflation' campaign and, on the back of this, between October 1972 and October 1973 real take-home pay actually fell by 0.3%, while profits rose in real terms by 16.2%.

A similar picture was shown by a survey which CIS conducted of the results of twenty major companies whose financial years ended between June 1972 and March 1973. They showed an overall average increase in profits of 26% while in the same period the average UK wage increase granted by the same companies was only 10.9%.

Courtauld's, for example, increased its average wage per employee by 13.6% over the previous year, while

profits per employee increased by 43%. The overall picture from these twenty companies shows profits per employee up 32.1% on average. (*Three Phase Trick* CIS pp4/5)

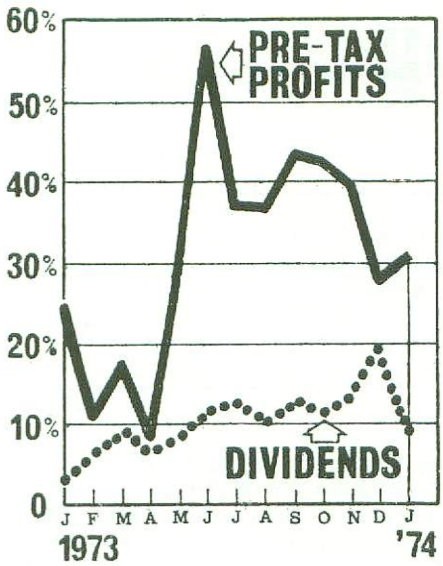
During the freeze itself profits grew even faster. GKN's first-half profits in 1973 were up 72%, Tube Investments up 101%, and ICI up a record 144%. As the Stock Exchange firm of Phillips and Drew reported in August 1973: 'There was an unprecedented profits boom in the first half of 1973'. Those companies reporting between mid-June and mid-July came out 40% higher than a year earlier. They added that this 'seriously underestimated the strength of the profits growth'.

This led the *Financial Times* to comment; 'The discovery that according to the Government's own figures, living standards have actually begun to fall because the pay freeze has been holding back incomes while prices continue to rise will naturally tend to have the effect of arousing suspicions in this respect. It must be expected to make a still greater impact. . . as it begins to realise that the rise in prices has been accompanied by a spectacular advance in profits.' (1.8.73)

The trend continued through 1973. The *Financial Times* published at the end of December an analysis of the results of 822 companies whose financial years ended in the first three months of 1973, and who had published their reports by the end of November. Total industrial profits were up 33.8%. The next month the same paper published an analysis of 325 companies whose years ended in the second quarter of 1973, and who had reported by the end of December. For all industrials, profits had risen by 36.8%.

Another aspect of Tory 'fairness' is said to be the 5% limit on dividend increases imposed as part of the 'Counter-Inflation Policy'. Any appearance of 'even-handedness' this may give is quite bogus; wage-increases foregone have gone for good while undistributed dividends can be retained by the company, to be handed out later, and to increase the value of the company's assets, and thus of the shares, in the meanwhile. The directors of Unilever, amongst others, understand this very well, as they explained in their Report and Accounts for 1972: 'The increase in total dividend . . . will be greater than 8%, but in view of the dividend restrictions included in the counter-inflation measures the amount will have to be held for the time being to . . . an increase of 5% over 1971. The balance of 1972 dividends declared by Unilever Limited will be distributed when circumstances permit.'

The 822 companies referred to above, whose financial years ended in the first quarter of 1973, and who had reported by November, paid out dividends 10.3% up on the previous year. And for all companies reporting in 1973, gross dividends paid were, on a cumulative weighted average, 9.5% on the previous years. It seems that this is all done quite legally, by loopholes in the code for 'rights issues', issue of new capital, and acquisitions and take-overs paid for in shares. The graph below shows how pre-tax profits and dividends fluctuated throughout 1973. So much for the claim that the incomes policy is 'fair' as between pay, profits and dividends. The only argument in its favour is not often used in public



(Financial Times 1.2.74)

by government spokesmen, but others are more outspoken. It is a good thing, some argue, to hold down wages while profits rise, so that there can be more money available for new investment in plant and machinery. That way, British industry will become more efficient, and in the long run, everyone will be better off. As the *Evening Standard* put it: 'Of course commerce and industry must make decent profits. Anyone who suggests otherwise is either ignorant or foolish. For seed corn must be planted for the future and investors must receive a reasonable return for their money.' (20.7.73)

Of course this contains a germ of truth as far as it goes; new investment does come out of profits. But that doesn't mean that higher profits lead to higher investment automatically. And the truth is that the bumper profits of the past two years have not led to any increase in industrial investment. Instead, firms have left the money in the bank, or have built up their stocks, often speculating against an increase in raw material prices.

