

THE PRICES BILLTHE CONSERVATIVE AMENDMENT[Paper by Mrs. Sally Oppenheim]I. Main Points

The Prices Bill seeks to increase the financial limit on food subsidy spending to £1700 million. Our Amendment attempts to limit this to £1000 million during the same period:

	<u>Bill</u>	<u>Amendment</u>
Limit to 1977	1700m	1000m
Spent 1974/5	515m	515m
Available for Expenditure to 1977	1185m	485m

Public Expenditure

The saving in Public Expenditure (at 1974 prices) resulting from our Amendment can be expressed as follows:

	<u>Government Programme</u> <u>(Public Expenditure Survey)</u>	<u>Amendment</u> <u>Programme</u>	<u>Saving</u> <u>Resulting from</u> <u>our Amendment</u>
1975/6	488	325	163
1976/7	420	160	260
1977/8	360	-	360
1978/9	300	-	300
1979/80	240 (projected)	-	240
Total	<u>1808</u>	<u>485</u>	<u>1323</u>

Family Budgets

The effect of our Amendment, over and above the small reductions planned by the Government in the Public Expenditure

Survey and to which Shirley Williams has committed herself in the Second Reading Debate would be to reduce the proposed level of benefit by 33 per cent in 1975/6 and by 50 per cent of the remainder in the following two years.

This would represent a reduction of approximately 26p per week per family or 6.5p per week per person in each of the financial years 1975/6, 1976/7, 1977/8 and would lead to an increase of $\frac{1}{2}$ per cent in the Retail Price Index in each of these.

Net Saving

Taking into account an increase in social security benefits* to compensate for the reduction in benefit from food subsidies, net savings would be:

	<u>Amendment Saving</u>	<u>Cost of Increase in Benefit</u>	<u>Overall Saving</u>
1975/6	163	54	109
1976/7	260	107	153
1977/8	360	160	200
1978/9	300	160	140
1979/80	240	160	80
Total	<u>1323</u>	<u>641</u>	<u>682</u>

II BACKGROUND

Current and Future Expenditure on Subsidies

Milk and butter were subsidised under the last Conservative Government at a cost of about £140 million per annum. Labour have increased the subsidies on these items and have also

* Estimate of cost of Compensation Benefits given in Written Answer (Hansard Col. 636). Includes Family Allowances, FIS, Retirement Pensions and Supplementary Pensions.

provided subsidies on bread, cheese, household flour and tea. In a full year the cost would have been £580 million but since a number of subsidies were not introduced until late in the year the actual cost in 1974/5 will be £515 million. This means that the Government has £185 million left over from the funds provided by the Prices Act and is now seeking power to spend a sum total of £1185 million.

The Public Expenditure Survey.

The Government seems almost certain to spend the whole of this sum in the next two years. The Public Expenditure White Paper reveals the Government's intention to scale subsidies very gradually down. But it seems likely that inflation will cause the cost in money terms to stay very much the same until at least 1977. Column I in the table below shows the figures given in the Survey, which are at 1974 prices. Column II gives the cost in money terms, assuming optimistic rates of inflation of 10 per cent and 15 per cent. Mrs. Williams appeared to indicate in Committee that her Department was working on the basis of rather optimistic forecasts of this order.

Timetable for Phasing-out Subsidies in the

Public Expenditure Survey

	<u>1974 Prices</u>	<u>Money Terms</u>	
		<u>10% inflation</u>	<u>15% inflation</u>
1975/6	488	536	561
1976/7	420	504	546
1977/8	360	468	522
Total cost by 1980	1808	2288	2529

Assuming that the Government continues to reduce subsidies at the same rate, that is by between £40 and £60 million every year, they will not be phased out entirely until 1983/84.

Proposed Conservative Amendment

We would try to impose an absolute ceiling for expenditure on subsidies up to 1977 of £1000 million. This would mean that there would be £485 million as opposed to £1185 million in the Bill available for subsidies in the next two years. We would make it clear that after that date we would support no further expenditure whatsoever.

At present subsidies save the average family 85p a week. Column 1 in the table below shows the savings in forthcoming years if the Government sticks to its policy as outlined in the Expenditure Survey. Column 2 shows the savings that would be achieved if our Amendment was adopted, assuming that, of the £485 million that would be available to the Government, £325 million would be spent in 1975/76 and £160 million in 1976/77.

Savings to the Average Family

	I		..II	
	<u>Per Family</u>	<u>Per Person</u>	<u>Per Family</u>	<u>Per Person</u>
	<u>Savings (at 1974 prices) implied by the White Paper</u>		<u>Savings (at 1974 prices) implied by our Amendment.</u>	
1975/6	79p	20p	52p	13p
1976/7	69p	17p	27p	7p
1977/8	59p	15p	-	-

Although any possible relevance of food subsidies to the needs of people when they were first introduced would have vanished during the Government's phasing-out period, a big expenditure obligation would nevertheless remain.

The phasing-out implied by our Amendment could take place to show a substantial saving in Public Expenditure and still be broadly in line with our Manifesto commitment. The commitment in the proposed Amendment to continued but sharply curtailed expenditure on subsidies for a limited period...

the chance of political damage caused by opposing a policy which may be presumed to have had some popularity with the electorate.

Nevertheless our case would be strengthened if we were to commit ourselves in principle but not in detail to providing those in genuine need with the same level of financial assistance as they at present obtain from subsidies. This could be done relatively inexpensively and show a substantial saving in Public Expenditure. One of the ways this could be done is illustrated in the following Written Answer:-

"Mr. Michael Latham asked the Secretary of State for Social Services what would be the net cost to public funds, after receipt of tax, of raising family allowances, family income supplement, retirement pensions and supplementary pensions by a sufficient amount to compensate the recipients fully for the total abolition of food subsidies; and how this net expenditure would compare with the proposed £1700 million ceiling for food subsidies in the next financial year.

"Mr. O'Malley: Expenditure on food subsidies in 1975-76 is expected to be of the order of £550 million, which together with expenditure in the current year will be well within the limit of £1200 million proposed in the Prices Bill for the period up to 1st April 1976. The precise value of food subsidies varies according to circumstances but averages about 22p a week per person, or 25p a week per retirement pensioner. To increase the benefits mentioned by these amounts respectively would cost something like £190 million a year, or £160 million after allowing for income tax receipts. Corresponding increases to other social security benefits would substantially increase the cost. But to compare these figures with each other would be misleading, since the extent to which these benefits may be increased depends on a wide variety of other factors, including the movement of prices generally and other developments affecting gross and net incomes". (Hansard col. 636).