

THE ECONOMIC AND SOCIAL RESEARCH INSTITUTE

WE CAN
STOP RISING PRICES

MICHAEL P. FOGARTY

BROADSHEET No. 2

MARCH 1970

Michael P. Fogarty is Director of the Economic and Social Research Institute. The paper has been accepted for publication by the Institute. The author is responsible for the contents of the paper including the views expressed therein.

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This paper was originally presented to the Full-Time and Part-Time Officials' Course of the Irish Congress of Trade Unions at Dun Laoghaire on March 11th 1970. It is printed here as it was presented, with one or two minor corrections of detail. I have however added as an appendix answers to a number of questions which have been put to me about the working of the Prices Stabilisation Levy since the paper appeared.

WE CAN STOP RISING PRICES

Michael P. Fogarty

My target this evening is rising prices. Everyone resents rising prices. No one so far has shown what could be done to stop them. This evening I am going at least to have a try.

The Price of Rising Prices

Prices have risen by about two-thirds in the last ten years, and by 3/- or 3/6 in the £ in the last two years alone. The worst part of the damage done by rising prices is the part that is least visible, the damage to the prospect of new jobs and of ending emigration. Suppose we had kept the growth of incomes over the last twelve years—that is, since the time when the economy really began to move—to what was needed to buy the extra production as it became available, without forcing up prices. In that case prices today would have been 12/- in the £ compared to what they are now. So would incomes, and in real terms each of us would have been exactly as well off as now, neither better nor worse.

But look at the effect on development! The Irish salesman visiting Britain or Germany or America could quote a price of 12/- where today he quotes £1. The Industrial Development Authority, talking to firms interested in coming to Ireland, could point to Ireland as the cheapest country in the world from which to export. The Irish housewife, comparing the price of foreign and Irish products in the shops, would see a price of 12/- on the Irish product where she sees £1 today. There would be no need for a Buy Irish movement; no one in his senses would buy anything else. Export orders would be pouring in. We could bury Buchanan and all his works under an avalanche of applicants to build factories anywhere in Ireland. We could afford to pick

and choose among these applicants and to insist on a proper degree of Irish participation, Irish directors on the board and scientists in the laboratory, and encouragement to native Irish enterprise. Emigration would vanish overnight and the people would be streaming back. The farmer coming off the land would have no need to chase a job; recruiters for Irish firms would be chasing him. In fact the resources of the country would be overstrained to the point where it would be necessary to choke off the rush of foreign firms and export orders, probably by valuing up the Irish £. The Irish tourist going abroad would find that his pound was worth perhaps thirty shillings in Britain and \$3.50 or even \$4—instead of \$2.40—in America.

The loss of these things is the price of rising prices. And of course I am not forgetting the more obvious kinds of damage such as the high cost of living, the high cost of building, or high interest rates. If prices are rising interest rates are bound to rise, for the least to which any lender is entitled is to get the same value of money back as he lent. Unless the interest rate compensates him for rising prices, which is the same thing as a fall in the value of his money, he will make no real profit on his loan at all. He may even lose by it. The other day "Maynard", in the *Sunday Press*, calculated that in the last year, between rising prices and income tax, an investor would have needed to earn 12% simply to get his money back in real terms. I am one of the many people in Ireland who recently had their mortgage raised to 9%. I am grateful to the investors who, at that rate, are letting me use their money for less than nothing. But I think we would all be happier if, by stopping rising prices, we made that particular form of charity redundant and got mortgage rates down to 3% or 4%.

Though rising prices have stopped the full flood of development in Ireland and kept emigration going, they have not till recently cut into existing employment. Prices rise in other countries besides Ireland, and till recently Irish costs compared well enough to let Irish employment go on climbing slowly. Even that is not so sure now. In 1967 and 1968 productivity in Irish industry was rising so fast that wage and salary costs per unit of output were actually falling, in spite of heavy pay increases. In 1969 the productivity rise fell off sharply, and wage and salary

costs per unit of output rose something like 2/- in the £. The export-import gap has widened dangerously. Whereas in 1967 there was a surplus of £15,000,000, in 1970 there looks like being a deficit of £70,000,000, and it could be more. The country's foreign exchange reserves at the end of 1969 were something over £290,000,000. Allowing for the fact that some cash must be left in the current account for current business, a deficit this size could be met out of reserves only for a year or two. Beyond that, three highly unattractive possibilities present themselves. We could borrow more abroad and mortgage the country still deeper to the foreign lender; so long as any foreigner is willing to lend to us at all. We could devalue the Irish £; seeing how heavily we depend on imports, this would have a devastating effect not only on the cost of living but on the cost of production. Or we could have another burst of stop-go; shut down growth, raise unemployment and emigration, spread poverty, and so squeeze prices and cut the demand for imports. You pay your money and you take your choice. Once we let ourselves get into a position where these are the alternatives, we are anyway bound to lose.