Thus in the trading year ending April 1973, the total funds available to quoted companies in manufacturing industry, from trading, borrowing, and issue of new shares, went up by £2,206.5m (to £6,848.2m from £4,641.7m). But expenditure on 'tangible fixed assets, that is, new plant and machinery, actually went down, from £1,276.1m to £1,101.7m. So where did the rest of the extra money go? As much as £1,533.7m of it went in 'current assets and investments' as against only £242.5m the year before.

Of this, increase in stocks went up from £155.8m to £264.4m, as firms safeguarded themselves against the increases in raw material costs. 'Investments' went up from £41.3m to £221.6m, and 'other liquid assets', in other words, cash in the bank, went up from £176.7m to £541.6m.(*Financial Statistics* HMSO January 1974, pp96/7)

A good example of the trend to pile up extra profits in the bank while ignoring new investment is electrical giant GEC, Britain's biggest private employer. Profits for financial year 1972/3 were up 59% after tax, from £44m to £70m, while employees' wages rose only 8%. Number of employees fell from 181,000 to 170,000 while money in the bank soared from £83m to £125m, and has since reached £200m.

GEC, known to its workers as the biggest unemployer in the country, is of course the best example of how profits can be made by closing factories down. From 1969 to 1972, post-tax profit rose from £21m to £44m, while the number of employees slumped from 230,000 to 181,000,and plants were axed all over the country.

Naturally, one sector of big business to do very well out of this trend is the 'big four' banks, Barclays, Lloyds, Midland and National Westminster. In 1971 their combined profits totalled £287m, which rose in 1972 to £399m. City stockbrokers Hedderwick Borthwick and Co estimate that their 1973 profits will reach £492m and will be only slightly down in 1974, at £474m.

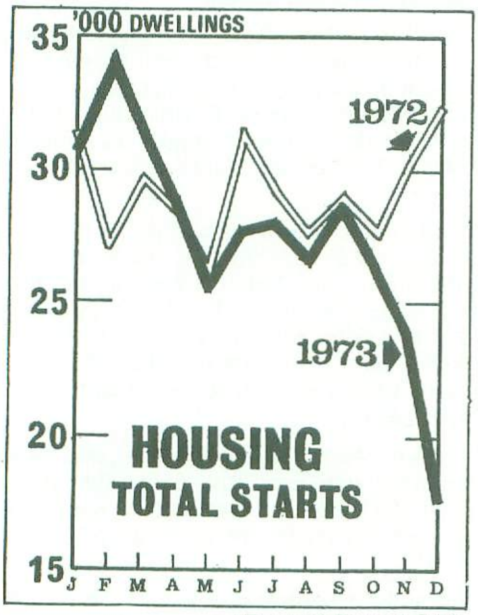
'We are not ashamed of bank profits', said National Westminster's chief executive AHA Dibbs after their first-half 1973 profit increase of 81% was announced; 'They are necessary for the continuation of our business'.

Of course the economic prospect for 1974 looks less likely to yield bumper profits than the golden months of 1973. The City has marked down the value of shares quite sharply, anticipating the effect of industrial unrest sparked off by the boom in industrial and property profits in a period of incomes 'control'.

But let us remember that a large proportion of last year's profits is still there, gathering dust and interest in the bank, while the cuts in real living standards which wage-earners suffered in the same period will never be made up. 'Free' enterprise cannot guarantee that wage increases foregone will go to increase investment. If profits are necessary to provide the 'seed corn for the future' those who speculate with the seed corn or leave it in the bank instead of planting it for the future are the ones really guilty of 'holding the nation up to ransom'.

Housing

The latest housing-start figures are the lowest since 1958. In December 1973 only 10,600 homes were commenced in the private sector and 7,100 council houses. This was the culmination of three years of Conservative 'freedom' during which private house prices doubled and the number of council houses completed fell 40%.



(Financial Times 1.2.74)

When the Conservatives came to power in 1970, the building sector was beginning to recover from the austerity of the post-devaluation period. The counter-inflationary aspects of labour policy in 1968/69 led to a falling-off in the amount of money going into the building societies. This began to rise again by early 1970 and the number of new houses started began to climb gently.

