

The present strike is not just about the future of a few pits. It is about the future of coal and the politics of recession.

Graham Gudgin

## FUELLING BRITAIN: the Future of Coal

THE STRIKE OF 1984 is the latest in a series of great mining disputes which have punctuated the twentieth century. In each of these strikes the miners have opposed the crude application of the law of supply and demand to their industry, and have tried to insist on a more humane and equitable way of managing economic affairs. In the famous strike of 1926 they resisted the nineteenth-century system whereby wages were reduced when demand fell below supply. Although that strike was lost, the crude system of wage fluctuations was gradually abandoned. A second aim of the 1926 strike was realised when the industry was nationalised after the Second World War, beginning an era of some measure of energy planning and of relative cooperation between miners and employers, certainly compared with the interwar experience. The major closure programme during this period demonstrated both how changes of this sort can be managed and how the miners have traditionally co-operated in changes which they can see the logic of.

By the early 1970s, however, this era of cooperation was under increasing stress, for a number of reasons. Increasing difficulty in maintaining the pace of economic growth, led to a devaluation in 1967 which raised import prices. Growing inflation led successive governments to attempt to control wages, particularly of those in the public sector. Together with the bargaining weakness caused by the long postwar rundown of coal, this caused miners wages to slip behind those of comparable workers. Two strikes in 1972 and 1974, and a dramatic increase in the price and availability of oil, were necessary before the differentials were restored.

In the new conditions of high and unstable oil prices from 1973, it appeared for a time that a more planned and orderly future for coal had been created. The 1974 Plan for Coal envisaged a growing market through to the mid 1980s, and instigated a major investment programme involving both new mines and the rapid mechanisation of existing ones. Expansion was planned both to replace collieries which closed as they became exhausted or impossibly difficult to operate, and also to increase total output from the industry. Although 40 closures occurred during the ensuing five years (table 1), and manpower declined as productivity began to rise, this took place without major disputes. The context of a plan for coal, and the re-

assurance that closures could be agreed with the unions under the industry's Colliery Review Procedure were powerful influences leading to industrial harmony.

As late as 1978 a government White Paper expected major increases in coal output over the following two decades, but by 1980 the industry was in trouble and planning was set aside to be replaced by the law of the market. The rapid and unexpected fall in demand for coal, led quickly to a rising mountain of unsold stocks of coal. Declining revenue led to large financial losses, and the need for an increased government subsidy (table 2). None of this was the fault of miners, indeed by then productivity was rising quickly. The entire cause lay in the slump, unprecedented in severity since the 20s, which followed the election of the new Conservative government.

### The Government's slump

Although by late 1981 events were overtaken by the international recession which

followed the second oil price rise, Britain's slump began fully eighteen months earlier. It was triggered by the Government allowing the sterling exchange rate to reach an absurdly high level. The major turnaround in Britain's balance of trade in oil gave an upward push to sterling, but the rise could have been prevented by expansionary policies. Instead the perverse reaction of the Government was to squeeze spending. The consequences were a huge loss in competitiveness both by exporters and by those competing against imports, and a major fall in demand. Manufacturers cut their production and with it their consumption of coal both directly, and indirectly via falling use of electricity. Similarly households cut back on coal and electricity as their real incomes stagnated or fell.

The postwar system of Keynesian economic management had a number of built-in stabilisers which tended to counteract any general fall in demand. One of these was the increase in government spending on unemployment benefits. Another was the tendency of public enterprises to maintain production at the cost of mounting financial deficits which disappeared when the economy revived. The Conservatives have tried to weaken or dismantle both of these stabilisers, with the result that recovery has been slow and very weak.

In particular, nationalised industries have been forced to cut production, and reduce employment in order to reduce their losses. This has deepened the recession as both the industries, and their redundant employees, have in turn reduced their spending. The process is illustrated by the fact that the cutbacks at BL reduced the demand for steel and in turn reduced demand for coal. Production of steel fell a staggering 50% in 1980 and is still a third down on 1979. At the end of the chain the coal industry lost five million tons of demand from the steel industry alone.

