surplus. A surplus can be very costly for the EEC budget and its disposal on world markets can antagonise other traditional suppliers. On both points, the next largest problem after milk is in cereals, and a Commission official recently warned that support prices for grain will soon have to be restricted. Third on the "hit list" is probably beef.

The containment of agricultural output, by whatever means, implies that future improvements in efficiency will result in the release of resources to some other activity. There is little point in milk quotas, for example, if they simply transfer resources to the production of greater surpluses of cereals. Scottish farmers will therefore want to know whether there is any commodity which can can produce which will not soon be subject to prices squeezes or quotas or other restrictions. One answer is vegetable proteins. The EEC is far below self-sufficiency in protein for animal feed and gives enormous support to oilseed rape, peas, beans and now lupins. There have been some warnings about the cost of these commodities to the EEC budget and there is already a "guarantee threshold" which leads to a trimming of rapeseed prices if output grows too quickly. However, this is "not to stop production, but to allow a prudent growth".* In the very long term, the Commission is also looking at the scope for expanding timber production and at various new biological energy sources. In the meantime, the general trend is likely to be towards reduced support for most major commodities, coupled with special aid for those farmers least able to cope. This could mean increased assistance to "less favoured areas" which include much of Scotland.

* Claude Villain, Director General for Agriculture, European Commission, February 1984

Economic Perspective

THE COST OF COAL

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The organisation and finances of the National Coal Board as depicted in the recent report of the Monopolies and Mergers Commission* makes devastating reading. The unemotional tone of the report lays bare a tale of mismanagement and incompetence on a scale, which if replicated in the Soviet Union, would perhaps have earned the senior executives responsible severe punishment. The comparison with the Soviet Union is suggested by the fact that the industry has apparently been run since nationalisation in 1947 like an industry in a planned economy, i.e with physical performance rather than financial indicators. There has been a consequent maldistribution of investment and devastation of worker morale. There have, however, been no comparable sanctions on management.

As a consequence of the way in which the industry has been run, it has become a huge drain on the resources of the rest of society. All the following figures refer to 1981/82, the latest year for which data were available for the purposes of the MMC enquiry. In the same year, grant aid receivable from the government amounted to no less than £575 million, while the figures for the two previous years were £254 million and £251 million respectively. In addition, in that year the NCB borrowed £902 million from the

National Loans Fund and £586 million in the previous year. The external financing limit proposed for 1983/84 of £1,130 million was over 40% of the total for all the nationalised industries. In the words of the report, "on the information available to us, there is little possibilitiy that the NCB will be able to operate without a deficit, let alone generate sufficient funds to finance any significant part of its own capital investment, before the end of this decade." These facts should be read in conjunction with Section 1(4) of the Coal Industry Nationalisation Act 1946 which provides that "the revenues of the Board shall be not less than sufficient for meeting all their outgoings properly charged to revenue account...... on an average of good and bad years."

The absence of any proper system of financial accounting (other than at the aggregate level) has tended to disguise the fact that there is a wide spectrum of performance between pits. In 1981/82, more than half of total UK output was produced at a cost (excluding capital charges) per ton greater than average revenue per ton. The MMC estimated that if capacity could be reduced by 10% and the reduction could be concentrated on those pits with the largest operating losses per ton, the NCB's finances would be improved to the extent of some £300 million per annum. In 1981/82 the operating losses amongst the twelve collieries then operating in Scotland ranged from £38.3 per ton at Cardowan to £1.5 per ton at the Longannet complex. Not a single colliery in Scotland made an operating surplus. To make matters worse, these measures of operating surplus and loss leave out the cost of capital.

Unlike a factory or a farm or other mining activities in this country, or unlike coal mining activities in other parts of the non-Communist world, the system of financial accounting at the level of the basic unit of production is incomplete and overlaid by physical constraints. Thus there is no proper measure of costs. The Coal Board's principal measure of performance is a measure of labour productivity defined in terms of output of coal in tons per man-shift worked. As the MMC report says "there is therefore a lack of the necessary information that would enable the management to base its decisions on an understanding of the cost of the capital that is likely to be involved, or the real profitability or otherwise of individual operations." Another consequence has been the maldistribution of investment. Over one third of the Board's expenditure of some £386 million since 1974 on major investment projects has gone into collieries which are either unprofitable or of doubtful potential profitability.