The monetary policy of the new Conservative government, with low interest rates and an expansion of the money supply, led to an enormous increase in the amount of money flowing into the building societies. The net inflow increased from £830m pa in 1968/69 to over £2,000m in both 1971 and 1972. But it takes some 12 to 18 months for a new house to be built and it was not until the final quarter of 1971 that completions rose above the level of early 1969.

With the substantial increase in money coming into an almost stable supply of houses, the necessary ingredients were present for inflation on a major scale. House prices rose from an average of just over £5,000 in 1970 to over £9,000 in 1972.

Land owners and house builders made fortunes. What in fact happened during this period was that the building societies acted as a channel directly from savings into building company profits. This gigantic rise in prices obviously had to come to an end as house prices swiftly outdistanced the rise in earnings. Coupled with increases in mortgage rates the monthly repayments on a 100% mortgage on the average new house had risen from £36.65 in 1970 to £99 in January 1974.

Despite the fact of the big 1971/72 inflow of funds, by mid-1973 building societies were becoming comparatively unattractive havens for money and the total amount given in new mortgages for 1973 was slightly lower at £3,447m against £3,630m for 1972. Much more staggering was the decrease in the number of mortgages, down from 892,522 to about 545,000, less than in 1970. During the 1970/73 period the average mortgage has increased from £3,100 to £6,400.

> **'The increase in the cost of new houses and the highest mortgage interest rates in our history have prevented thousands of young people from becoming owners of their own homes.' (Conservative Manifesto 1970).**

Today the private housebuilding market is in total disarray. Few people can afford a mortgage and in consequence fewer houses will be started. All the evidence is that the down-swing in housing starts will be one of the worse ever. The government policy has been a total disaster except for the shareholders in the house builders who sold at the top of the boom and the cleverer land speculators.

The housing cycle is one of the more destructive aspects of the operation of free enterprise in the provision of necessities; the only way to provide enough houses at reasonable prices is to ensure a steady flow of both land and credit. This can only be done by direct government intervention.

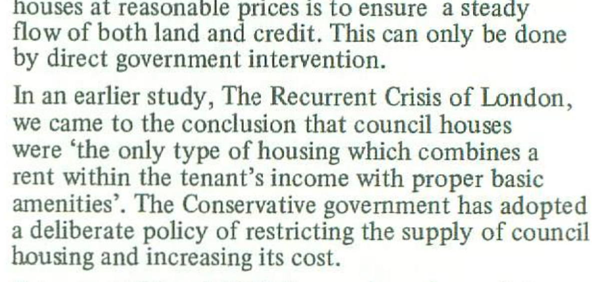
In an earlier study, The Recurrent Crisis of London, we came to the conclusion that council houses were 'the only type of housing which combines a rent within the tenant's income with proper basic amenities'. The Conservative government has adopted a deliberate policy of restricting the supply of council housing and increasing its cost.

Between 1970 and 1973 the number of completions for council houses were as follows:

1970	180,129
1971	158,908
1972	122,827
1973	107,500

With new starts continuing to fall throughout 1973, there seems a good probability that the number of 1974 completions will be below 100,000.

(Evening Standard 25.9.73)



At the same time the government's insistence on the housing cost yardstick has led to the situation of which the *Guardian* (13.12.72) said, 'there are dangers that continued insistence on cost cutting will lead to the creation of centrally-heated slums occupied by tenants without the earning power to pay the rent.' Certainly the Housing Finance Act should help ensure the latter. Despite the freeze the government has insisted on pushing through the rent rises for the least well-off section of the population.

Almost unbelievably, the Conservative government has learnt nothing from its past mistakes. In its latest manifesto, the Conservative party proclaims that they will find new ways of 'channelling the funds of leading financial institutions into the finance of house purchase' – without indicating how they intend to increase the supply of houses. 'We shall provide more housing for renting in areas of housing need', the manifesto states, although the present administration has presided over the final dissolution of the private rented sector – caused by rising house prices – and the worst fall in council building since the war.

Perhaps the most fatuous example of the government's inability to learn is contained in the promise: 'We will continue our programme to improve older houses and will give extra incentives for the selective improvement of bad housing stress.' There is a large volume of research which shows perfectly clearly that the major beneficiaries of improvement grants are property speculators. As the *Sunday Times* commented over a year ago: 'Far from helping the needy, the scheme has drastically reduced the amount of accommodation available for rent, and provided in its place much more expensive accommodation for sale.'

All in all the manifesto is a recipe for accelerating the already rapid rise in the number of homeless and continuing the raging inflation in house prices since 1970.