The Cause of Rising Prices

Then what is to be done? I think that people often see prices as somehow galloping away by themselves, or being raised, for the hell of it, by the sinister capitalist. That may happen in the odd case, but in general it does not. Prices go up only when they are pushed. They can be pushed more easily at some times than at others, but there always has to be a push. The question is, where does the push come from, and how much can we control it?

One push of course comes from the rising cost of imports. But there is not much we can do about that, and in any case import prices for the last ten years have been rising slower than Irish prices.

Another push comes from public expenditure. Rising taxation accounted for getting on for half of the rise in prices in 1968-9. But again there is not much that anyone with a social conscience

—still more a socialist conscience—will want to do about it. One can argue that it might be wiser for the Government to spend on one thing rather than another, or that more money could be extracted from some over-stuffed class of taxpayer. But when one looks around at the desperate need for public expenditure in Ireland—at the low level of pensions and family allowances, at the need for more housing and better health services, at the shortage of money for university development or for a proper programme of overseas aid—it is obvious that it would be sheer social irresponsibility to talk of cutting the total of Government spending and taxation. We need every penny of public expenditure that we can get.

In the face of present needs for public expenditure in Ireland, the man who dodges his taxes is an enemy of the people. He may be a farmer or professional man who takes his receipts in ten-pound notes and forgets to declare them to the Revenue. He may be a wage-earner who demands a wage increase when the Government puts up turnover tax or the tax on cigarettes and drink. I put the two in the same bracket. The professional man who swindles the poor and the needy by dodging his income tax has at least usually the decency not to boast of what he is doing. But in the last few weeks we have seen otherwise reputable union leaders and even clergy publicly defending trade unionists who do what amounts to exactly the same thing.

Yet another push towards higher prices comes, or can come, from profit margins. There are some curious misconceptions about profits. The other day Mr. Michael Mullen, of the Irish Transport and General Workers' Union, was reported in the press as saying that the time has come for the 12th round to be paid for out of profits. If he was reported rightly, I don't think he can have done his arithmetic. The paid-out profits of companies and corporations in Ireland, including semi-State corporations like the ESB, are two shillings in the pound of personal incomes. The 12th round, especially if one allows for its probable overflow into pensions, farm incomes, and the rest, looks like costing more like 4/- in the pound. To get anything like the figure Mr. Mullen is looking for you would have to throw in reinvested profits—which is the same thing as eating the seed corn—and to take over a large slice of the so-called "profits"

of farmers, shopkeepers, and professional men, which are in fact these people's wage: in other words, to expect the farmer and the rest to work for nothing. I doubt whether that was what Mr. Mullen meant.

Still, profits are there, even if not as much of them as some people think. How much of an independent contribution to rising prices do they make? I would say, not very much. Profits do not lead; they follow. Taking one year and one firm or industry with another, firms' percentage mark-up for profits remains pretty steady. If other costs, and notably pay, go up, the percentage mark-up system ensures that profits go up as well. But if other costs do not go up, profits in general stay where they are.

It is still of course right to ask whether this steady percentage mark-up for profits is too high. Could we squeeze it? Perhaps, yes, in particular cases, but in general I doubt it. Considering the purposes that profits serve—not only as a reward for shareholders but, and above all, as a source of new capital for the future—there is more reason to think that profits in Irish firms are too low than that they are too high. But of course one also has to look at the question of profits politically, in the sense of industrial relations politics rather than of party lines. It is politically out of the question to control other forms of income, especially pay, unless there is a control of dividends. And it must be, not just some broad and general control, but a control which affects and is seen to affect individual dividends just as specifically as pay controls are seen to affect individuals' pay. A dividend control may not, and I think should not, lead to a reduction in dividends, but a control there must be.

