



Those Company Profits

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1. Introduction

Many sectors of manufacturing, especially those exposed most to competition from imports and to export competition, currently (early 1980) face grave problems of profitability. These stem from the steep appreciation of the real exchange rate for sterling, the additional and related burden of extremely high interest rates, and a developing recession in many markets. It is unfortunate that business spokesmen should have cried 'wolf' so often in recent years over the alleged decline in industrial profits. The very real wolf at the door of British Industry in 1980-81 may appear less credible as a result. This paper identifies the very solid recovery in industrial profits before the present government took office; it will be the task of later papers to trace the heavy price in lost markets and reduced profitability that industry is having to pay for the new style of national economic (mis)management.



2. Why Measure Industrial Profits?

This paper concentrates on what has been happening to the *trading profits* of industrial and commercial companies. Moreover we concentrate on the trading profits arising from *UK operations* (that includes exports of UK production). In this way we concentrate the analysis on the profits directly arising from industrial and commercial production and activities in the UK, since the understanding of trends in such profits is of most importance to trade unions with membership working in the company sector.

One reason for this approach is that considerable confusion can develop from any analysis that covers *both* industrial companies *and* financial companies. For the definitions used by national income statisticians are such that the financial companies are shown as having a massive and rapidly growing deficit so far as their trading profits are concerned. This does not mean the financial companies are in crisis; it is simply that their main source of income — which is receipt of interest and similar payments — is not included in the definition of trading profits. On these definitions, then, the contribution of financial companies to the national product (their 'gross trading profits') is the difference between bank charges, commissions, etc., (as trading revenues) as against management expenses, including wages and salaries (as costs) — and this has been a large and growing deficit. (Thus by 1978 the deficit was

£2,410 million). Consequently, if someone wants to create a *misleading* impression about profits arising in the UK, it is likely that it is total company trading profits that will be quoted (i.e. financial as well as industrial company profits); for this total will be eg., in 1978 £2,410 million *less* than the trading profits of the industrial and commercial company sector.



3. Other elements of Income of Industrial and Commercial Companies

While our analysis concentrates on the profits earned from trading based on UK activity, it is worth recognising that this is only a part of the total income accruing to UK based industrial and commercial companies — though it is the most substantial part.

The other two elements of the income of industrial companies are *income from abroad* and *rent and non-trading income* (for example, interest earned on liquid funds). The following table sets out the total income of such companies in 1978:

Total Income of Industrial and Commercial Companies 1978		(£ million)
Total		23,958
of which, Income from Abroad		2,656
Rent and Non-Trading Income		1,837
Gross Trading Profits (Stock Appreciation)		19,465 (3,087)
Gross Trade Profits after Stock Appreciation		16,378

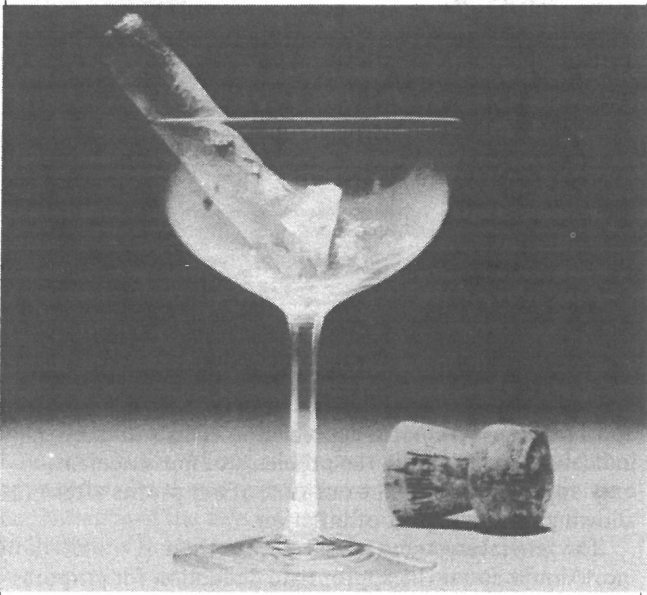
(Source: Table 5.4 National Income, 1979 Edition).