Northern Developments pushed its profits from £1.5m to £7m in two years and its profit per house rose from £700 to £1,450. Gough Cooper, another builder, was much more impressive; profits rose from £520,000 in 1971 to £3,950,000 in 1973 (after conservatively cutting £1.2m off land values). Profits per house rose over seven times. Both sets of directors voted themselves massive pay increases. Average pay of Northern's directors rose from £8,083 to £20,880 between 1972 and 1973. For Gough Cooper the rise was from £7,250 to £19,590. The chairman of the latter company, John Boardman, increased his salary by £15,500 to £24,610 and 'believes it is within the limits of the pay code'.

Food & Prices

'I believe personally that a lot of harm is done by people propagating the view that there will be high price increases. There is no evidence to support these predictions.' (Sir Arthur Cockfield, Chairman of the Price Commission, quoted in the *Financial Times* 2.5.73)

The lower your income, the more you have to spend on the necessities of life. An increasing number of families are now at the point where they have to spend all their money every week on the basics such as food and housing. These are average wage earners. The poor – those with less than average incomes or more than the average number of dependants to support – are finding it increasingly difficult to meet even these basic costs. As prices rise they have to cut back on essentials.

In November 1973 the cost of the *Guardian's* basic shopping basket, based on an estimated typical consumption by a low-income family with two children, rose 2% in one month, to total an increase of 26% over the year from November 1972. This particular basket is a 'food- only' indicator, and the *Guardian* blamed the huge annual increase mainly on the higher prices for meat, fish, eggs and potatoes. In fact out of a total basket cost of £7.41½ in November 1973, these items accounted for £4.31½ or over 58%. None of these major items is price controllable under the terms of the Price Commission. If we take all the items in the basket which escape control we arrive at a total of £5.26, or nearly 82%.

The more comprehensive *Financial Times* Grocery Prices Index, which includes non-foods and carries a wider range of products, showed a 20% rise in the twelve months to January 1974. Out of an eleven-shopper basket total of £417.96, non-controlled items cost £161.47, or just over 38.6%.

Not that being legally subject to control means a hold-down in prices. Producers of such items as bread and frozen foods have price increase claims constantly in the pipe-line, nearly all of which are allowed. We **have already reached the era of the three-shilling loaf, which Edward Heath claimed in 1970 would only occur if a Labour Government gained power in the election of that year.**

The Tory government, faced with statistics of increased prices, invariably, and with an air of injured innocence, points its accusing finger at the increase in imported raw material costs, claiming a regretful impotence in the face of international market trends. In this context several points are worth remembering. The first is that in 1971 the government floated the pound on international exchanges in order, as they claim 'to set the currency free'. The result of this freedom to date, coupled with government economic policies, has been the effective 20% devaluation of the pound with a parallel increase in import costs.

The second point is that the terms of entry to the EEC negotiated by the Tories ensured that our food costs would soar in keeping with the Common Market policy of establishing and supporting artificially high farm prices. 'We will provide new opportunities for the farming community to increase production, improve their incomes, and make a further massive contribution through import-saving to the balance of payments.' (Conservative Party Manifesto 1970 election)

However '. . . if farmers had been held to the same sort of price increases that food manufacturers got, the index of food prices would be four points lower than it is now, and the retail price index generally would have risen since Stage One by only about 10½%. This is a measure of the economic damage that has been done by the farming community, not consciously, but because the Government has run away from the problem.' (*Economist* 2.2.74)

Large-scale farmers and distributors have been the beneficiaries. Despite loud protestations about increased feed costs, Britain's pig farmers, for example, have just announced their highest profit since 1950, at 20% over costs (*Financial Times* 1.2.74). Agricultural land is at a premium, having increased its average price per acre from £234 to £506 in the year to 30th September 1973 (*Financial Times* 4.12.73). Both the National Farmers' Union and the Ministry of Agriculture expected profits to increase across the board by 40% last year. 'The average dairy and beef farmer should be heading for a net income before interest of £7,000 and the specialist cereal grower for something around £12,000 . . . The point the Government has to remember is that if farmers had been subject from the start to the same form of price control as manufacturing industry, then on the evidence of profits alone a fair range of food would be two-thirds cheaper than it is now.' (*Economist* 2.2.74)

The next point to remember when the Tories hide behind import costs is that the importing manufacturers are allowed by the Price Commission to pass their increased import costs on to the end of the line. Profits have continued to rise under Phase Three at record rates. Profit margin restrictions are both minimal and easily evaded. Allowable cost increases (including increases in depreciation allowances) have been extended, and there is an extension of relief to 'low-profit' companies.

