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NATIONAL PRICES COMMISSION

OCCASIONAL PAPER NO. 3

THE PRICE OF DRINK

November, 1972



(Prl. 2790)

Price 7½p

Houses of the Oireachtas

NATIONAL PRICES COMMISSION

THE PRICE OF DRINK

Introduction

1. The original proposal of Licensed Vintners Association (LVA) was set out in a letter to the Minister of Finance, Industry and Commerce. The LVA proposed that the Government should increase and other costs since the introduction of the 1967 Act which had not been compensated by price increases. The detailed proposals were as follows:—

"Increase of 12 per cent per annum on the 1967 price for each half-pint bottle and 12 per cent per annum on the 1967 price for each bottle of six. To be paid per half-pint bottle and per bottle of six an increase of 12 per cent per annum on the 1967 price for each half-pint bottle and per bottle of six."

The average rate of increase of prices is shown in the following table:

Average Rate of Price Increase Contd.

| | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
|------------------------------|------|------|------|------|------|------|
| Drought stout, six and eight | 10 | 10 | 10 | 10 | 10 | 10 |
| Half-pint bottle of stout | 10 | 10 | 10 | 10 | 10 | 10 |
| Four bottles of stout | 10 | 10 | 10 | 10 | 10 | 10 |
| Half-pint bottle of stout | 10 | 10 | 10 | 10 | 10 | 10 |
| Four bottles of stout | 10 | 10 | 10 | 10 | 10 | 10 |
| Half-pint bottle of stout | 10 | 10 | 10 | 10 | 10 | 10 |
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THE PRICE OF DRINK

Introduction

1. The original proposal of Licensed Vintners' Association (LVA) was set out in a letter dated 1 October 1971 to the Minister of Industry and Commerce. The grounds for the claim were the increases in wages and other costs since the price settlement of November 1968 which had not been compensated by price increases. The detailed claim was as follows:—

"Increase of 1p per pint on draught stout, ale and lager, 1p per half-pint bottle and $1\frac{1}{2}$ p per pint bottle of stout . . . $\frac{1}{2}$ p per half-pint bottle of ale, 1p per half pint bottle of lager . . . an increase of 1p per half-glass of Irish spirits is necessary, with *pro rata* for foreign spirits . . ."

The average rate of increase claimed is estimated in the following table:

TABLE 1
Average Rate of Price Increase Claimed

| Product | Present price (p per unit) | Increase claimed | | Volume mix | Increase per £100 of turnover |
|------------------------------|-------------------------------|------------------|-----|------------|-------------------------------|
| | | p | % | | |
| Draught stout, ale and lager | 18 | 1 | 5.6 | 55 | 3.1 |
| Half-pint bottle of stout | 10 | 1 | 10 | 15 | 1.1 |
| Pint-bottle of stout | $19\frac{1}{2}$ | $1\frac{1}{2}$ | 7.7 | | |
| Half-pint bottle of ale | $11\frac{1}{2}/13\frac{1}{2}$ | $\frac{1}{2}$ | 4.0 | | |
| Half-pint bottle of lager | 13/14 | 1 | 7.4 | | |
| Half-glass of spirits | 18 | 1 | 5.6 | 15 | 0.8 |
| Miscellaneous | — | — | — | 15 | — |
| | | | | 100 | 5.0 |

2. In response to this submission, the Minister on 20 October 1971 requested accounts for 30 licensed traders in Dublin, the sample being that selected in 1970 in relation to price negotiations with a different association. Three years' accounts had been supplied previously for each of the "sample of 30", and the LVA were requested to provide one or two years' accounts for each house to bring the sample up to date. The LVA objected to this proposed procedure on the grounds that most of the sample were "top houses", i.e. had results which were significantly better than average. Agreement was not reached on this dispute and the matter was referred in December 1971 to the National Prices Commission.

3. The Commission appointed consultants with the following terms of reference to examine the LVA application:—

- (i) to examine the economic background to the submission, assess relevant comparative evidence bearing upon the application, and derive such conclusions as the facts will support.
- (ii) to examine the evidence bearing upon the application of the Licensed Vintners' Association for an increase in the price of drink.