Farm incomes have risen fast in recent years. There could be some savings on them. It has recently been shown that it would be possible over a few years to save a large slice out of the farm subsidies while still leaving farmers at least as well off as they are now. I support strongly the recent proposal by Dr. Attwood of the Department of Agriculture to develop a real incomes policy for farmers based on more reasoned and coherent rules than have applied up to now. But that saving on subsidies would be once-for-all. As a continuing rule, the important thing about farm incomes is that, like profits, they tend to follow the rise of other incomes rather than to take the lead. The problem

for farmers today is to keep up with the rise in other incomes; and if other incomes do not rise, farm incomes will not need to follow them.

I am less satisfied about shopkeepers and some of the independent professions. There were signs in the 'sixties that shopkeepers' margins were beginning to run away, and to take an independent lead of their own in the movement of rising prices. The Government also has good reason for its recent decision to call on the Fair Trade Commission to look into the fees of professional men such as house agents. But shopkeepers' margins and independent professional men's fees amount to little over a shilling in the £ of the national income, and what happens to them is unlikely to have more than a marginal effect on prices as a whole.

That leaves pay; and please note that by pay I do not mean only wages. Pay is by far the biggest item in income, expenditure, and the cost of production. It accounts for around three-fifths of all personal incomes. A rise in pay feeds through fast and directly, and with massive effect, into costs and prices; Dr. Geary and Mr. Pratschke are publishing a full and up-to-date analysis of this in the next number of the *Economic and Social Review*. At least two other major contributions to prices—profits and farm incomes—tend as I was just saying to take their lead from pay, to rise when pay rises and otherwise to hold back. Unlike these other incomes, pay in Ireland, as in Britain and in other countries for which there are statistics, does tend to race ahead independently, autonomously, and come what may. I do not expect this to be a popular thing to say to a trade union audience; but pay *is* the spearhead and leading cause of rising prices. We shall never see an end to rising prices and high mortgage rates, or a proper rate of growth in employment and an end to emigration, until pay increases are stabilised at a level consistent with steady instead of rising prices.

A Prices Stabilisation Levy

I have said already that I accept that it is politically impossible to have a policy for pay without also having one for dividends.

It will help if there are also proper policies for farm incomes, the professions, and shopkeepers' margins. But I will leave these aside now, for pay and profit increases are the central question; pay increases because of their economic effect and profit increases because of their political effect.

It will certainly be important to get agreement between unions, employers and the Government about the principles of a pay and dividend policy. I think agreed principles are possible; I shall come back to this. But I do not believe that Congress, the FUE or FII, or all three together can play the leading part in actually making a general policy for pay and dividends work. Looking simply at the union end of it, Congress has neither the teeth nor the staff for this job. Individual union leaders, who in their own unions do have more power, are quite properly concerned with seeing that their own members get their fair share of whatever general increase in pay is going, not with determining what that general increase is to be. Only the Government can do that job, and here is what I would like to see the Government do.

As from a date to be named by the Minister for Finance, I would like to see a new and heavy tax—a Prices Stabilisation Levy—imposed on both dividends and pay. Let us say, for the sake of argument, a tax of 10/- on every £1 of distributed dividends and of £3 a week on the pay of every employee. The payroll tax would be collected through employers in the same way as the insurance stamp or PAYE. There would be exemption from the tax for any firm or other organization which satisfies the appropriate Minister—Labour in the case of pay, Finance in the case of incomes—that it intends in the next year to follow a pay and dividend policy in line with national incomes policy. It will of course also have to satisfy the Minister at the end of the year that it has in fact done so. An organization which did not get exemption in advance, but did in fact follow a pay and dividend policy in line with incomes policy, would have to pay the tax during the year but could get its money back on submitting a satisfactory set of accounts at the end of it. But shareholders or employees who preferred the luxury of going off on a pay and dividend policy of their own, and to hell with rising prices, would have to pay for doing so through the nose.

A scheme of this sort would take a lot of administering. But it is basically simple. Under it the Government does not need to fix individual wages and prices. It has only to satisfy itself that the general effect of each firm's pay or dividend policy is in line with the aim of keeping the national price level and the cost of living stable. That cannot be done by a mathematical formula. It will need a tough Minister, ready to back his judgement in saying "yes" or "no" and to make it stick. But that can be managed; I can think of more than one Minister who would qualify. Under this scheme there is only one decision, or at most two, to be made about each firm's or organization's pay or dividend policy each year; and Ireland is a small country where there are not so very many organizations to consider. To make administration simpler, it would be reasonable to exempt from the scheme organizations employing less than ten.