As the Commission's own report coyly admits: 'In controlling profits by reference to the percentage margin the Code does, of course, permit profits to increase in line with increasing turnover. As explained in our previous report, in Stage 2 many enterprises had been able to produce a substantial increase in their available profit reference level by sub-dividing themselves into separate constituent companies or sub-divisions. In addition, of course, exports are outside the control and so too are overseas profits. These various factors go a long way to explain why companies could conform with the Code but still show substantially increased profits.' (Price Commission Report for the period 1.9.73 to 30.11.73 HMSO 2.9)

To the huge, monopolistic firms which control the food market the Code is laughable. If they decide to abide by it (and the Commission is hopelessly understaffed and physically incapable of fulfilling its monitoring role), such firms, with suitably complex balance sheets, backlogs of tax credit, arbitrary depreciations, limitless subsidiaries and well-paid accountants and auditors, suffer not the least discomfort. The profit figures speak for themselves.

Food is big business. Eleven of the top fifty firms in the UK (Times 1000 1973/74) are food firms in one way or another. They are:

Unilever Ltd (Birds Eye, Batchelors, MacFisheries, Mattesons)

Imperial Group (Ross, Golden Wonder, Smedly-HP, Lea and Perrins)

Associated British Foods (Allied Bakeries, Sunblest, Tip Top, Fine-fare, Twinings)

Grand Metropolitan (Express Dairies)

Rank Hovis-McDougall (Mother's Pride, Nimble, Bisto, Paxo, Scotts Porage Oats, Saxa)

Tate and Lyle

Unigate (United Dairies, Bristol Dairies, Cow & Gate, Devonshire Dairies, etc.)

Cadbury-Schweppes (Fry's, Chivers-Hartley, Typhoo, Kardomah, Kenco)

Western United Investment Co (Safeway)

Tesco Stores (Holdings)

J Sainsbury

Almost all of them have produced substantially increased profit in the freeze period, averaging around 25% pa.

Beyond doubt the rich, in the form of directors and shareholders, have been getting richer from price inflation under the Tories. Meanwhile: 'The goods the poor buy have been consistently going up in price faster than those bought by the rich since about 1950. Since 1970 this tendency has got dramatically worse . . . the pattern of price increases has biased the rise in real incomes towards those who are already better off.' (*Guardian* 2.8.73)

As food-price increases destroy the hairline budgeting of average as well as low-income groups, the actual standard of eating is deteriorating alarmingly. We now eat less meat than we did in 1953, the last full year of meat rationing. The average family spends less than the current cost of the minimum nutritional needs as drawn up by the British Medical Association over twenty years ago. We eat 20% more potatoes than the EEC average, and twice as many as the Americans.

We should also take with a large pinch of salt the actual figures quoted by those who would have us believe that increased import costs are the cause of all our trouble. The world market prices for commodities to be found at ever-higher daily levels in the pages of the financial press are often merely indicators of the amount of profit to be made by the importing company which has already contracted a long-term deal at a fixed low price. Sugar may be £205 per ton on the world market, but Britain is still benefitting from a restricted Commonwealth price of only £61 per ton. Metals may break world price records almost daily, but these records are boosted by the stockpiling of the speculators who buy, hoard, then sell at the record price.

All the signs are that the pressure on food prices is accelerating: under the current system, the food companies will continue to prosper and the poor to become poorer.

J. B. EASTWOOD

One firm doing very nicely out of the 'counter inflation' policy is J.B. Eastwood, the leading chicken and egg producer in the country, with huge land holdings, and other interests in meat marketing, building and transport.

Eastwood produces 800m eggs a year – 10% of the UK market – and is increasing this by 10,000 eggs per week. Pre-tax profits increased last year from £1.03m to £4.79m, and half-year results since have shown a rise to £4.04m over £1.71m in the first half of the last business year. 'Eastwoods are making a killing out of sky-high egg prices' wrote the *Daily Mail* on December 12th. 'Recent price rises have left cost increases far behind.' *The Times* agrees: 'Animal feed prices rose 60% in the first half, then stabilised, and are now rising more slowly. Against that, egg prices rose 100% – which accounts for most of the interim profits gain – and broiler prices rose 70%, it wrote on January 17th.

As each extra 1p on egg prices makes an extra £¾m profit for Eastwood, someone is benefitting from a 'fair freeze' which puts no control on egg prices while workers in broiler houses and packing stations have had their wages held down to a 7% norm, on an average gross wage of £23 according to the last annual report.