The consultants took the 1965 Report of the Fair Trade Commission* on the retail market for drink as a starting point, because underlying conditions had not changed fundamentally since then. The consultants reported to us on 6 October 1972, and their main findings are summarised in the following paragraphs

Economic Background

4. **The licensing system.** A licence is required to sell alcoholic drink in Ireland. The present licensing arrangement derives essentially from the findings and recommendations of two Commissions: that of

* Report of enquiry into restrictive practices affecting supply and distribution and involving, *inter alia*, arrangements, agreements or understandings between retailers, made at the instance of retail trade associations, which effect or are capable of affecting the retail prices of intoxicating liquor and soft drinks 1965.

1925 (resumed in 1929), and that of 1957. The concern of these Commissions was to deal with a situation in which there were thought to be "too many licences". However, there is sound evidence that, although there may indeed be particular licences which are redundant (e.g. because of population movements), the system does have the consequence of restricting the number of sales outlets for alcoholic beverages. There is therefore a situation of "constrained competition", in which those with licences may compete with one another (subject to certain limitations discussed below), but enjoy protection from new entrants because of the need for a licence as the precondition for entry.

5. The operation of the licensing system is therefore a matter of some importance for the behaviour of the liquor market. The consultants restricted their analysis to the on-licence trade (though the control of off-licences is not markedly different). The general rule is that no new (annual) licence may be granted except for premises licensed at some time in the previous five years, with the exceptions which follow.

6. Hotels are exempted from the general rule. A hotel is defined as a unit with at least twenty bedrooms available for guests if in a County Borough and at least ten bedrooms so available if elsewhere, and which is on the register of Bord Failte Eireann. In either case, the hotel may operate a public bar (as distinct from a lounge in which drinks are served) only if the licensee has arranged for an existing public house licence to be extinguished.

7. In a **rural area**, a new licence may be granted in the immediate vicinity of an existing licence provided that the latter licence is extinguished. Also, a new licence may be granted in such an area provided that two existing licences are extinguished, and provided that there are not other premises licensed before 5 July 1960, within one mile of the location. In **urban areas**, a new licence may be granted on proof that population has increased by 25 per cent since 1901. Again, an existing licence must be surrendered, either in the city or town itself or in some circumstances within the same parish.

8. The licensing system has operated since 1960, and is more flexible than the previous arrangements. It is understood that no further

legislation is currently contemplated, save for a consolidating Act. There was an unsuccessful attempt to introduce separate restaurant licences in 1962, but this failed, and licensed restaurants have continued to develop from pubs or to obtain licences through the above procedure.

9. There were 11,758 licensed premises in 1964, since when the number has been declining by about 40 per year. The present situation, then, is one in which the regional imbalance in the distribution of licences makes possible a surplus of licences in some (rural) areas, while in some urban areas there is an actual shortage, in the sense that there would be more retail liquor outlets, were it not for the licensing constraint. Evidence for this view is to be found in the fact that licences have a sale value. The market must be a narrow one—a recent advertisement for licences in the daily papers brought six replies. However, the consultants were able to obtain some information to provide a fair indication of the relevant magnitudes. The current market price of a **country licence** for purchase by a Dublin hotel is in the region of £1,250 to £2,000. The price of a metropolitan region licence (attached to a tumbledown pub, or to a site scheduled for redevelopment) might be of the order of £5–6,000. The latter price obviously varies with such factors as location, the state of the market at the time, and the extent to which the transaction is a forced sale induced e.g. by demolition. The consultants gained the impression that this latter market had not changed significantly through time: over the last ten years, such premises had been sold at prices from £3–6,000, the impression being that prices had kept broadly in step with the general inflation. The only qualification to this was the fact that smaller houses (and hence licences attached to premises with limited potential) were becoming harder to sell: due it would seem to the fact that the employment conditions imposed by the trade union (see below) required the small owner to work too hard.