The figure (£2,656 million) for income from abroad is taken after allowing for taxes paid abroad. It is worth noting that in recent years 'profits due abroad' have been climbing rapidly (rising by over £1,000 million in the two years to 1978, by which year they had become £1,769 million); this is largely an indication of the rapid climb into profitability of North Sea oil activities. So the *net* balance of profits from abroad of the industrial company sector is declining.

The table above shows total income from all sources

of £24 billion; but trading profits arising in the UK are, at nearly £19½ billion, by far the largest component of them.

However, in viewing the generation of trading profits under inflationary conditions attention should be concentrated on *gross trading profits after stock appreciation*; the table above shows that in 1978 these had reached over £16 billion. Why is this measure of trading profits so important?



4. Gross Trading Profits After Stock Appreciation

The essential argument relates to the needs of a *continuing business* under persistently inflationary conditions. As the company needs continually to be purchasing raw materials, semi-manufactures, etc., to maintain its production flow, it is faced with an inflationary system — with additional costs as it replaces stocks used up in the process of production. In other words part of the cash income of the company has to be diverted to meet the *additional* costs of the stocks it needs to maintain a given level of output or turnover. (It is worth pointing out that since the November 1974 budget the government has accepted the force of this reasoning by allowing stock appreciation to be set off against profits for corporation tax purposes.)

The following table shows the movement in trading profits since 1973, the year of 'peak' trading activity before the slump of the mid 1970s. It shows gross trading profits both before and after allowing for the effects of stock appreciation that give the more realistic picture of the trend of profits (based on the 1975 trough of economic activity as 100) and a measure of them as a proportion of Gross Domestic Product at factor cost.

The main points to derive from the table are:

- High rates of inflation meant that stock appreciation ran at very high levels, particularly in 1974 to 1976. However since 1976 companies benefited from the lower levels of stock appreciation (this was reversed again in 1979, when stock appreciation rose again under the influence of rising oil prices, after the period covered by this table). Consequently, between 1976 and 1978 trading profits *after* stock appreciation rose considerably more than they did *before* taking stock appreciation into account; this is important, because (as was argued earlier) it is the series of profit figures *after* allowing for stock appreciation that are most realistic.
- The right hand column shows that as a *proportion of gross domestic product* trading profits after stock appreciation fell from 1973 to 1975, but even then constituted over 8% of GDP. This is a higher figure than earlier official estimates had indicated. From 1975 to 1978 the share of such profits in GDP rose in each year, and in both 1977 and 1978 had (at over 11%) largely restored the ratio in 1973. Both 1973 and 1978 can be considered years of cyclical 'peak' activity; in both years systems of price control were operating in the UK market. The close identity of post stock appreciation trading profits as a proportion of GDP in these years is therefore of considerable interest; it does not suggest any declining trend in such profits. (The following points should be noticed, however. Profit figures in 1973 and 1978 were to some extent constrained by price controls. The 1972 proportion of profits, as defined, to GDP was nearly 13% instead of the 11½% of 1973 and 1978. Moreover the profits of the most recent years were enlarged by North Sea oil operations; this point is examined subsequently).
- The recovery in the post stock appreciation level of trading profits is from 1975 to 1978 a quite substantial one. This is the more apparent if year by year increases are considered. From 1975 to 1976 such profits rose by 30%. From 1976 to 1977 they rose by 40%. (Profits in that year were boosted partly by a major devaluation of exchange rate and partly by a revision of the price code to enable — and legitimate — a widening of profit margins.*) From 1977 to 1978 the rate of profits increase slowed to 16%, under the combined influences of an appreciation of the exchange rate and a more selective, investigatory, type of statutory price control. But in all these years the rate of increase of trading

* The effect of price controls from 1973 to 1977, when a detailed price code operated, can best be thought of as operating as a constraint *reducing* profit rates in 1973 and 1974, and as being increasingly 'liberal' in 1975 to mid 1977 and thereby allowing a major rebuilding of profit margins in the home trade.