Chairman John Eastwood has set us all an example by keeping his wage at £10,000 though this January he could still afford his annual two months cruise to Rio de Janeiro. He might have met the bill from the three million shares he owns or the five million in his family trust. With the share price up from a 1971 low of 30p to 65p now, after falling from 95p in December, the family gains amount to nearly £3m over the last two years.

Tax

If the government increased taxes each week, especially to the particular detriment of the lower paid, there would be an immediate and bitter outcry from the public. Yet this is effectively what happens as wages rise in an attempt to keep pace with today's rapid inflation. The point is that as soon as wages rise above the tax threshold, i.e. the level at which tax becomes payable, the government takes its cut from any increase. Far worse though is the fact that it takes the largest proportional cut from those least able to afford it, the lower paid.

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The margin between the rises in gross and disposable incomes slowly narrows as earnings rise above the threshold. Thus for a married man with two children at £1,175 pa., a 10% rise in gross pay results in a 7% rise in disposable income; or at £2,000 pa, 8%. But at £5,500 pa, or almost £110 per week, a gross wage increase of 10% will result in disposable wages rising by £385 pa, or 9%.

The upper-income groups then, already better off by definition, are bound to be less penalised by the combined efforts of inflation and taxation. Over and above this though, the crucial question is – what does the government do with the extra revenues? These rise faster than the rate of inflation, leaving a nice 'windfall' that can be distributed through budget 'tax cuts'.

But first the government has to decide how to distribute the 'windfall', which taxes to 'cut', what to subsidise, etc. It could attempt to give it back to those it was taken from by raising tax allowances in line with average incomes. The Conservatives have not done that. Or, it could be used for a needy third party by raising supplementary benefit levels faster than the cost of living reduces their value. They have not done that either.

The option that the Conservative government positively has taken up, is to redistribute the 'windfall' culled largely from the poorer sectors in favour of the wealthy and the upper-income groups. This has been done both directly and through corporate incomes. In 1971 the income tax rate was reduced by 2½% and the upper limit to earned income relief abolished. Subsequently the unified tax system was introduced which besides again reducing tax rates also greatly reduced the discrimination against unearned incomes, especially those below £2,000 pa. Tax relief for loan interest was restored, and share option schemes and the taxing of children's income separately from their parents' were reallowed. Liability to pay capital gains charged on death was also removed. All these measures reduced the tax liability of the upper-income brackets disproportionately.

Increase in Disposable Income due to Reduced Taxation (Married man with two children under 12):

Gross Income	Increase All Earned (70/71 to 73/74	Increase All Unearned 71/72 to 73/74
£	£	£
5,000	215	521
10,000	693	1,106
50,000	7,455	1,368

These calculations, it should be noted, do not take into account all the Conservative's tax concessions, only the changes in the main rates. Without any rise in gross income, the man with an earned income of £50,000 pa received an increase in disposable income of almost 73% over these four years. In actual fact, of course, the reduction of taxes has encouraged many directors to vote themselves phenomenal pay increases during this period.

The *Investors Chronicle* (2.4.71) summed up the situation as follows: 'There may have been Budgets in the past which contained a lot more hard legislation but few have been such a harbinger of change as Mr. Barber's. The first and most immediate effects will be to 'lift the burden' of taxation in a genuine fashion from executives and medium and above income. Lip-service has so often been paid to the promotion of the managerial revolution that it is ironic to find no label of this kind on the present Finance Bill, when it could quite properly be called 'the younger executive's charter, . . .

'Combined with the greater savings incentives and the changes adumbrated for investors (which one might expect to hold greater appeal to the executive now) it adds up to an incentive effect which these men, of this particular generation, have never been given before. Their careers up to now have been accompanied by a background of increasing tax accompanied by smart methods of avoiding it.'

On the corporate side, the abolition of selective employment tax boosted profits rather than reducing prices, and corporation tax was reduced from 45% to 40% to give shareholders a larger slice of the cake. To make sure that they got it, Advanced Corporation Tax was introduced which encourages companies to pay out larger dividends rather than reinvesting profits.