10. The consultants attempted to compare the trend in the price of property with a licence, and the trend in other (e.g. residential) property prices, to obtain some information about the current and expected future profitability of liquor retailing. No reliable evidence was obtained on this matter. It was possible of course, to find particular instances in which licensed premises had been sold for what appeared to be exaggerated prices. These turned out on investigation to be due to specific rather

than general causes (such as the development of a new housing estate). The LVA suggested that some of them were also explained by the fact that the premises were bought by people without knowledge of the trade. People with knowledge of the property market had discerned no *general* divergence between the trends e.g. of residential property prices and of the prices of licensed premises.

11. The present arrangements confer a property right on licence-holders in declining regions: it is open to doubt whether this is an ideal form of aid to such regions, particularly since it is financed by the restriction of retail competition elsewhere. On the other hand, some would argue that the limitation of outlets may facilitate operating efficiency (in delivery, etc.) and so make for lower costs. However, it is not obvious why price competition should not produce equally satisfactory results in this regard.

12. Since it is open to doubt whether the present licensing system has much influence on total alcohol consumption (as distinct from its influence upon the arrangements for the retail sale of liquor) there would appear to be a case for a new look at the system with a view to its possible liberalisation. It is perhaps not without interest in this regard that the licensing laws in the UK have been considerably liberalised in recent years, and that it seems likely that further reforms of this kind are on the way. The case for liberalisation is strengthened by the fact that the system gives support to other restrictive practices (such as those affecting the employment of labour).

13. **Structure of the retail trade.** The dominating feature of the retail trade is the strength of the retail trade associations and the relative insignificance of vertical integration: this is in striking contrast with the situation in the UK market, with which there are close links at the manufacturing level. The LVA has 3,000 members in the country as a whole. Of the 660 on-licence outlets in Dublin, 550 are members. Some of the remainder are associate members: these are small family houses employing no trade union labour. It is a condition of membership of the Association that only trade union labour (Irish National Union of Vintners', Grocers' and Allied Traders' Assistants) shall be employed.

14. There is a strong sense of solidarity among Association members, and a willingness to act as a group to oppose the development of vertically-integrated enterprises on the UK pattern. Several of the UK breweries have attempted to establish a foothold in Ireland: one UK beer is brewed under licence in Ireland, and there is a considerable number of brewery-owned outlets in the Cork area in particular. It cannot be said, however, that these attempts by UK brewers have enjoyed any great success. Apart from the opposition of the Association (manifested, e.g. by an unwillingness to stock the products of brewery companies with their own retail outlets) the UK companies have been handicapped by the strong continuing preference for certain Irish products in Ireland.

15. As a further test of the way the retail market operates, the consultants investigated the problems of marketing four new Irish products. It would appear that there are severe limitations to the extent to which price-cutting at the wholesale level can be used to establish new lines. However, this is not to be attributed to the absence of price competition at retail so much as to other elements in the situation. First, the "quality" end of the retail trade (lounge bars and hotels) tends to be price-insensitive, so that price concessions at wholesale are likely at best to encourage the retailer to stock the product rather than to try to push it by advertising his own price concessions. On the other hand, the "lower" end of the trade tends to be more traditional in outlook, and hence unsuitable for the initial marketing of many "original" products. This leaves only the "young" market, as a potential growth-area, but a highly uncertain and fashion-dominated one. At the same time, 95% of the retail trade overall is in well-established products, and the incentive even to *stock* new lines must be weak (given the administrative costs involved) unless the wholesale price concessions are accompanied by a considerable merchandising effort by the producer. Finally, it has to be remembered that a large part (55–60%) of the retail price of spirits is accounted for by tax. Wholesale prices are some 10–15% of final retail prices, so that it is difficult to make price concessions at wholesale of a sufficient magnitude to facilitate a significant change in the price charged at retail. There is thus no satisfactory evidence to support the view that the introduction of new products is handicapped by the absence of price competition at retail.

16. **The labour: force** The Irish National Union of Vintners', Grocers' and Allied Trade Assistants (hereinafter referred to as the Union) has for many years organised the staff of public houses in the Dublin area. The Union operates a closed shop. The only non-union labour employable is members of the proprietor's family and lounge boys for service outside the counter. (Only a negligible number of outlets remain outside Union control because they manage with family labour only: the Union estimates that there are less than ten such premises in the Dublin area.) The Union bars female labour and the employment of part-time barmen.