The trouble about most measures used by Governments in the past to check excessive pay or profit increases is that they have hit the just and the unjust alike. If for example income tax or turnover tax are increased, the man who has accepted a pay increase that is reasonable from the point of view of stopping the rise in prices has to pay the tax just as much as the man whose increase was out of all proportion. Naturally he feels aggrieved and unfairly penalised. The man with the out-of-proportion increase certainly loses something through having to pay the tax. But he remains better off, thanks to his out-of-proportion increase, than the man whose increase was smaller, and he will certainly not hesitate to ask for another out-of-proportion increase next time. But in the scheme I am putting forward only the unjust—the man with the out-of-proportion increase—pays, and the tax rates can be adjusted to make sure that he ends up worse off than his more socially responsible neighbour.

There could be an optional extra, which people with an interest in industrial democracy might appreciate. The idea of my scheme is to hit the irresponsible shareholder with one tax and the irresponsible employee with a separate one. But as a matter of fact the irresponsibility of shareholders can hit employees, and *vice versa*. If shareholders milk their companies, employees have reason to fear for their jobs. If employees push pay through the ceiling and drive costs up astronomically, shareholders have

every reason to fear for their shares. There may be a case for requiring firms—perhaps as a condition for exemption from the Prices Stabilisation Levy—to prepare a combined plan for dividends and pay which must have the approval both of employees and of shareholders. Employees' approval would have to be given through machinery to be approved by the Department of Labour in consultation with Congress. But that as I say is an optional extra.

The Rules for Pay and Dividends

In a general way I do not think there need be much difficulty in getting agreement on the rules for pay and dividends. For dividends the basic principle is that they should be at—neither above nor below—the level which will give a firm continuing access to the capital it needs. As for pay, there is a surprising amount of agreement in the country, even among the highest paid, that for the present we need to give no or relatively low increases to top salary earners—this could entail paying expatriation allowances for foreign specialists—but exceptionally high increases for the lowest paid. There is more support than one might think for the principle of equal pay for equal work within each grade, irrespective of job or industry. Kieran Kennedy has recently shown from Irish experience—I have found the same from British experience—that to get a high rate of economic growth, and movement of staff to the jobs where they are needed, we do not have to have wide differences of pay for similar jobs in different firms and industries. Families with children, of course, have special financial problems. I think there could be widespread agreement on meeting these, not by pushing up pay in a way which raises prices and the cost of living and leaves families no better off than before, but by better family allowances and by removing the tax and other barriers to married women's work. As for the general level of pay increases, the simple rule is that it should be such as, in all the circumstances of the time, will not lead to a general rise in prices.

Cutting out the Chaos in Pay Determination

I am less worried about the possibility of getting agreement

on general principles than about the ability of employers and unions to translate these principles into sound and coherent policies at the level of individual firms or industries. This is where I have something to say directly to you as trade union officials. If you look at Con Murphy's report on the maintenance dispute last year, or the report of my committee on the ESB—or for that matter at the Mulvey report on Bord na Mona—you will find a common thread. Both reports stress the sheer, flaming chaos of the process of deciding on, putting forward and handling pay claims, especially though not only on the union side.

In the ESB Committee's hearings at national level we heard fine rational accounts of how things were done, as seen by national officials. But when we got to the districts and power stations we quickly realized that we were dealing in many ways with chaos. Information might or might not get through the separate and unequal channels of the thirty or so unions. The rank and file were not effectively informed, educated or given the chance to participate, unless they seized it themselves through unofficial movements. At local level union policies were scarcely coordinated at all.