As each industry reeled under the spreading recession the Government insisted that the coal industry too should contract. This happened in 1980 when External Financing Limits, more popularly known as cash limits, were imposed on the Coal Board to prevent the growth of financial losses. In response the Coal Board announced its intention to accelerate the number of pit closures over the next three years, and to reassess the Colliery Review Procedure under which the timing of closures was agreed with the unions.

Year	Pit Closures	
1950-55	51	10
1955-60	152	30
1960-65	215	43
1965-70	191	38
1970-75	46	9
1975-80	27	5
1980/1	8	8
1981/2	11	11
1982/3	9	9
1983/4	28	28

Source. NCB Annual Accounts

### Financial crisis

In a sense, these actions mark the real start of the current dispute, since the NUM reacted to this outbreak of luddism by calling a strike ballot. Even more positively a strike developed in South Wales, and the Government backed down. The miners had become the only special case, under a government which prided itself in the inflexibility of its 'no U turn' approach. 'In accordance with the Government's wishes' the Coal Board withdrew its programme of accelerated closures and agreed to continue to operate the Colliery Review Procedure. Money available to the industry was substantially increased in 1981/82, and the 1982 Coal Industry Act provided for increased grants for the industry. The original target for the coal industry to break even by 1984/5 was forgotten, and the electricity industry was prevented from buying foreign coal. Round one had been won by the miners.

As the recession continued, the financial crisis in mining simmered on the back burner. Production fell greatly, but not enough to stop total stocks of coal rising from 28 million tons in 1979 to 50 million tons in 1982. Some of these extra stocks were held at the collieries, others at the power stations, with the Coal Board paying discounts to the electricity industry for accepting early delivery. Further efforts to reduce the coal mountain were made by selling abroad. Exports rose from a previous average of two million tons a year to a peak of ten million in 1982. Although the Board has strenuously denied allegations of dumping, these sales are unlikely to have been very profitable. Falling sales and discount prices caused the financial losses to continue, and with them the deficit grants.

### The present phase

By last year Government subsidies to the coal industry remained in excess of £500 millions, equivalent to almost £3000 per miner. Also, due to the Government's own determination not to launch anything but the smallest expansion of economic activity, there was little sign that the scale of losses would diminish. However by this point the Government had won their other industrial battles, were electorally secure, and had not been further troubled by urban riots. Little now prevented them from tackling their most feared opponents. Ian MacGregor had already been appointed head of the Coal Board with a reputation acquired in the steel industry for closing unprofitable units. This move saw the beginning of an acceleration in pit

closures, approaching levels not seen since the 1960s (table 1). NCB employment consequently fell by 20,000 during 1983, and now stands 20% below the level of the last pre-recession year, 1979.

In March 1983 the Government restated its intention to make the coal industry break even, this time within four years. As the next stage in achieving this objective, and with demand still well below supply, in March 1984 the Board issued detailed instructions to each of its regions ordering a reduction in output totalling four million tons during 1984/5. This will involve the loss of a further 22 pits and 21,000 jobs. Regional managers have been left free to decide whether these reductions need to involve compulsory redundancies.

NUM opposition is not only to the closures already announced, but to the further cuts which it is feared will follow if the principle is conceded that the industry should avoid deficits, even in recession. Production is currently seven million tons greater than domestic consumption, and stocks before the strike were perhaps 25 million tons above normal levels. A considerable amount of new capacity is due with ten million from the new Selby complex alone. Taken together, these things mean that many existing mines will not be needed unless demand revives. The fear is that 60-70,000 jobs will go in a reduction in output two to three times as large as that announced by the Board for the coming year. There are a range of views within the government on how far the squeeze on coal should be taken. The minimalist position, which appears to be dominant at the moment, is that the current deficits should be removed but no more. Operating results for individual collieries are normally confidential, but figures for 1981/2, revealed in the Monopolies and Mergers Commission Report on the NCB, showed that 35 collieries, mostly in Wales and producing only 6% of total output, accounted for virtually the whole of the deficit of £207 million. Since then the losses have grown and are now thought to be largely accounted for by pits producing about 12% of the industry's output. It is these pits in the so-called 'high-cost tail' which would need to close if the deficit is to be eliminated.