17. Staff in hotels do not belong to this Union, and there is much more flexibility in the terms and conditions of employment of similar staff in hotels. Efforts were made to compare trends in wages and/or earnings between staff concerned with liquor retailing in hotels and in fully licensed premises, but without success. There appeared to be common agreement that such a comparison, even if possible, would not be particularly helpful. The breakdown of tasks was different, as was the tempo of work: and these characteristics, as well as the negotiated hours and conditions of employment, had been changing differently through time.

18. The following table draws together some information about relative trends in the wages of Union members and the wages and earnings of other workers in the Dublin area. The comparison suggests that public house wages have increased at a significantly higher rate than the general wage level over the period 1966-1972. Moreover, a further increase in public house wages, already agreed, will raise the index to 263.2 with effect from April 1973. However, it must be emphasised that the data has serious deficiencies. There have been important changes in recent years in the terms and conditions of Union employment, including, e.g. the length of the standard working week and special payments for work after closing time. In respect of the current situation, the consultants were given an estimate that as much as 25% of a barman's total earnings might consist of overtime and relief pay. One result of wage negotiations in recent years has been to cause trends in wages and earnings to begin to diverge.

TABLE 2

Index Numbers of Hourly Wage Rates in The Dublin District

| | Industrial | Services | Transport | All | Public House Wages |
|------|------------|----------|-----------|-------|--------------------|
| 1966 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1967 | 110.3 | 113.5 | 109.7 | 110.0 | 110.9 |
| 1968 | 114.1 | 115.4 | 113.4 | 114.3 | 117.9 |
| 1969 | 127.1 | 126.9 | 123.0 | 126.4 | 125.5 |
| 1970 | 144.1 | 137.1 | 133.8 | 140.8 | 133.1 |
| 1971 | 172.3 | 177.7 | 172.8 | 174.0 | 165.3 |
| 1972 | 192.9 | 208.3 | 189.8 | 196.5 | 226.1 |

Source: Central Statistics Office and Trade Union agreements.

19. Another way to assess the consequences of Union policies is by their effects on the supply of labour. Insofar as the Union has been successful in obtaining relatively favourable real earnings, one would expect that there would be a plentiful supply of potential entrants, on the one hand, and concern among LVA members to substitute less costly types of labour on the other.

20. In fact, the Union and the LVA both argue that there are serious problems of recruitment. Concerned about the fall in the number of apprentices entering the trade, the LVA pressed in 1968 for inclusion in the new agreement with the Union a clause reducing the apprenticeship term from three years as an apprentice plus two as a junior assistant, to two years as an apprentice plus one as a junior assistant. In 1970, the Union and the LVA advertised apprenticeships, and even offered Union cards to people with two years' bar experience, but the results were disappointing. Drop-out rates are high among qualified staff as well as among entrants. Reasons offered were "the unsociable hours, lack of family life and promotion blockages". In the words of the Association's accountants: "When it is remembered that barmen work a nine-day fortnight, have a high basic wage, guaranteed overtime, job security, unmeasurable fringe benefits and the trade cannot attract and retain sufficient apprentices we are forced to conclude that loss of social activity especially at weekends cannot be compensated for". In the

same view, it appears to be accepted that since the introduction of a National Wage Agreement there has not been particularly strong resistance to wage increases.

21. If this evidence were taken at its face value, it would have to be concluded that the Union should abolish itself in the interests of its members, since it would appear to be holding their earnings below the levels they could obtain for themselves in a competitive labour market. It seems more likely, however, that the argument as stated confuses cause and effect. There may well be difficulties in hiring enough Union labour: such difficulties obviously make for higher wages for those who do get Union cards. It is less clear that these difficulties are produced by the inherent unpleasantness of the job rather than by controls over entry.