In the particular case of the ESB, we therefore put forward what amounted to a complete blueprint for industrial democracy. We said, let there be a local committee in each district or power station of all the unions with members there. Let it have proper clerical and other facilities, to be supplied by management, and let it act also as the local works committee, so cutting out duplicate representation. I am very much impressed myself with the idea of the "single channel of representation" widely discussed recently in the British labour movement. Let this local joint committee communicate direct (not simply through individual unions) with three or four national union committees with really effective powers, and with the employees' side of a National Advisory Council on which every district and large power station would be represented. Let the national committees and National Advisory Council have their own full staff of officers; and let the employee side of the NAC nominate two of its members on to the ESB Board. If I could speak for my own vision, not necessarily that of any other member of the Committee, I want to see a situation in which in every district or

large station each man can see working alongside him the representative who tomorrow will be in Dublin, meeting the top people of the unions and the ESB face to face across the table and if necessary in their own offices, and also meeting face to face union men who can speak directly of what is going on in the Board of the ESB. I want him to see all the major problems affecting his job being handled, not in bits and pieces, but by a single, sturdy, well-staffed set of joint union committees which can look at the problem of ESB workers as a whole, and will handle consultation as well as negotiation; a single, simple, straight-through process of problem-handling and participation, instead of the mixture of chaotic channels, with low capacity for solving any but the most elementary problems which exists now.

I regard it as a major scandal of the Irish trade union movement, and a revelation of how much some union officials believe in industrial democracy and the effective representation and participation of their members, that the unions have left this plan for industrial democracy and the better handling of union work in the ESB to rot. The management of the ESB has got on with its side of the business raised in our report. It is the unions which have failed.

But I do not want to stand too long on the case of the ESB. My point is a more general one. No pay policy can expect to stand, or at any rate to stand without bitter and often justified complaints and conflicts, unless it is translated into fair and acceptable rules for individual firms and industries, whether in the sphere of one union or of several. I do not believe that either unions or employers in Ireland are yet equipped to do this at any but the crudest level. There are exceptions. Some employers are excellent on the personnel side. I hope that on that side we may move things along over the next year or two as a result of the drive for better personnel management which the Irish National Productivity Committee has been backing since last year. On the union side I welcome particularly the recent decision of the ITGWU to provide itself with a substantial research and specialist staff. The Irish National Productivity Committee is also helping Congress over shop steward training. But for the moment I am prepared to stand over my judgement that neither unions nor employers are equipped to do a proper pay determination job.

The Timetable

Finally, to draw all this together, what should be the timetable for movement towards a policy to stop rising prices? I myself accept the argument of most people in the industrial relations business that the 12th round must now be allowed to work itself out. My own organization happens to be in the part of the public sector which has not yet had any part of the 12th round, let alone the whole of it. I would be happier without a strike on my hands, especially as I would be very inclined to lead it myself. I also accept the argument of practical people that a plan like mine for encouraging reasonable dividend and pay policies will need months to prepare; to get the administration organized, to secure agreement on the principles of pay and dividends to be applied, to build up public understanding and support, and to get at least a start made in improving union and employer procedures at industry and firm level. I would like to see time gained for this by a straight, outright, pay and dividend freeze for, say, nine months from this coming summer, with an exemption only for those employees who can satisfy the Minister that they have not yet had the 12th round, or for shareholders who can satisfy him that last year was exceptionally bad. Nine months is as long as a pay freeze can be expected to last, and perhaps longer. It is also a reasonable period of pregnancy; long enough for at least basic preparations to be made. After that, some time in the spring of 1971, the midwife would be due and my Prices Stabilisation Levy could be launched into life.

I know that I am asking a lot of the Government, the unions, and the employers. But the gain in view is a vital one; an end to rising prices and interest rates, with all the advantages which this could have for the development of the country and its independence of the foreign lender and capitalist, as well as for the standard of living. And I believe that, at least for the case of Ireland, I have got a practicable answer.

Some Questions Answered

1. *This scheme puts a great deal of arbitrary power into the hands of Ministers. How can we be sure that a Minister will not use his power to do his friends a favour?*

2. *Irish firms (including shops, farms and professional practices) are often secretive about their accounts: especially family firms. Accounting practices differ widely. Even where figures are disclosed it is often hard to know what they mean. Some firms do and will fiddle their accounts where they can, particularly to evade taxes. In these circumstances how can any one firm be sure that it is being treated fairly under the Prices Stabilisation Levy as compared to another? Can employees be sure that their firm is not fiddling to their and the country's disadvantage?*
3. *It took seven or eight years to get PAYE into full working order. How long will the Revenue Commissioners take over this new Levy?*

These are questions to take seriously, for a scheme like the Prices Stabilisation Levy can work well only if justice is not only done but seen to be done right from the start of the scheme.