### Defending the right to work

There are three important reasons why the miners are correct to resist even this minimalist strategy. Two of these are major issues of principle concerning the way in which modern economies are managed. The first is that it should be unacceptable

TABLE 2  
Government Assistance to the Coal Industry  
(£ MILLION AT 1982 PRICES)

	Total	Assistance per er
1972	632	2,358
1973	551	2,187
1974	561	2,280
1975	64	259
1976	133	550
1977	125	519
1978	249	1,060
1979	371	1,592
1980	282	1,226
1981	538	2,462
1982	508	2,447

Sources: *National Income and Expenditure 1983*; *NCB Report and Accounts 1982/83*.

in a modern democracy to manipulate the level of aggregate demand so as to cause a sudden collapse of major markets for whole industries, and vast increases in unemployment. The right to work, which was largely conceded in the postwar consensus commitment to full employment, has been almost completely eroded, particularly since 1979. The miners strike is a major attempt to defend this right.

Governments in most countries have relied heavily on the excuse that recession and unemployment are world problems, and thus not within their power to change. But this argument is spurious when used by governments which are themselves set against expansionary policies. The world economy is no more than the composite of the individual countries. As long as major states like the UK eschew deflation, and play no part in pursuing the international cooperation needed to make it possible, they must be held to have major responsibility for the continuing recession. In reality, little seems likely to change unless those most affected by recession, like the miners, can mount an effective counter-pressure to those who have a vested interest in deflation.

The second reason why the strike is correct is that it will, if successful, force a more equitable sharing of the burdens of recession. Since 1979 virtually the whole burden of declining national income has fallen on the unemployed whose living standards have generally been halved. The employed majority have in contrast been protected, and have experienced little if any decline in real income largely because North Sea oil revenues have provided much of the rising taxation needed to pay unemployment benefits and associated social security payments. By forcing the Government to continue its subsidy to the

coal industry, the mineworkers will maintain a lower rate of unemployment than would otherwise have been the case. This will mean that several tens of thousands of families will be saved from a drastic fall in living standards, while taxpayers as a whole will be a little worse off because they have to continue to finance the Coal Board's deficit. If the Government cannot be persuaded to create jobs through major reflation, and if large numbers of voters are prepared to support their intransigence, then at least the costs of unemployment should be borne equitably. Unfortunately there seems little chance that this will happen without the sort of industrial action which the miners are taking.

In any case the cost of maintaining miners in jobs is less than it seems, and private accounting methods aimed at reducing deficits disguise the true situation. The cost to the government, in grants and lost tax revenue, of each unemployed person is estimated at around £6000 a year. Hence if the 20,000 people planned to be laid off this year leads to an increase in unemployment of the same magnitude, then the cost to the government will be £120 million in addition to lump sum redundancy payments. These costs need to be set against any reduction in the subsidy.

### Future energy supplies

A final reason why the strike should succeed is that it challenges short term thinking about energy supplies in the UK. There is a widespread assumption that coal is a fuel of the past, yet Department of Energy forecasts predict that coal consumption will not decline unless economic growth is particularly slow. Beyond 1990 they assume that an expanding nuclear power programme will decrease the demand for coal from power stations, but that household and industrial markets will expand by enough to offset this decline. If, as is quite possible, the nuclear programme is delayed or abandoned due to safety worries or to the competitiveness of coal prices, then coal consumption may grow quite rapidly. As world oil and gas reserves are depleted, coal is likely to become the major source of power for non-premium uses such as space-heating. In these circumstances it is important to maintain a large coal industry even if in the short term this implies excess production. The oil crisis of the last decade, moreover, provided an important reminder of how vital energy supplies are to industrial economies, and how easily such supplies can be disrupted. Fuel stocks provide a valuable buffer against such disruption, and since