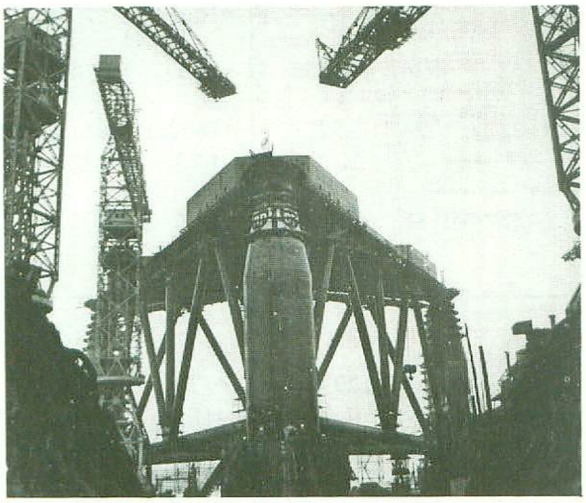
To compound the unfairness of their policies, the Conservatives have also introduced VAT at a flat rate of 10% on most goods and services. Once again, this tax falls more heavily on the lower-income groups, which its predecessor, purchase tax, did not do to such a large extent as it was more selective and higher rates were levied on luxury goods.

Taxation trends under the Conservatives have been almost entirely regressive. While on the one hand this has meant further handouts for the rich, on the other it has pushed the poorer sections of our society deeper into the quagmire of the poverty trap.

North Sea Oil

The North Sea is one area where Tory economic policy is likely to prove outstandingly expensive to the British people in the years ahead. The sums at stake are massive. If we assume, as most experts are now doing, a peak production level of four million barrels a day, at a price of $10 per barrel, the pre-tax profit would amount each year to about $11,200 billion, or just under £5 billion. **This sum is greater than the annual pre-tax profits of all publicly-quoted companies in Britain. And as things stand at present the British taxpayer will see hardly any of it.**

In March 1973, the Public Accounts Committee of the House of Commons, an all-party body, found unanimously that the choicest parts of the North Sea had been let on amazingly generous terms, with no chance of revision for 46 years, and with loopholes that would exempt the companies from paying any tax on their massive profits.



The Committee found two major tax loopholes. The companies could set off against North Sea profits the taxes they had paid in the past and would pay in the future to the oil producing states. Tax credits under this loophole had already reached £1,500m. The Tories have said they will plug this loophole but have refused to do anything about the second major get-out; capital expenditure by one British-based subsidiary of the multi-national oil company can be set off against the profits of another. **Thus, if an oil company buys a tanker fleet to carry oil from Kuwait to Japan, it can have its British subsidiary own the vessels, and write off their cost against the profits on North Sea oil.**

The North Sea oil concessions have been granted in four rounds; one, under the Tories, in 1964, another two, under Labour, in 1965 and 1969/70, and a fourth under the Tories in 1971/72. Both parties granted the same generous terms in the first three rounds, though Labour insisted as a condition on a higher participation by the nationalised Coal and Gas boards. This led the Tory Shadow Cabinet to complain in July 1969 that 'there is no justification for the expenditure of taxpayers' money for this purpose on a **speculative industry, in which massive losses could be incurred,** when the greatest expertise is already available in the British and international companies based in this country'.

The fourth round took place under Tory Secretary of State, John Davies, former Managing Director of Shell-Mex BP. Not surprisingly, the share of nationalised industries fell and that of the oil companies rose. Although the first oil discoveries had now been made, and a trial auction had been held of 15 lots which fetched a total of £37m, another 118 licences were issued for the old price of a few thousand pounds each per year.

Today the Tories argue against Labour's proposals to ensure a majority government participation in the North Sea by claiming that this would simply lead the oil companies to transfer their operations elsewhere. As we have seen, they argued five years ago when oil was cheap that the enterprise was too risky to venture the taxpayers' money. Now that oil is dear, the profits massive, and the reserves proven, the argument is that we cannot risk losing so valuable a resource by annoying the oil monopolies.

In fact other governments have dared to challenge the enormous profits of the oil companies, and Britain now lets them off very lightly. The Norwegians have the right to take up a majority government holding in any field found and also tax the profits more heavily than we do. The oil industry responds by calling them 'blue-eyed arabs', but so far none have threatened to up rigs and go elsewhere. **If the Tories have evidence of any oil companies threatening to do so in this country, will they make it public and denounce this threat to the nation's fuel supplies at least as vehemently as they have denounced the miners' strike?**

As the government owns a near-majority holding in British Petroleum, it need not succumb to this (in any event unproven) blackmail from other oil companies, who can easily afford more onerous terms. On the figures for North Sea profits we quoted above, the entire capital costs would be covered by the first year's gross profits, and everything thereafter would be pure profit. And profit is something the oil majors have plenty of. Gulf Oil, America's third largest oil company, recorded an 88% rise in earnings. The company answered US critics' allegations of profiteering by pointing out that most of the extra profit was made abroad, eg the UK, where profits were up from $150m to $560m. US profits only rose 14%, to $480m.