22. The LVA runs a three-year Diploma course for apprentices, in conjunction with the Retail School of Distribution. Classes are held in the daytime and cover bookkeeping, retail distribution, shop practice, law and commodities. The success record for recent years, as provided by the LVA's accountants, is:—

First year entrants

| | |
|----------|---------------------------|
| 1967—135 | Received Diploma 1970: 16 |
| 1968—186 | Received Diploma 1971: 19 |
| 1969—212 | Received Diploma 1972: 18 |

The consultants did not consider it within their terms of reference to enquire further into this system. But when it is borne in mind that the imposition of apprenticeship conditions is a classic means of controlling the supply of labour (*cf.* the printing industry unions in the United Kingdom) it is clear that these figures may contain the key to the apparent problem. The difficulty lies not in a shortage of potential recruits but in the number who actually overcome the entry hurdles. On the basis of the limited investigation it is not possible to say that a probationary period of five (now three) years, plus an examination system that only around 10% of the original entrants pass, is inappropriate for those who wish to follow the vocation of a barman. But these barriers to entry into the labour force may provide a better explanation of the recruitment difficulties than do the non-pecuniary disadvantages of the job itself.

23. Although the LVA explains the scarcity of trained labour in the matter described above, its members nevertheless would like to be able to recruit part-time workers and women "even at Union rates of pay". Other issues apart, licensees have a serious peak-load problem: the full-time Union staff in most houses needs to work at capacity only for a few hours on busy weekdays, and to cope with weekend demand. This problem may be increasing in importance under the pressure of technical changes (see paragraph 26 *et seq.* below).

24. The views of the labour side on female employment may be summarised as follows.* Many Union members see women as potential price cutters, though the Union dismisses this argument on the grounds that even were it forced to admit women, it would do so only on "equal pay" terms. It is thought that this in itself would prevent any widespread employment of women. The tempo of bar life, it is argued, is much higher than that of the normal hotel lounge. Thus, it is argued that where there have been experiments with female labour, the experience is that the men finish up doing the arduous jobs for the women. Equal pay would provide a considerable disincentive to this form of collaboration. Some take the matter one step further. The result of the creation of a highly-paid, highly-skilled, close-group labour force such as the present one, they argue, cannot but raise output. But the employment of women on equal pay would almost certainly raise unit costs. Finally, failing equal pay, Union members would be made insecure by female labour, since the high-cost labour would be likely to be the first laid-off in bad times.

25. Insofar as these arguments are to be treated seriously, there are ways to overcome the problems which do not involve the banning of female labour. First, if the argument for equal pay is in fact being used simply to shut out potential price- (wage-) cutters, then it is clear that the Union's policy encourages unit costs of production higher than is necessary (since it prevents the employment of women and part-timers who would be more efficient from the licensee's viewpoint). Second, the only socially interesting concept of equal pay is concerned not with provision of the *same* pay for the *same* work, but with provision of *equal*

*these views are not attributed to any particular person nor do they describe the official union attitude unless this is specifically indicated.

pay for *equal* work. If there are tasks which in the Union's view women cannot be asked to perform, then these could be enumerated. There could then be two pay scales, one relating to the total implications of the job, the other excluding some tasks agreed to be unsuitable for women. It is hoped that there would be female members of any body set up to decide this. Finally, there is no argument of principle to prevent any redundancy agreement made between the Union and the LVA from including women.

26. On productivity, the LVA suggested that output per man-hour had been falling, through circumstances beyond their control. Several reasons were suggested, mostly related to the fact that the retail trade in beers had been transformed by the introduction of the gas-powered dispenser. The beers adapted to this kind of retailing are greatly favoured by brewers because of the production and distribution economies they facilitate. Whether the beer is itself better from the point of view of the consumer is more debatable. Brewers generally seem to be working on the assumption that the taste for beer is anyway an acquired one, and people will acquire the new one of necessity. As a by-product, the change to "keg" beers appears in the UK to be following a classic small-number limited-competition pattern, with strong emphasis on brand distinctions but with the beers tasting more and more alike.

27. In the case of stout, which is the product of major importance in Ireland, LVA members believe that some quality variation still occurs between houses, possibly due to storage methods and to the barman's skill, though it is obvious that these variations are less important than formerly. In any case, the diameter of the present "tap" is smaller, and two operations instead of one are needed to fill a pint. It is argued that in this way the brewers have increased the labour costs of the retailer, and that this increase has not been recouped.