coal is easily stored it is a good way of holding such stocks. The coal stocks which the Government are so concerned about financing, are a far better use for subsidies than is the uselessness of unemployment. Moreover a rise in international energy prices, or indeed a depreciation of sterling could permit higher coal prices in the UK and the elimination of part or all of the subsidies. It would be a cruel irony if the proposed closures were to take place, only to find that some of the pits would have been profitable after all. In addition the considerable success of Britain's deep-mining machinery industry in exports has been based on a substantial and reliable home market. Any attempt to diminish that market may have undesirable effects on the machinery suppliers.

### Privatisation strategy

A more extreme or maximalist strategy is implicit in the preference for privatisation voiced by some government ministers. This would involve a much more rigorous application of the market philosophy to the coal industry. Each individual colliery, in this case, might be required to make a profit, involving a change of the current practice under which the surpluses from low-cost mines are balanced against the deficits from high-cost mines. Since costs vary mainly for geological reasons this is widely held to be a fair procedure. In general, the price of UK coal is kept roughly in line with the prevailing international price, and in most years except for the recent exceptional period, average production costs are kept in line with prices. Since around half of the pits have higher than average production costs, this means that they technically make a loss; in other words their production costs are above the prevailing international price. In 1981/82, 141 collieries were in this position, including virtually all of those in Scotland, Wales, and the North East. Colliery costs change considerably from year to year, but 87 pits had financial losses in five out of the six previous years.

A privatised industry might well decide that most of these collieries should be closed, leaving only those with good prospects of profits. Production would then be reduced, and imports of coal from Australia, the USA and perhaps even South Africa might be needed to fill the gap between British output and consumption. From a national point of view such a strategy would be extremely short-sighted in view of the volatility of world energy prices, but private companies would be unwilling or unable to do what the state

can do, which is to subsidise one pit with another.

### Cross-subsidisation

Such a strategy, involving an even more drastic closure programme is wrong for the same reasons as the minimalist position. There is however an extra important argument against it. The cross-subsidisation of pits in effect maintains coal production at a higher level than would be the case if profit criteria were applied to each pit. This in turn reduces or eliminates the need for imports. Since the growth of import penetration has in the past formed the major constraint on economic expansion in the UK and, inevitably will do so again, any reduction in imports has a disproportionately large impact on economic growth.

Each individual company might appear rational in abiding by the criteria of private profit, but the net result would be that governments would be forced to restrict spending more than otherwise to avoid balance of payments problems or a falling exchange rate. Balance of payments problems have been largely forgotten in recent years because deflationary policies have reduced spending by so much that imports have been low. However, with the build-up of exports of North Sea oil now nearing its peak, balance of payments problems are likely to re-assert themselves as a constraint on the level of economic activity.

The whole sorry story since 1979 is an illustration of the consequences of an under-planned economic system, run on market principles. Unstable currencies play havoc with trading patterns, and uncontrolled capital movements allow the expatriation of savings of workers whose jobs are at risk through lack of investment demand. Contraction is passed from one firm to another, and from industry to industry, with no-one able to halt the process since all must eliminate the resulting losses. The end of the process is the huge waste and misfortune of mass unemployment, and the cumulative loss of production, now amounting to tens of billions of pounds, compared with what could have been achieved at the growth rates of the 50s and 60s.

What is needed, *at a minimum*, is a return to the degree of control of the economy, and planning for economic change, which typified the first three post-war decades, and which largely obviated the need for the type of strike we are now witnessing. It is this sort of change which a successful miners strike might help to bring about. •