

Societies and Inflation

With Particular Relation to Government  
Anti-Inflation Control Methods

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When in the dark days of 1944 the major political parties represented in the Coalition Government pledged themselves to the maintenance of full employment after the War, there were two important consequences. First, inflation became endemic in this country as it could no longer be cured by the creation of massive unemployment. Secondly, the need for an element of central planning of the economy was firmly established.

Every businessman - whether Co-operator or capitalist - wants to be left alone to get on with his job, free from outside interference, but the freedom he craves is unattainable without an element of planning by public authorities. Freedom within a highly developed society cannot be absolute; the freedom of each individual ends where the freedom of others begins. The basis of freedom is communal discipline.

The British economy is a mixture of public spending and private enterprise. The Government element is important. Public expenditure is a large part of total expenditure, and involves the raising of huge sums in taxation. Public corporations are responsible for much of the basic industry, and the Government is able to exercise powerful authority in many other fields. All this gives them extensive economic power and influence. In post-war years the role of Government has changed from that of "policeman" to "Father Christmas" with valuable favours to bestow. Increasingly consumers, trade unionists and industrialists are looking to Government to rescue them from any economic calamity that happens to strike them.

### The Aims of Government Planning

The major problem facing us is how to plan the economy to achieve a high and regular rate of economic growth, to secure a steady and progressive increase in the standard of living of the people, and to promote commercial prosperity. There is abundant evidence that the market economy does not possess the automatic regulators with which it has sometimes been credited, and that the normal pattern is a recurrence of booms and slumps at more or less regular intervals. Although planning for prosperity is not necessarily synonymous with State control, it certainly involves State interference.

The Budget has been converted gradually from a programme of taxation to an instrument of planning and control, in conjunction with general fiscal and credit policy. There are two principal elements of these policies: the more equitable distribution of income; and determination of the size and shape of the economy. The Government is increasingly taking upon itself the planning of the entire future - not only of the economy - but of society itself. Projections have been made of the basic elements of the economy, of the distribution of population, the shape and lay-out of cities, and the provision of services, education, cultural and other amenities.

### Limitations and Changes

Planning is not a panacea; nor is it infallible, given the present techniques and state of knowledge. The failure of the National Plan of 1965 is sufficient evidence of this. Two of the major goals of national planning are, first, full employment, despite growth in the working population and structural changes brought about by technological change; and, secondly, control of inflation, which seriously distorts the growth of the economy and leads to inequalities in the distribution of the national income and so to unemployment. Underlying these and other objectives is the need to maintain our democratic institutions, which will be seriously threatened if we are incapable of solving

the serious economic problems which have beset us since the end of the Second World War. One of the most intractable of our current problems was neatly summarised by the Rt. Hon. James Callaghan during a Parliamentary debate a few years ago:

"The dilemma that I think this country is faced with is that people will punish their leaders and punish their governments, if they cannot have both a perpetually rising standard of living and full employment, and all the good things they need even though they are not earned."

In practice, economic planning in Britain is a mixture of exhortation, sticks and carrots, and outright compulsion. How many people remember the long and checkered history of the prices and incomes policy since the days of Sir Stafford Cripps? First, there were efforts to secure the voluntary co-operation of both sides of industry; then the establishment of a National Board for Prices and Incomes; then a compulsory "early warning" system; followed by a standstill on prices and incomes for a limited period. So the policy was progressively implemented and supported by statutory powers to impose restraints on both prices and incomes. The National Board for Prices and Incomes was disbanded by the Conservative Government in the spring of 1971 after it had produced its 169th report and cost the country £5 million. By the autumn of 1972 inflation had begun to assume alarming proportions, and so began a new round of Counter-Inflation Acts, with two new agencies - a Price Commission and a Pay Board - to monitor codes of practice approved by Parliament.

Another change of political thinking, which owed much to the power of organised labour, produced the Prices Act of 1974, which strengthened the controls over prices, introduced subsidies for important consumer goods, and abolished the statutory control of wages. The attitude of organised labour in Britain represents a formidable obstacle to economic planning. In the Labour Government of 1964-1970 Frank Cousins was Minister of Technology whilst still

nominally General Secretary of the Transport and General Workers' Union. He had repeatedly expressed considerable scepticism about - indeed opposition to - what was still only a voluntary wages policy. His life's work had been based on the doctrine that a trade union leader's job was to get more wages for his men; even a voluntary incomes policy seemed incompatible with that life-long objective. Trade union policy has changed little since then, and now the only restraints on wages are the "social contract", backed up by Government with the threat of financial penalties upon employers, including Co-operative societies, which grant increases beyond the norm laid down.