28. Associated with the above, the kilderkin (20 gall.) and the hogshead (52 gall.) packs have gradually been withdrawn. Outlets with draught sales of sufficient size have been encouraged to install permanent (160 gall.) tanks. Smaller outlets unsuitable for a tank installation, and those concerned about the potential problems of having

one large tank should anything go wrong, have to use small (11½ gall.) kegs. For this latter group, the money costs and real frustrations of changeovers during peak periods are argued by the LVA to be significant, though of course no magnitude is available. The importance of this problem will vary from one house to another, depending on such factors as throughput and the extent to which the premises are capable of adaptation to the new processes.

29. Some publicans used to bottle their own stout—none now do so. For the smaller publican in particular, this change (initiated by the brewers) is argued to constitute a loss in that the bottling could be done by staff during "slack" daytime periods. The standard of services and amenity expected by customers has been rising. This is not unwelcome to licensees or the LVA. However, they argue that it inevitably raises costs, and hence the prices needed to obtain a given return. It should be noted that these influences affect not only the general productivity of labour, but also the licensee's ability to deal with his peak-load problem.

30. The consultants' conclusions concerning the labour force might be summarised as follows. Costs per unit of output may have been adversely affected in the ways described above. From a broader point of view, however, much the more important question concerns the control over entry to the labour force by the Union, and the way this power is exercised in practice. Effectively, the interests of the LVA and Union run together insofar as the combination of licensing restrictions and a closed shop facilitates the passing-on of cost-increases in the form of higher prices, which situation incidentally strengthens the position of the LVA itself. (Interests diverge, of course, insofar as the LVA members would prefer greater flexibility in their use of labour, within the present general constraints than the Union will countenance.) Insofar as the long term aim of economic policy is to promote efficiency through competition, this is clearly a situation that would merit further examination.

31. **Price and duty changes.** The LVA supplied the following information on the trend in selling prices since December 1968:

TABLE 3
Price of Drink 1968-71

| | Draught stout per pint | Irish whiskey per glass | Bottled stout per ½ pint |
|---------------------------|---------------------------|----------------------------|-----------------------------|
| Price December 1968 | 35d | 72d | 20d |
| Increases: | | | |
| May 1969—Budget | 2 | 4 | 1 |
| July 1969—allowed Nov. 68 | 37 1 | 76 2 | 21 |
| May 1970—Budget | 38 1 | 78 2 | 1 |
| June 1970—Brewers | 39 1 | 80 | 22 1 |
| Feb. 1971—Decimalisation | 40 0·8 | 1·6 | 23 —0·2 |
| May 1971—Budget | 40·8 2·4 | 81·6 4·8 | 22·8 1·2 |
| Price December 1971 | 43·2 (18p) | 86·4 (36p) | 24·0 (10p) |

32. **Comparative price movements, Britain and Ireland.** This is of interest in that it may provide some tentative evidence about trends in retailing efficiency, and also because there is a popular view that rising drink prices have had an adverse effect on the tourist trade in particular. Any such effect must have been symbolic rather than direct, given the small importance of a penny or two on a pint of beer in the total cost of a holiday. But the fact that the influence may be indirect does not mean that it must be trivial: the general belief in its importance is sufficient evidence to the contrary.

33. The comparison of liquor prices through time in the two countries is a less straightforward operation than it appears. Apart from the usual differences (in consumer preferences, drink mixes, etc.) the particular

problem is that beer is taxed by specific gravity. Gravities of individual beers vary through time; marginal adjustments are a method, e.g., of making smaller price changes than would be possible by adjustment in the price per pint. At the same time, gravities differ from one beer to another, so that the average gravity of all beers drunk in any one year is a function of the pattern of drinking in that year. Since drinking habits differ in Britain and Ireland, and have been changing differentially through time (average gravities are higher in Ireland than in England, but have been falling rather more quickly in Ireland in the past few years), there are obvious difficulties in making a comparison of time-trends in prices that is a fair reflection of relative developments.

