

Confidential

Prime Minister



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

9 December 1981

You asked for these

PRIME MINISTER

figures at the weekend.
(NB not copied to colleagues)
MCS 9/12

LIQUID MILK

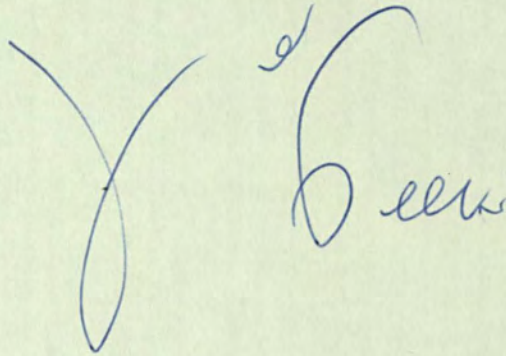
You have asked for a table showing all the increases in the retail price of milk since May 1979, giving dates of the price increases, the total cash increase in each instance and the cumulative percentage increase.

These are set out in Table I attached, together with changes in the RPI and average earnings over the same period. They show an increase in milk prices slightly higher than the increase in the RPI. These figures are misleading, however, for two reasons. First, the milk price goes up in discrete steps, whereas the RPI and the earnings index go up gradually, since each reflects a multitude of individual price increases. To make a comparison fairly, it is therefore necessary to measure changes from and to the date of a milk price increase: the table you asked for takes as its base the price immediately before a large price increase, and its terminal date that immediately after the price increase proposed for January. This unfairly biases the comparison against milk. Secondly, the comparison is particularly deceptive because the price increase in June 1979 should under the Labour Government's own system have taken place on 1 April 1979. It was postponed by them for obvious electoral reasons.

If, in order to put the comparison on a fair basis, one takes as the base the date (November 1978) on which the price went up to the level at which we inherited it (13½p), then one gets the results in Table IA. As you will see, the increase in the milk price following my proposal would be less than the increase in the RPI over the same period and substantially less than the increase in average earnings (the figure for which would of course be higher if it were to be updated from its actual base of September 1981 to January 1982). I include figures for average earnings because of the labour-intensive nature of milk distribution. It is remarkable, in the light of this, that the January milk price is not a good deal higher. The reason it is not so is basically because I suspended the Labour Government's system and have declined to give the distributors the money that system would have given them; and because the new system I am proposing is far tougher on them.

You also asked for a table of monthly RPI increases in 1981 and in prospect. These are set out in Table II. I am afraid that the Department of Employment has not been able to give us monthly but only a quarterly figure for January-March 1982. The monthly figures for 1981 suggest however that January is the best month for the increase. It is most certainly needed on 3 January, for

all the reasons set out in my paper for E Committee.

A handwritten signature in blue ink, consisting of a large, stylized 'P' followed by 'eter Walker'.

PETER WALKER

TABLE I

| DATE | MILK PRICE CHANGES | | | | | RPI | AVERAGE EARNINGS |
|------------------|--------------------|------|-----------|------|-------|-------|------------------|
| | (a) | (b) | (c) | (d) | (e) | | |
| May 1979 | - | 13½p | - | - | 100 | 100 | 100 |
| 3 June 1979 | 1½p | 15p | £120m | 11.1 | 111.1 | 101.7 | 102.7 |
| 17 February 1980 | 1½p | 16½p | £ 77m | 10.0 | 122.2 | 115.2 | 113.9 |
| 10 August 1980 | ½p | 17p | £ 23m | 3.0 | 125.9 | 124.4 | 127.0 |
| 4 January 1981 | 1½p | 18½p | £165m | 8.8 | 137.0 | 128.4 | 131.6 |
| 3 January 1982 | 1½p | 20p | £165m (1) | 8.1 | 148.1 | 144.8 | 144.1 (2) |

(a) = Milk price increase

(b) = New price

(c) = Extra revenue generated

(d) = Percentage increase

(e) = Cumulative percentage increase

FOOTNOTES

(1) For a full year

(2) To September 1981 only.

| DATE | MILK PRICE CHANGES | | | | | RPI | AVERAGE EARNINGS |
|------------------|--------------------|------|-----------|------|-------|-------|------------------|
| | (a) | (b) | (c) | (d) | (e) | | |
| November 1978 | - | 13½p | - | - | 100 | 100 | 100 |
| 3 June 1979 | 1½p | 15p | £120m | 11.1 | 111.1 | 108.4 | 110.8 |
| 17 February 1980 | 1½p | 16½p | £ 77m | 10.0 | 122.2 | 122.8 | 122.9 |
| 10 August 1980 | ½p | 17p | £ 23m | 3.0 | 125.9 | 132.5 | 137.0 |
| 4 January 1981 | 1½p | 18½p | £165m | 8.8 | 137.0 | 136.9 | 142.0 |
| 3 January 1982 | 1½p | 20p | £165m (1) | 8.1 | 148.1 | 154.4 | 155.5 (2) |

(a) = Milk price increase

(b) = New price

(c) = Extra revenue generated

(d) = Percentage increase

(e) = Cumulative percentage increase

FOOTNOTE

(1) For a full year

(2) To September 1981 only

Confidential

MONTHLY RPI INCREASES IN 1981

ALL ITEMS INDEX (January 1974 = 100)

| | | Increase |
|----------------|-------|-----------------------------|
| January 1981 | 277.3 | + 0.6% |
| February " | 279.8 | + 0.9% |
| March " | 284.0 | + 1.5% |
| April " | 292.2 | + 2.9% |
| May " | 294.1 | + 0.7% |
| June " | 295.8 | + 0.6% |
| July " | 297.1 | + 0.4% |
| August " | 299.3 | + 0.7% |
| September " | 301.0 | + 0.6% |
| October " | 303.7 | + 0.9% |
| November " (1) | 306.5 | + 1.0% |
| December " (2) | 309.6 | + 1.0% |
| January - (2) | 319.0 | + 3.0% (quarterly increase) |
| March 1982 (2) | | |

FOOTNOTES

(1) Estimate

(2) Forecasts

9 DEC 1984