Industrial and Commercial Companies: Gross Trading Profits Arising in the UK

Year	Gross Tr. Profit (£m)	Stock Appreciation	Gross Trading Profits after stock appreciation		
			In £m	As Index (*75 = 100)	As % of GDP*
1973	9,720	2,290	7,430	97	11.6
1974	11,024	4,706	6,318	83	8.5
1975	11,920	4,262	7,658	100	8.2
1976	15,003	4,994	10,009	131	9.1
1977	17,870	3,769	14,101	184	11.3
1978	19,465	3,087	16,378	214	11.5

* At factor cost.

Source: National Income and Expenditure, 1979 Edition

profits after stock appreciation was well above the rate of inflation of domestic costs (in each year not far from double the underlying inflation rate). Thus profits were gaining ground in real terms.

- d) It is helpful therefore to provide a broad estimate of the real purchasing power of the series of trading profits (after stock appreciation) to compare with the index in the table above. To achieve this we take the index based on 1975, but deflate the series by the official index of changes in 'total home costs'; this gives us an approximate measure of such trading profits at constant prices.

Gross Trading Profits (After Stock Appreciation):

Index (1975 = 100) At Constant Prices

1973	145
1974	105
1975	100
1976	115
1977	145
1978	152

Source: As for previous table.

Thus the main series of industrial profits, after allowing for the rise in home costs, had recovered to the 'real' levels of the 1973 peak by 1977. This represented a level of profits 45% above the 1975 trough. By 1978 the profits recovery had gone further in 'real' terms, to reach a level over 50% higher than in 1975.

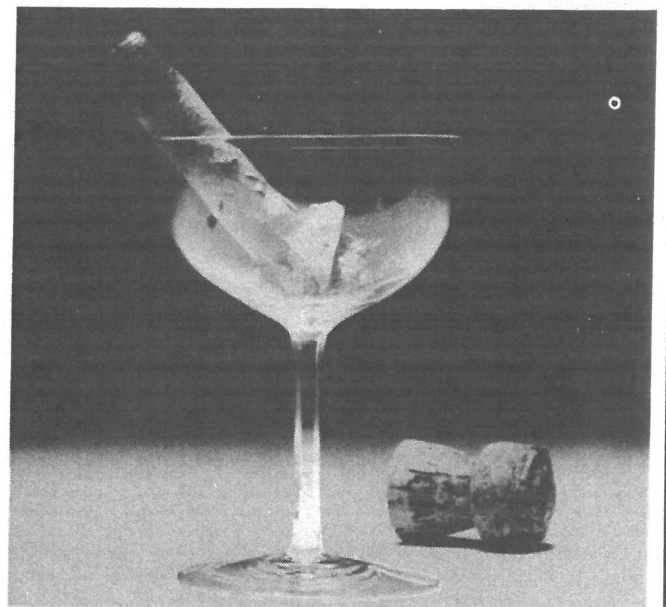
Of course, one element in this profits recovery has been the rise in the profits generated from North Sea exploration and extraction of oil and gas. The North Sea certainly constitutes an important 'growth sector' in the system, but then in a dynamic economy there are likely to be both 'growth' sectors and declining sectors. However, from the official figures that are available it is possible to identify approximately how much of the 'real' profit improvement still persists for these years for industrial and commercial companies excluding the North Sea operations.

North Sea profits only appeared after 1975 (earlier some losses were incurred due to high levels of exploration expenditure set off against sales revenue). In 1976 trading profits were £450 million, in 1977 £1,750 million, and in 1978 to over £2,300 million. Stock appreciation does not appear to have been a large item in these years. Roughly, then, gross trading profits (after providing for stock appreciation) of industrial and commercial companies *excluding* North Sea activities rose by 60% from 1975 to 1977. Even after deflating by the rise in home costs, this represented an increase of over a quarter in two years. In 1978 the profits increase excluding North Sea activities was some 14% again higher than the general increase in home costs (around 10%) so that real profitability continued to increase. Excluding North Sea oil activity, industrial and commercial company trading profits (after stock appreciation) in 1978 still reached over £14 billion.

5. Net Trading Profits

So far, the trading profit series have been adjusted to take into account the element of stock appreciation that has to be allowed for in an inflationary economy. But it is also argued that in an inflationary system depreciation provision based on the historical cost of equipment will not be adequate to finance subsequent replacement at higher prices.