34. The consultants collected and examined a good deal of information on relative prices in Dublin and Edinburgh and also in Belfast. In the case of beer, it was decided that the simplest way to present the information was in the form of a comparison of the trend in the price of draught Guinness in Dublin and in Edinburgh (Guinness of course has a larger share of the Dublin than of the Edinburgh market). Edinburgh was chosen as a town with relatively similar population and socio-economic characteristics to Dublin, though it remains true, of course, that drinking habits and preferences are different. Also, the data needs to be read with the reservation in mind that what is bought from a licensee is not simply a pint of beer, but a "bundle of amenities" that includes, for example, the quality of service, furnishings, and the character of the house. Thus, the Edinburgh prices are the public bar prices as reported by one UK brewery company. There is no strict equivalent to this price in Ireland. It follows that the absolute levels of prices can be compared only in a very general way, and *trends* in relative prices are perhaps more informative than the absolute levels in individual years. At the same time, the consultants would judge that the trends in the following table are a reasonable reflection of recent developments, as they are generally confirmed by the other price-data that was collected.

35. It must be reiterated that caution is needed in interpreting the data: the "bundles of amenity" reflected by the price of a pint are not identical in the two countries. However, unless there has been a considerable raising of *relative* standards of amenity in Dublin in the last eight years

TABLE 4

**Retail Sale Prices of Draught Guinness in Dublin and Edinburgh, 1965-71
(old pence per pint)**

| Year | Dublin price | Edinburgh price | Excess of Edinburgh over Dublin price. |
|------|--------------|-----------------|--|
| 1965 | 27 | 29 | 2 |
| 1966 | 29 | 29 | 0 |
| 1967 | 30 | 29 | -1 |
| 1968 | 33 | 29 | -4 |
| 1969 | 38 | 31 | -7 |
| 1970 | 40 | 33 | -7 |
| 1971 | 43 | 38 | -5 |

(and superficial observations does not suggest that this is the case), then there has been a movement since 1965 from a position in which a standard pint was cheaper in Dublin than in Edinburgh, to one in which it is significantly dearer.

36. The tax on a standard pint (including turnover tax in relevant years) was heavier in Dublin throughout the period. In 1965, at 10·13d., it was almost an old penny higher than in Edinburgh, so that the "price" to the retailer net of tax was some 3d. lower in Dublin than in Edinburgh. But while the rate of tax in the UK had risen by less than 3d. by 1971, in Dublin it had almost doubled. Thus, in 1970, the tax differential was around 7d. so that net-of-tax "prices" to retailers were equal in the two cities. In 1971, the differential was roughly 7½d., and the Dublin "net-of-tax" price was around 2d. *below* the comparable Edinburgh figure. Notwithstanding the problems of comparison (the figures for individual years such as 1970-71 are also affected by the control of price changes by the Prices and Incomes Board in the UK), it seems safe to infer that the change in relative beer prices can be attributed to duty changes rather than to a fall in the relative efficiency of the Dublin licensed vintners, or to their greater exploitation of a monopoly position.

37. In the case of spirits, perhaps the most enlightening comparison is between the retail price of Scotch whisky in Edinburgh and the price

of Irish whiskey in Dublin. The comparison is again tentative. Whiskey prices tend to be less standardised than those of beers, and it is more commonly drunk with a "mixer" (which of course forms part of the price of the "product" purchased at retail). Further, spirits are retailed in different measures in the two countries. The Irish measure is 2.5 fl. oz., the UK one a "fifth" (2 fl. oz.), or sometimes a "sixth" (1.66 fl. oz.). It is not entirely satisfactory merely to multiply the UK "fifth" price by 5/4, since each drink has ancillary services attached to it, and there is no reason to suppose that these vary directly with the size of measure. However, any bias that exists in the price-comparison from this cause would seem likely to favour Dublin, in that larger UK measures might have produced cost-savings, and hence a slower rise in prices than was in fact recorded.

38. When whiskey prices in Dublin and Edinburgh are compared it emerges that, in contrast with beer, prices tend to be consistently higher in Dublin over the period since 1966. But again, the Edinburgh prices are public bar prices, and too much weight should not be attached to the size of the absolute difference. In 1966-68, an Irish Whiskey in Dublin (6s. at end-1968) was around 2s. dearer than an equivalent-size glass of Scotch would have been in Edinburgh. In 1970 the difference was about 2s. 8d. and by 1971 as much as 3s. 2d. (Dublin price 7s. 5d. or 36p, Edinburgh price 4s. or 20p). Over the same period, the duty on a glass of spirits in Ireland increased by around 1s. 4d., roughly three-quarters of the total Dublin price increase, while the UK increase was less than 4d. Thus, almost all the *relative* price increase is again reflected in a differential increase in duty.