Another predictable consequence of the lack of information which is necessary for efficient resource allocation is that an excess supply of coal has built up, leading to the present high volume of stocks. Those who support Mr Scargill's campaign argue that these excess stocks should be run down by exporting more coal at subsidised prices. But if coal is a national asset of potentially still greater value in the event of a further major rise in the world price of crude oil, as they also argue, then of course the correct policy is to reduce the level of output of coal, not to expand it, and certainly not to give it away cheaply.

The immediate reason for over-production and the continued existence of so much high cost capacity, resulting in the present "grave financial position" of the NCB (to quote the MMC report), has been the failure of the industry to achieve the elimination of a "broad average of some 3-4 million tons capacity a year that was accepted by the NCB, the unions and the government in the interim report of the Tri-partite Coal Industry Examination in 1974. Meanwhile the other main element of that report - investment in new and modernised production facilities - has proceeded unabated. If the level of closure anticipated in the report had been achieved, the present capacity would have been at least 10 million tons less than it is, and the position of the industry would have been transformed." These are the sources of the present dispute.

The campaign being waged by Mr Scargill against **any** pit closures is a campaign which can end only in defeat. While resistance to the closure of particular pits might well be justified, and while delaying the timing of the closure programme might just win public sympathy or at least be negotiable, there is no economic sense whatever in the proposition that no pit should be closed before the physical exhaustion of its reserves of coal. This is a principle which is equivalent to saying that no factory should be closed so long as it is physically capable of producing something, or that fertilisers and machinery should continue to be applied to any field which can produce a blade of grass. Such a proposition has no place in capitalism, socialism or any other form of economic organisation known to man. It is is simply irrational.

In the areas where most pit closures seem likely to come, there are few alternative jobs with terms and conditions as attractive as those which would disappear. This is an argument for the government to promote investment in new industries in these areas: it does not constitute an argument against closure of pits which have no economic future.

The statement frequently made that British coal is "the cheapest deep-mined coal in Europe" is misleading in four respects: (i) The Coal Board's estimates of costs per ton omit the costs of capital used in production. Even in the Coal Board's sense, costs vary enormously from one pit to another, and it is evident that not all pits could compare favourably in costs with elsewhere. (ii) Those pits which are "low-cost" in Coal Board terms, like Selby in Yorkshire, tend to be modern capital-intensive pits, and therefore tend to have a high proportion of capital costs. Thus their true costs are likely to be very much higher than those indicated by the Coal Board's measures. (iii) Even if the true costs of production from individual British deep mines were known, and even if, in some cases, these proved to be lower than for deep-mined European coal, it remains the case that deep-mined coal has to compete with coal produced from much cheaper open-cast mines. (iv) Even if it were the case, which it manifestly is not, that all British deep mines produced coal at a true cost per ton lower than the cost of coal produced anywhere else in Europe by any other means, that still would not constitute an argument for continued production in every pit if coal can be produced in Australia or America and delivered to customers in the UK more cheaply.

Mr Scargill's defeat seems inevitable because in order to win he must inflict inconvenience or even hardship upon the rest of the community, but it is the opinion of the rest of the community which will in the end decide who wins. Unlike a strike about wages, little sympathy can be expected from the rest of the community for a campaign against pit closures, once the facts are known. Compared to the importance of the coal industry to the economy as a whole (80% of electricity is generated by coal-fired plants, and coal accounts for 45% of electricity generating costs) the proportion of miners in the community is small (less than 1% of all employees in Scotland). Most people believe, rightly or wrongly, that the redundancy terms offered to miners (either lump sum payments or transfer to other collieries in the same coal-field) are generous compared with the redundancy terms on offer for other occupations.

Of course nothing is certain in human affairs and it still remains possible that the government will throw away the victory which is within their grasp. They would have to be remarkably foolish to do so, but the Coal Board's failure hitherto to get across its case to the public is certainly indicative of the possibilities.

*** National Coal Board : A Report on the Efficiency and Costs of the Development, Production and Supply of Coal by the NCB.** Report of the Monopolies & Mergers Commission. CMND.8920, June 1983