The thrust of this argument is that for a more *complete* understanding of the contribution of trading profits to the *long run maintenance* of the business under inflationary



conditions it is necessary to consider such profits not only *after* provision for stock appreciation but also after appropriate provision for depreciation. This will then indicate — though given the problems of measurement, only approximately — the out-turn of *net* profits after allowing for the impact of inflation.

The general argument is realistic, but there is considerably more doubt about the appropriate deduction for purposes of measuring capital consumption (depreciation) than there is for measuring stock appreciation. It is, for instance, very likely that published figures of the 'replacement cost' depreciation that should be taken into account are exaggerated.

There are a number of reasons for doubting the accuracy of assessment of 'replacement cost' depreciation. One is that the 'life' of plant assumed for depreciation purpose is often a convention, and a cautious one at that, rather than a reliable indication of the length of time before plant is *actually* replaced. In many cases 'historical cost' depreciation has been accompanied by deliberately 'conservative' (which in this case means unduly short) estimates of the 'life' of items of capital equipment. A further problem is that measurement of 'replacement cost' is likely to proceed by 'indexing up' the original cost of equipment; in point of fact improving technology may well (perhaps even, normally) mean that modern equivalent assets would be less expensive than such indexing might suggest. Besides, the pace of technological advance may be so impetuous that it is not really possible to think in relatively 'static' terms of 'replacing' current capital assets with near equivalents. This is very obvious indeed in the field of electronic equipment and the advancing technology of micro-electronics in particular where particularly dramatic changes in equipment and products go along with very rapid declines in the real cost of such units.

For all these reasons it is pardonable to doubt the reliability of the published series for 'capital consumption' at replacement cost in the national income accounts (and to scrutinise the assumptions behind such estimates at the level of company accounts too). Recently, the national income accounts have offered an alternative measure of the process we are seeking to analyse. This consists of a series measuring 'retirements' of capital equipment by industry group. In general, but with considerable variations by industry group, the 'retirements' of fixed capital stock run at not much more than half the estimated rate of 'replacement cost' depreciation.

The following table indicates the differences between the two series for the national economy in 1978:

Fixed Capital: "Capital Consumption" and "Retirements" 1978			
	(£ million)		
	Column A 'Cap. Consumption'	Column B 'Retirements'	Col. B as a % of Col. A
Total	18,310	10,087	55
Manufacturing	3,985	2,135	54
Distribution Trades and Service Inds.	2,356	951	40

Source: CSO National Income 1979 Edition, tables 11.1 and 11.3.

(There was in 1978, unusually, one sector where retirements exceeded estimated capital consumption; this was transport and communication, and was mainly caused by large scale retirement of ships.)

Unfortunately, official figures do not provide exact data for 'retirements' for the industrial and commercial company sector. In our view a reasonable estimate of the appropriate level of depreciation in an inflationary system lies in between the two series ('capital consumption' and 'retirements'). Although we cannot offer exact estimates, it does seem worthwhile to set a 'compromise' estimate alongside the available official data on replacement cost 'capital consumption' and to apply this to arrive at *net trading profits*:

Industrial and Commercial Companies: Net Trading Profits				
Year	On 'capital consumption' basis		On 'compromise' estimate	
	In Billion £	As % of Net Domestic Product	In Billion £	As % of Net Domestic Product
1973	4.9	8.7	5.7	9.7
1975	3.6	4.4	4.9	5.7
1977	7.9	7.3	10.0	8.8
1978	9.0	7.3	10.7	8.4

Source: CSO, National Income, 1979 Edition, and estimates

The table shows the following points about industrial profits:

- a) Even on the probably excessive depreciation adjustment involved in using the 'capital consumption' approach, industrial and commercial company profits in 1978 reached £9 billion after making full adjustment for stock appreciation and depreciation. Thus nearly half the total of trading profits before any such inflationary adjustments emerge as 'real' profitability. On our 'compromise' estimate *net trading profits were over £10½ billion* in 1978; this was about 55% of total gross trading profits before any stock appreciation adjustment. So on the inflationary experience of recent years it looks as if a rough guide would be that net trading profits after all inflationary accounting adjustments have been running at around half of gross trading profits.
- b) Even on a net basis, trading profits account for a substantial proportion of the net domestic product of the UK. On the 'capital consumption' basis they improved from only 4.4% of net domestic product in 1975 to 7.3%

in 1977 and 1978. This was still rather lower than in the 1973 peak year of business activity. On our 'compromise' measure of depreciation, net trading profits were still as high as 5.75% of net domestic product in 1975, and built up to around 8½% in 1977 and 1978.