The first and foremost answer is publicity. The case for publicity for firms' accounts is strong quite apart from the Levy. The whole drift of company legislation and of business and economic discussion in the leading market economies of the world goes that way. Think of the Securities and Exchange Commission in the USA, the reform of publicity in German public companies under the Companies Act of 1965, with a later extension to other firms; or the British Companies Act of 1967. Secrecy and business efficiency do not go together; this has come to be the common view of experts on company finance. But the point here is a more limited and specific one. If suspicion exists (and it does), nothing is likely to disarm it quicker than to come clean and put all the cards face up on the table.

The second answer is sound and standardized accounting rules, which not merely get the sums right but reveal the true economic position in each firm. In a recent study of one group of Irish companies, the profit earned before tax appeared on one accounting convention to be 11%. This is a modest figure, but enough to get by. But a check showed that, by comparison with the replacement cost of these companies' assets, the true return was only 7%; the sort of figure which should not only worry shareholders but make employees wonder about the future of their jobs.

If I were a Minister in charge of the levy plan, I would cover myself against charges of partiality in four ways:—

- (i) A firm seeking exemption from the levy or repayment of it must publish at least the basic accounts justifying its case, in a standard form accurately reflecting the firm's present position and prospects.
- (ii) The firm must make available not only to the Government but to representatives of its own employees such further information as they reasonably need to satisfy themselves that the levy plan is working properly. Information can if necessary be given to employee representatives in confidence. There is nothing revolutionary about this idea of giving employee representatives access to the facts. Rules more or less to the same effect are written into the industrial relations laws of most of Europe. The German law on the information to be given to the "Economic Committee" of any firm employing a hundred or more and to the Works Committee in all firms is particularly strong. Some countries provide that employee representatives can bring in their own accountants. Legislation on information to employees is now proposed for Britain.
- (iii) Representatives of employees as well as shareholders must approve a firm's profit and pay plans. In my paper as given I made this an optional extra. But if I were a Minister in charge of the levy scheme, I would be inclined to think of this rule, along with the rule about information to employees, as my first and best line of defence both against fiddling by firms over profit margins and against any suspicion that I myself might be favouring one party or the other behind the scenes.
- (iv) A firm which thinks it has been unfairly treated under the levy plan should be able to have its case investigated by a joint committee of the appropriate employers' organization and the Irish Congress of Trade Unions, assisted by an expert staff. Shareholders or employees who think themselves unfairly treated within their firm should be

able to do likewise. The Minister would still have the final decision, but would make it with the help of full and published advice from the joint committee.

It is likely that it will be several years before the Prices Stabilization Levy runs on perfectly oiled wheels. The Revenue is getting its records onto the computer, and should be able to move much faster than in setting up PAYE. But time is bound to be needed to develop the best possible accounting standards, ways of informing employees, and procedures for approving pay and dividend plans and conducting appeals.

But I do not think that the fact that problems like these will have to be worked at over several years need stop the early introduction of the Levy. With hard work, the four safeguards which I have just listed can be got into working shape—even if not yet perfect or final shape—in well under a year. There is after all plenty of international as well as Irish experience to go on. The pause which I have proposed after the 12th round should be long enough to get this first period of preparation over. The snags which remain to be worked on beyond that time will be minor compared to the risk of letting the avalanche of rising prices run on.

It is not new for ideas about better accounting standards and financial information for employees to come from the direction of the Economic and Social Research Institute. Eight years ago, in a study of the Irish woollen and worsted industry (ESRI Paper No. 7), Dr. R. C. Geary set out an economically sensible and revealing form of accounts for firms, and wrote:—

“The philosophy underlying the form of accounts presented in Table 5 is a simple one, namely that all in the industry, shareholders, management and workpeople are in the same boat. . . . The author can see no good reason why accounts on the lines of Table 5 should not be frankly discussed between representatives of management and staff even at the firm level.”

In 1965 he developed his thinking on economically sensible accounts further in his *Do-It-Yourself Economics of the Firm*. He

has since carried this work a stage further. In those days he was a prophet crying in the wilderness. It is time for us to listen to what he has to say.

