

Societies and Inflation
Inflation Tolls the Knell

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The Counter Inflation (Price Code) Order 1974 came into operation on 20th December, 1974. This Order substitutes a new Price Code for the Code which has been in operation since 1st November, 1973 (as amended from time to time) and closes a period of intensive consultation which took place between trade associations and the Ministries of Agriculture and the Department of Prices and Consumer Protection.

The Counter Inflation Act 1973 was the starting point for the Price Code. The present Government has strengthened the Code and, under the Prices Act 1974, taken additional powers over prices generally as well as abolishing the Pay Code. Manufacturers and distributors are in the position of being subject to close price and profits control while pay negotiations are unrestricted except for the social contract which exists between Government and the Trades Union Congress. This contract is in no sense a legal matter.

Both Mr. Heath's administration and the present Government became involved in the economic life of the nation to an unprecedented extent. The immediate reason for this is inflation, which has both national and international origins, but more deeply it represents a continuance of a trend which began during the war of 1939-45.

The maintenance of full employment (or over-full, depending on one's school of economic thought) has been a first priority for government since 1945. Whether inflation is a by-product or concomitant of full employment is for the economist to decide. We may yet see inflation co-exist

with large scale unemployment, but in that event government policy will have been defeated by stronger economic forces.

The implications of price and profit control in a period of unprecedented inflation have scarcely been thought through. They carry threats for all private sector organisations and if they receive set-backs, either for reasons of liquidity or low returns on capital, or both, so that large scale State intervention is widespread, then effectively the mixed economy system will be at end. Britain will then have lived through a peaceful economic revolution and the only surviving examples of unadulterated capitalism will be those enterprises which contrive to enjoy the confidence of the trustees of the pension funds of the nationalised industries!

Role of the Movement

The Co-operative Movement, as always, has a foot in both camps. As a non-profit, non-capital gains creating institution it is already socialised, though, at the time of writing, independent of Government. Co-operatives have low profit requirements requiring only enough to sustain share interest at nominal rates, depreciation at original values, a return to customers of around 1% on turnover, and a residual for ploughing back either as reserves or for future development. The rate of development can be varied in accordance with the size of the residual, so Co-operatives are in a unique position under price/profit control.

The present Government has been slow to recognise the potential of consumer Co-operation in the fight against inflation. Possibly fragmentation and a century of emphasis on voluntarism have spared it direct control from Whitehall. The British Labour Party is also uniquely state-board minded and in this they are well buttressed by trades union policy.

As part of the general distributive sector, Co-operatives have been involved in Price Code discussions both in their own right, via the Co-operative Union, and as part of the Retail Consortium. Although evidence from both sources originated separately, there was no serious division in either analyses or proposals made to Government. Both organisations were highly critical of the 10 per cent cut in permissible gross percentage margins enforced by the Price Commission in 1974. The so-called safety-net of 75 per cent of net profit reference levels introduced at the time of the 10 per cent cut in gross margin was of limited value because it could only be used if it did not result in distributors exceeding 100 per cent of gross margin.

The Revised Code

The revised Code improves upon the concession in the consultative document in that the safeguard for net profit margin is set at 80 per cent of the reference level instead of 75 per cent. This is still associated with a "licence" to go to 105 per cent of the gross margin reference level if that is necessary to achieve it. This will help the generality of retail societies although some would have liked the related lower gross/higher net basis which the Retail Consortium tabled during consideration of the consultative document. Inflation accounting awaits the report of the Sandilands Committee.

The Code allows a low profit safeguard as a percentage of turnover at 2 per cent (it was $1\frac{1}{2}$ per cent) and extends investment relief at $17\frac{1}{2}$ per cent of firmly budgeted capital expenditure on investment for the home market for plant, machinery and industrial buildings in the form of an addition to gross and net profit margins. Trade pressure on the Ministries involved resulted in the extension of this capital relief to expenditure on the construction of warehouses and to payments under hire purchase, credit sale and conditional sale agreements and under leasing agreements where the lease is for more than two years, provided the payments relate to plant and machinery.

A side aspect of the Price Code is the extent to which it has become a subject for bargaining between Whitehall and those who speak for interested parties. Unlike free collective bargaining over wages, however, there is no ultimate sanction, equivalent to the withdrawal of labour, open to trade associations. Ministers and their civil servants listen, comment politely, but make no offers. In the final analysis traders must like it or lump it. Organised labour would never stand for it.

The private sector has not been faring well under the dual effects of profit control and inflation. Joint stock companies have substantial profit needs in order to satisfy investors and sustain cash flow. Those responsible for producing results have the added fear that, even when circumstances affecting results are outwith their control, there may be a disposition to try new faces in an attempt to improve returns. In this context, we must all envy the captains of nationalised industries who have the twin havens of statutory monopoly and a blameworthy department in Whitehall. No wonder the queue grows daily at the Department of Industry!

Can a Market Economy Survive?

It is fundamentally unreal to control prices and profits in a sector of economic life where competition is supposed to work for the benefit of consumers. The market economy, in which price maintenance is virtually illegal, should by its nature operate to general advantage. If it fails to do this, or is prevented from doing so by reason of stringent controls on a continuing basis, then it would be better to accept the fact that the nation cannot afford a market economy.

The longer price/profit control remains the more unfair it becomes. The datum (any two of the previous five years) may seem realistic, but it assumes a static enterprise which distribution under modern conditions is not. This point was strongly made by the Co-operative Union in its submission as part of the review of the Code. Whitehall

found it "interesting", but administrative pressures there are excessive and nothing tangible resulted. In any event are civil servants, however eminent, really practical experts when it comes to regulating the distributive trades? Are practising retailers gainfully employed when they must spend so much time in Ministerial offices debating a control mechanism which ought to be superfluous anyway in a competitive economy?

It may be that the creation of so large a public sector from 1945 onwards had already sealed the fate of joint stock capitalism. Certainly there are many natural monopolies, still mainly in private hands, where the benefit of market forces is outweighed by the high cost of achieving them - bread, milk and petroleum processing and distribution, for example. Already the Secretary of State for Prices, in defence of bread subsidy arrangements, has intervened in the matter of discounts allowed by bakers to retailers. If this kind of Ministerial regulation of buying prices increases, then taken in conjunction with profits control at the gross and net reference levels, plus taxation of profits and proposals for taxing personal wealth, it requires no crystal ball to predict the demise of even so resilient a system as capitalism.

A minor consolation in all this is that planned economies need not necessarily result in lower general living standards. If managerial skills are allowed to flourish and labour indiscipline loses its present status of a first principle, we may yet achieve a society whose standards will satisfy reasonable expectations. Even if it does not, there will be little that can be done about it in any case. If the evidence of other countries is anything to go by, then planned economies are not susceptible to change by conventional democratic processes.