It is clear then that is far from true to think that industrial and commercial company profits from trading operations are very heavily reduced when inflation is taken into account.

The table above related *net trading profits* to the national income. It is sometimes argued that the more important ratio is that of the 'real' return, or surplus, generated on the capital stock of the industrial and commercial company sector. To arrive at this we need, again, to use official estimates, this time of the net stock of fixed capital (of such companies) valued on a replacement cost basis.

Industrial and Commercial Companies: Net Return			
	Net trading profits after stock apprec. and Replacement Cost depreciation (£ Thous. Million)	Net Stock of Fixed Capital (Repl. Cost) (£ Thous. m.)	Percentage rate of return
1973	4.9	64.9	7.6
1975	3.6	99.4	3.6
1977	7.9	135.1	5.9
1978	9.0	158.4	5.7

Source: As for earlier tables

We need once again to repeat our view that there may be serious reservations about the validity of the estimates for 'capital consumption'. But the table shows that even if such a basis of adjustment of profit estimates is adopted, the 'real' return on an inflation adjusted estimate of the value of the fixed capital stock of the industrial company sector remained clearly positive even in the worst recession year of 1975. The 'real' rate of return on this basis halved between 1973 and 1975. By 1977 and 1978 the 'real' return was approaching 6%, a major improvement over the recession level of the mid 1970s.



6. Profits in 1979

The first estimates are available of industrial and commercial company profits in the first two quarters of 1979. The

experience of recent years has been that such estimates are likely to be drastically revised. Consequently, they should only be taken as a first approximation as to the most recent developments:

Industrial and Commercial Company Profits
(£ million. Seasonally adjusted)

	Gross trading profits	Stock Appreciation	Gross trading profits after stock apprec.
1978	19,465	3,087	16,378
1979 I	5,395	1,480	3,915
1979 II	6,465	1,757	4,708

Source: Economic Trends

Profits in the first quarter were adversely affected by the level of strike activity, particularly by disruption of production stemming from the lorry drivers' dispute. The quarterly rate represents (post stock appreciation) a fall of 4% from the 1978 average. But there was a sharp profits advance in the second quarter to 15% above the 1978 average. This was despite the marked acceleration of stock appreciation, which more than doubled the 1978 figure (comparing on an annualised basis). The second quarter profit figure appears to represent a new profits peak, since trading profits after stock appreciation and deflated by the index of home costs advanced to almost 60% as above the 1975 level. Trading profits (after stock appreciation) as a proportion of gross domestic product rose to over 12% in the second quarter. Thus, it appears to have been the turbulence generated by industrial action that weakened profits in 1979 (the third quarter figures can be expected to repeat the decline of the first quarter); leaving that aside, the second quarter statistics indicate some further profit advance in 'real' terms – but oil profits may play an important part in that outcome.

Addendum: The Bank of England revises its profitability estimates

In June 1980 (some months after the paper on profits over the 1973-78 trade cycle was prepared) the Bank of England in its Quarterly Bulletin produced some useful revised data on trends on profitability in the 1970s.

The Bank throughout concentrates not simply on 'industrial and commercial companies', but on these with the exclusion of profits from the North Sea that has occurred since 1975. The key points it makes are as follows:

- Official estimates of gross trading profit have been 'revised upwards by at least £1 billion in each of the years 1973 to 1979' since earlier Bank of England surveys. If anything, the revisions have been more marked in recent years (thus an upward revision of £1½ billion in 1978).
- The Bank of England article concentrates on 'rates of return' on trading assets. The revisions mean that the estimates are now of higher profitability over the whole of the trade cycle from 1973 to 1978, whatever base of measurement is taken.
- It was argued above that one relatively realistic set of figures in an inflationary period is that of gross trading profit *net* of stock appreciation. The Bank produces a series expressing such profits as a rate of return on trading assets. These firms *exclude* the North Sea profits of industrial and commercial companies (if these were *included* the series would show progressively higher rates of return after 1975 than those listed below).