### Difficulties for Co-operative Planning

Co-operative societies, in common with other forms of large business enterprise, need to plan for the future. Budgetary control is a systematic study of accounting figures and the many factors influencing the future development of the business. It is a thermometer to measure at all times the health of the enterprise. It is necessary for the accountants or other responsible officers to interpret and report on the effect of external influences on the business. This function includes the continuous appraisal of economic, social and governmental influences. In the present political and economic environment the achievement of effective budgetary control presents formidable difficulties. The chairman of one of the country's largest food groups, in giving his company's half-yearly report, recently stated:

"Given the present economic and political uncertainties, no attempt to estimate the results for the second half of the year is made."

This is a serious matter for any business, but its freedom of action is severely circumscribed by Government intervention in the economy, and by events on a world-wide scale which even the Government is powerless to influence. The extent to which Government had lost control of events is illustrated by its inability to plan the economy for even a year ahead, and the apparent need to introduce supplemen-

tary budgets to adjust revenue and expenditure at frequent intervals. In such circumstances what kind of meaningful budget is the businessman able to produce?

The two principal elements of budgetary control are sales and expenses. Sales are influenced by the general state of the economy, the level of employment, the impact of direct and indirect taxation, purchasing power in the hands of consumers, credit controls, and the measure of confidence in the future possessed by businessmen and consumers alike. The demand for consumer goods is likely to fluctuate with changes in price levels which are brought about by the supply situation and the introduction of such distorting factors as Government subsidies. Apart from restricted supplies of certain consumer goods arising from external causes, such as the shortage of sugar, one of the effects of stringent price and profit controls is empty shelves in the supermarkets, as manufacturers and distributors alike no longer find it worthwhile to sell certain goods at a loss. The Price Code is being revised for the next phase of the Counter-Inflation policy, and although powerful representations have been made to the Government by the Retail Consortium about the anomalies and inequities in Phase III, it is certain that gross and net percentage margin control will continue, based upon historical reference levels which have less and less relevance as time passes.

An outstanding example of stop-go Government intervention in retailing is to be found in the restrictions on certain types of consumer credit, despite the powerful arguments of the Crowther Committee that such restrictions should find no place in permanent Government policy. It is an indictment of so-called "planning" that the powers to control consumer credit are still based on the war-time emergency legislation. With the intensification of cash-flow problems brought about by price and margin controls, retailers' stocks may have to be reduced in both food and dry goods departments. The combination of restricted stocks and artificial deterrents on sales are likely to play havoc with any forecasts of turnover, and cost ratios.

In relation to expenses, the removal of statutory restraints upon wages are likely to involve Co-operative societies in difficult negotiations with the trade unions. Wage increases under threshold agreements are likely to add further pressure on costs. The implementation of the equal pay policy will be more severe upon businesses which employ a mixed labour force than upon (say) the variety chain stores which rely almost entirely upon female labour. Increases in indirect taxation are to be expected, with Value Added Tax as the most likely candidate. Customs and Excise have been preparing the procedures for multiple rates of VAT for some time, but it is impossible for retailers to make any useful forecasts about the effect of tax changes upon sales or cost ratios.

The history of proposals for a State superannuation scheme is one of considerable frustration for Co-operative societies. The Conservative Government's legislation on this subject has been abandoned by the Labour Government, and new proposals are awaited. There is no reason to suppose that Co-operative superannuation funds which are invested in the business will be at risk - provided they are adequately secured - but it may be taken for granted that superannuation schemes will be more costly as such refinements as inflation-proofing have to be introduced. The ever-increasing costs of local government continue to put pressure on commercial rates, but in the absence of a declaration of central Government policy, and particularly the possibility of an entirely new system of local government finance, forecasts of additional demands upon Co-operative societies from this source must be unreliable. Fuel costs, postal and telephone charges, and the cost of converting shop and office equipment to the metric system, must also be taken into account.

#### Co-operative Action for a Solution?

Co-operative societies make a continuous contribution to the control of inflation by the redistribution of trading surpluses among consumers, but unfortunately the Movement's share of the retail trade of the country is not large

enough to have a substantial effect upon the economy. One of the greatest contributions that the Movement could make, however, would be to achieve the maximum efficiency in its commercial operations because the country cannot, in its present situation, afford to waste any of its resources whether material or human.

Since the days of Sir Stafford Cripps the Co-operative Movement has willingly collaborated with the Government in supporting sensible measures to combat inflation, but it is a matter of deep regret that such measures have not been applied consistently, have been bedevilled by the absence of political consensus, and have often been hindered by people and institutions pursuing selfish ends. Co-operators know from experience where the shoe pinches: they have seen their shareholdings eroded steadily by inflation, and prices in the shops rising rapidly from causes over which they have had little or no control. The dialogue between the Government and retailers in general and Co-operative societies in particular has been one-sided. The mystique of the Budget is an anachronism that we cannot now afford. Gimmicks like the Selective Employment Tax make no permanent contribution to solving the problems of inflation. Without a full appreciation of the issues at stake, and the wholehearted support of the mass of the people for sensible and equitable policies, the spectre of inflation will never be banished.