4. *Will dividend limitation not discourage investors, and particularly foreign investors?*

There is nothing in the levy plan to stop any firm from earning a profit margin big enough to let it plough back the reserves needed for its further development, or from distributing a dividend big enough to keep its shareholders happy. To quote again the test on p. 9, a firm can under the scheme distribute enough dividend "to give it continuing access to the capital it needs". Nor need a firm be tied to any particular level of profit margin or dividend. The right level will depend on the circumstances of each firm, and will vary with trading conditions from year to year.

What a firm cannot do under the levy plan is to push up its profit margin or raise its dividend merely because it thinks it can get away with it and make some more money. The test for a dividend is: is this dividend a payment for value received, genuinely necessary to obtain the capital needed for the firm's survival and development, or is it simply a profit for profit's sake? The test for a profit target is: can it be explained by the need to pay dividends adequate in this sense, and to plough back adequate reserves and other provision for the future? A dividend which looks high, or shows a sharp increase over previous years, may still be justified. It may represent a delayed return to shareholders who put up with low profits in a firm's first years. It may be a fair return for a risky venture. It may represent simply a recovery from earlier bad trading conditions. It is only if there is no such compelling reason for a dividend—if it contains an element of pure surplus, not genuinely needed to get or keep for the firm a good rating in the capital market—that the firm paying it, whether Irish or foreign, becomes liable to the levy.

Though some firms may be caught in this way, I stand over what I say in the paper about the present levels of profit of firms in Ireland. The present profits and dividends of many, and notably of Irish, firms may well be too low rather than too high. The levy

scheme will require that they be explained and justified. But explanation and justification might well lead to their being raised, not reduced.

5. *How in any case can profit margins or dividends be regulated, seeing that they necessarily vary so much with trading conditions?*

This problem is not special to profits. It arises also over many kinds of pay. There is no way of predicting at the beginning of a year just what a salesman will earn in commission, a manager in bonus, a production worker in piece-rates, or a busman in overtime. In making a pay plan the point is not to determine what actual earnings are to be. It is to set up reasonable rules; rules which may be expected to give an overall result, taking one man and one week with another, consistent with the aim of stable prices, yet will still leave room for pay to vary according to individuals' performance.

Exactly the same is true of profits. No one can do more than guess at the beginning of a year what a firm's profit in that year will be, or what will be the right level of dividend. But it is possible to ask what is the firm's usual mark-up for profit, how it varies its mark-up in different trading conditions, and what is its target profit for the year. Since profits vary from one year to another, what rule of thumb do the firm's directors follow in recommending how much out of a given level of profit shall be put into reserves and how much shall be paid out as dividend? Does the firm's whole set of rules about the profit to aim at, and the way to use profit after it is earned, seem consistent with the target of stable prices? When at the end of a year the time comes to check a firm's profit performance against its plan, there is no need—any more than in the case of its pay plan—to be fussy about precise adherence to the details of a scheme laid out twelve months earlier. The question that matters is the broader one; have the rules actually applied during the year been such as are, taking one firm and one year with another, consistent with the target of stable prices?

6. *Will international corporations not dodge the levy by milking their Irish subsidiaries: for example by fiddling the prices at*

which materials are sold to the Irish subsidiary and products or components bought back, so that all the profit is shown on the accounts of the British or American head office and none on those of the Irish subsidiary?

Obviously this could happen. This is another case where we could borrow some ideas from abroad. Book III of the German Companies Act of 1965 (ss. 291-338) includes a number of interesting rules to ensure that subsidiaries shall not be exploited by controlling firms.

EITHER

- (i) The relations between the controlling firm and its subsidiary must be written into a formal agreement, including guarantees satisfactory to the courts for the protection or compensation of the subsidiary's non-controlling shareholders and creditors. In the case of subsidiaries in Ireland liable to the Prices Stabilisation Levy, the Government could be given rights equivalent to those of a shareholder or creditor.

OR

- (ii) If no formal agreement has been made, the controlling firm must refrain from requiring the subsidiary to take action commercially damaging to itself, except in return for compensation. The managing director(s) of the subsidiary must report each year on all cases where their firm was required during the year to take or refrain from action in the interests of controlling or other firms, and on the reasons for this and the results of it for the subsidiary. This report must be certified by the auditors. It is then considered by the subsidiary's Supervisory Board, which in a German company includes representatives of employees as well as shareholders. The Supervisory Board in turn gives its opinion on the report to the shareholders' meeting.

While these particular rules do not exactly fit the case of a Prices Stabilization Levy in Ireland, they point in the right direction.