Industrial and Commercial Companies (excluding North Sea activities): Gross Trading Profits Net of Stock Appreciation, Percentage Rate of Return on Trading Assets

Average 1968-72	13.4
1973	15.0
1974	10.9
1975	11.2
1976	12.8
1977	14.4
1978	14.9
1979	11.6

Source: Bank of England Quarterly Bulletin June 1980.

The interest of these figures is that they show the rate of return as less damagingly affected by the 1974-75 recession than had previously been assumed. Even more significantly, they show that in the upswing of the late 1970s the rate of profitability (calculated in this way) had by 1978 returned to the peak 1973 level *even excluding North Sea oil* profits. As anticipated, there is a distinct fall in profitability in 1979 in the face of a number of adverse factors, though all previous experience of official statistics tells us that the 1979 figure may be revised upwards. What is more the average return over the more recent trade cycle (omitting either the 1973 peak or the 1978 peak) is only slightly below that of the previous trade cycle (12.9% average for 1973-77, compared with 13.4% for 1968-72).

- The Bank of England also uses the basis for measuring 'real' profitability that is criticised in the article preceding this note, that is trading profits after deducting an estimate of 'capital consumption' based on replacement costs and an assumed life of plant and equipment. Profits net of depreciation calculated on this basis are then expressed as a percentage rate of return on capital employed (also at replacement cost). But rates of return on this basis (which fully provide for the effects of inflation, and may indeed be overstating the reductions from 'historical cost' profits that are required) are, says the Bank, around 1% p.a. higher than it had previously calculated, as a result of statistical revisions. The Bank's new figures (still *excluding* North Sea oil profits):

'Real' Net Trading Profitability, Pre-Tax Ind. and Commercial Cos.
(% return on assets)

Average 1968-72	9.4
1973	8.8
1974	5.2
1975	4.7
1976	5.1
1977	5.8
1978	5.9
1979	4.1

Thus on this basis of measurement the 'real' return on industrial capital remained strongly positive through the recession of the mid 1970s (only falling marginally below 5% in 1975). Over the cycle from 1973 to 1977 the return averages just under 6%, markedly lower than in the previous cycle but clearly more than the CBI had been arguing it was. Once again, 1979 appears provisionally as a year of profit squeeze (the Bank emphasises in explanation the worsening of trading competitiveness as sterling appreciated).



But the Bank's next set of figures are even more interesting. They introduce a calculation of *the effects of taxation*, and therefore of the estimated *post-tax* real rate of return. In essence what emerges is a picture of a dramatic *reduction in the tax burden* falling on industrial and commercial companies. So much so that this has largely compensated for the fall in 'real' pre-tax rate of profitability. It is useful to quote the Bank of England article direct and at some length on this:

'The upward revisions both to profits and to depreciation allowances have . . . eliminated a good deal of the previously pronounced decline in the post-tax real rate of return on trading assets in the mid-1970s. Broadly speaking, the . . . measure' (of post-tax return) 'is now estimated to have been relatively stable (fluctuating mainly between about 4% to 5%) since the introduction of the "classical" system of company taxation in 1965 . . . The real tax burden on companies, as implied by the relative movements of the pre-tax and post-tax measures fell sharply in the early 1970s, principally because of the extension of 100% initial allowances on plant, machinery, ships and aircraft to the whole country in 1972 and of the introduction of stock relief, with retrospective effect, in 1974'.

Or, to put it simply, the decline in 'real' pre-tax profitability has been largely offset by a decline in the burden of tax. The 'post-tax real rate of return on trading assets' (remember, this is for industrial and commercial companies, excluding North Sea activities) 'is now estimated to have been broadly stable' That means a 4% to 5% real post-tax rate of return on assets *after* allowing (and this may be an *excessive* provision) for depreciation of equipment at replacement cost over their nominal 'lives'.