The Economic Records Compared

Item	Position (at 1970 prices) at 2nd quarter of:			Percentage change over	
	1967	1970	1973	Labour last 3 years	Tory 3 years
A. Economic policy	£m	£m	£m	%	%
1. **gross domestic product** (at factor cost)	39,750	42,788	46,250	+7.1	+8.1
2. **index of industrial production** (manufacturing industries)	–	–	–	+11.6	+10.3
3. **investment** (annual gross domestic fixed capital formation in manufacturing)	452	534	455	+18.1	–14.8
4. **balance of payments** (annual current balance, including invisibles)	+102	+724	–522	+£622m	–£1,246m
5. **exchange rate of £** (devaluation)	–	–	–	–14.3	–18.1
6. **profits** (real annual company gross trading profits)	5,435	5,188	5,790	–4.6	+11.6
B. Standard of living				%	%
1. **Rise in prices** (retail price index)	119.4	140.2	179.4	+17.4	+28.0
2. **Rise in food prices** (retail price index)	118.5	140.1	194.9	+18.2	+39.1
3. **Meat consumption** (oz. per person per week)	38.29	39.53	32.83	+3.2	–17.0
4. **Rents** (real average weekly council rent, England and Wales) £	1.98	2.27	2.89	+14.6	+27.3
5. **House purchase** (monthly cost of buying new house, with 90% mortgage loan repayable over 25 years) £	33.50	37.30	69.50	+11.3	+86.3

(Michael Meacher, MP from

sources: **(A)**
1 *Economic Trends* December 1973, p2.
2 *Economic Trends* December 1973, p2.
3 *Economic Trends* December 1973, p4.
4 *Economic Trends* December 1973 pxv.
5 *Bank of England Quarterly Bulletin* September 1973, p386
6 *Economic Trends* October 1973, pxxv.

(B)
1 *Department of Employment Gazette*
2 *Department of Employment Gazette*
3 National Food Survey Committee reports
4 *Housing and Construction Statistics 5* p84; and *Hansard* 22 January 1974, col. 274/5
5 Estimated from new house prices, *Housing and Construction Statistics 6* August 1973 p94)

Conclusion

The problem now facing the UK is not how to get growth, but how to restrict the fall in living standards to those who can afford to bear such a fall. The probable balance of payments deficit for 1974 is something over £3,000m. The government's refusal to pay the miners the sum necessary to attract enough men into the industry to dig the extra coal needed, places a further burden on everyone – to say nothing of the loss of production caused by the three day week. There are already ominous signs that the Conservatives, if re-elected, will place the burden of meeting the deflation on the shoulders of the workers. Hints that Phase Three was 'too generous' in current circumstances indicate that the threshold pay offers, which will shortly be sparked off, will be withdrawn.

It is perhaps typical that the Conservatives are prepared to give away, often to overseas companies, the very piece of luck on which they are relying to pull this country out of its crisis, ie North Sea oil.

In the eyes of most political pundits, the central issue of the election is: 'Who can best control inflation?'

Wholesale prices, after three and a half years of Conservative 'freedom', are now rising at a rate of 33% per annum. In 1970, after six years of Labour government, they were only rising at just over 5%. Yet most of these pundits, in their objective way, suggest that the Conservatives will do better in the future.

An examination of the Conservative record on housing should do much to relieve them of this illusion. Here is an area largely unaffected by the machinations of either trade unions or sheikhs. Yet by allowing the uncontrolled flooding of large amounts of money into a situation of inelastic supply, the Government encouraged the worst inflation in house prices since the war.

The results were massive profits for land owners and building companies and now the inevitable hangover – the worst fall in new housing starts for 25 years.

At the same time they squeezed funds for local authority housing which, due to their action – or lack of it – in the private housing sector, had become the only form of housing which most working people could afford. And, in the meantime, the 'fair rents' policy has acted in an inflationary manner on rents.

They have handed over some £125m worth of improvement grants to speculators, mainly in areas of housing stress. Rather than proportionately lowering the price of accommodation, it has increased it as the speculators pocket the cash but charge the purchase or tenant the full cost – a direct subsidy for inflation.

In particular, the past 3½ years should have exploded certain myths:

1. that the holding down of wages substantially reduces inflation,
2. that massive incentives to industry lead to an investment breakthrough,
3. that a stern line with the unions leads to less industrial unrest.

What is particularly horrifying about the latest Conservative manifesto is that it seems to have learned nothing from its experience. Otherwise how could it suggest its aim is 'a Britain united in moderation, not divided by extremism'?

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