The Bank's estimates of the *tax burden* falling on these companies, and expressing tax as a percentage levy on trading assets, comes out as follows:

av 1965-67 around 5½% on assets
trade cycle 1968-72 around 4½% on assets
trade cycle 1973-77 around 1½% on assets
av 1978-79 around 1% on assets

This is a dramatic reduction in tax burden, and of course in tax revenues to the exchequer. The shift in the tax regime so far as industrial and commercial companies were concerned has largely insulated their real (post-tax) returns from the crisis of the 1970s. What the Bank does not say is that this has, however, been at the expense of more severe problems of managing public finance (larger deficits, higher taxes falling on individuals, and/or cuts

in public spending programmes).* And it has been a remarkably unconditional reduction of taxes; for instance no element of it was made conditional on participation in planning agreements in the years after 1975.

The Bank's detailed figures for recent years are as follows:

**'Real Net Trading Profitability, Pre-Tax and Post Tax:
Industrial and Commercial Companies:
as % Return on Assets**

	<i>Pre-Tax</i>	<i>Post-Tax</i>	<i>Tax Take as % of Assets</i>
1968-72 (av.)	9.4	4.9	4.5
1973	8.8	6.1	2.7
1974	5.2	4.3	0.9
1975	4.7	3.6	1.1
1976	5.1	3.8	1.3
1977	5.8	4.2	1.6
1978	5.9	4.5	1.4
1979	4.1	3.5	0.6

Source: Op.Cit.

On this basis of estimation both real rates of return and the taxation falling on companies were in 1979 unprecedentedly low. Industrial and commercial companies had — apart from the new revenue source of North Sea oil — largely ceased to make a contribution to tax revenues (only 0.6% of asset values). It is a remarkable end to the decade, and a remarkable opening to the crisis of the early 1980s.

In summary, then, the Bank of England's analysis gives us the following picture:

1. The effect of recent official revisions to profit estimates for the industrial and commercial company sector is to raise the figures for gross trading profits by at least £1 billion a year in each year since 1973.
2. This has had the effect of raising estimated rates of return (here the Bank concentrates on the industrial and commercial sector excluding North Sea activities). Pre-tax rates of return on assets *after* allowing for stock appreciation but before taking account of depreciation ('capital consumption') appear to have been well sustained even through the recession of the mid 1970s. The average rate of return over the trade cycle to 1978 was around 13%, only slightly lower than in the previous trade cycle.
3. On the Bank's assumptions about the 'replacement cost' depreciation required, net 'real' returns on assets fell in the recession of the mid 1970s to around 5% pre-tax, but rose to close to 6% 'real' returns by 1977-78.
4. Companies themselves were largely insulated from the lower rates of 'real' net profitability as a result of a dramatic reduction in taxation. Taxation which had been equivalent to a 4½% annual levy on assets in the 1968-72 trade cycle was only around 1½% on assets in 1973-77. Net 'real' profitability after tax consequently averaged nearly 4½% in 1973-77 compared with nearly 5% in the previous trade cycle.
5. The reduction in the taxation falling on industrial and commercial companies since the early 1970s has, however, intensified the problems of public finance. The

* By 1978 and 1979 the reduction in tax revenue per annum from such companies implied by the 1% effectively levied on assets as compared with the 5% of a decade earlier was around £6 billion at 1978/1979 prices.

protection of the net rate of return on industrial capital has had to be met either from higher taxation of other kinds or by public spending cuts, or increased borrowing at high interest rates.

6. It would be unwise to place too much reliance on the figures for 1979 as earlier experience has generally pointed to subsequent upward revision of profit estimates. But it would be wrong to doubt the severity of the squeeze on the profitability of the industrial and commercial sectors exposed to international trade competition and caught between the upper and nether

grindstones of an appreciation of the sterling exchange rate and an internal inflation rate significantly higher than that of many international competitors.

The governments of the 1970s shielded the industrial and commercial company sector by massive tax reductions. But the new government is reducing the real profitability of those companies exposed to overseas competition. Industrial company profitability in the 1970s was much better sustained than the earlier official projections and 'authoritative' interpretations had led us to believe. But there is a real wolf at the door in 1980.

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