39. Notwithstanding the difficulties surrounding the comparative evidence, it seems safe to conclude that the changes in relative prices of beers and spirits at retail in Ireland and UK are explained by duty changes rather than by the pricing policies of retailers.

The Accounting Evidence

40. After their appointment by the National Prices Commission, the consultants met the officers of the LVA on 27 January 1972 to discuss the evidence required for their enquiry and, in particular, means of

obtaining a sample set of accounts. The LVA objected to the sample of 30 and claimed that no sample of that order of size could represent the diverse positions of their members. The consultants insisted that the application for a price increase would not carry weight without support from some sets of accounts but agreed that the accounts would require careful interpretation, supplemented by other information; and also agreed that the accounts examined should be representative of small houses as well as large ones. It was agreed that the LVA would attempt to obtain the extra accounts required to complete the sample of 30, and that they would also provide accounts for a second sample (the LVA sample), of about the same size, of their own choosing and intended to represent smaller houses. The consultants decided at this time to adopt the report of the Fair Trade Commission in 1965 as the base for their analysis, and to seek six or seven years' accounts for each house.

41. The LVA instructed a firm of accountants to obtain the extra accounts for the sample of 30, and themselves wrote to 50 other members, in the hope of obtaining from them an extra 30 sets of accounts. In their letter, they gave a brief summary of the background to their request and stated that the addressee had been selected by lot. The addressee was invited to submit his accounts anonymously, through a firm of accountants, if he so wished.

42. On 29 May, the Secretary of LVA wrote to the consultants to say that he was having great difficulty in obtaining the required accounts. He said that some of his members did not have accounts available for six years, some were reluctant to act as "guinea pigs" and some were not getting co-operation from their auditors (*sic.*) He asked if the consultants would accept, as a base time for their investigation, the price settlement of 1968 on the grounds that the position at that time might be regarded as acceptable to the LVA and the Government. This proposal was accepted for practical reasons (and of course without commitment as to the reasonableness or otherwise of the 1968 situation), and on 14 June the LVA wrote to all members with a final appeal for the provision of accounts. This letter included the following two paragraphs:

"We need urgently the co-operation of our members in submitting 6 years, audited and certified accounts and the other accountancy

information specified in the circular letter of June 1st which I sent out to all members. If you feel that your accounts justify an increase in retail bar prices, will you please co-operate in submitting your accounts. I make this appeal especially to those proprietors in the 3/4-man house category. If you think your accounts would not help, then please give me the courtesy of a reply before Thursday next, to that effect stating briefly your reasons, whatever they may be. This will help us to evaluate the position of the Trade in general and decide whether we are wasting our time or not, in seeking retail bar price increases.

If we do not co-operate in submitting the accounts, etc. for examination by the two consultants employed by the National Prices Commission, we have no hope of having our case examined. We must produce the evidence for our claim. . . ."

43. In view of the wording of the LVA letter, the accounts obtained could no longer be regarded as a representative sample. In spite of this broadly-based appeal and a membership of some 3,000 licensed traders, however, the LVA obtained only a slight response. The consultants were requested then by the National Prices Commission to proceed with their report on the basis of whatever accounting information had been collected by mid-July and the final meeting was held with the officers of the LVA on 13 July 1972.

44. For the purposes of their analysis, the consultants grouped together accounts for years ended during the year to 30 April (e.g. accounts for years ended on any date between 1 May 1970 and 30 April 1971 were classified under 1970-71). These dates were chosen on the pragmatic grounds that they enabled the consultants to use conveniently the greatest part of the information provided. Some of the accounts supplied were excluded from the analysis on the following grounds:

- (i) incomplete details were supplied of the profit and loss account;
- (ii) fewer than three relevant annual accounts were supplied for a particular house; and
- (iii) accounts supplied covered a period materially longer than one year so that apportionment on a time basis might have produced material distortion.

In addition, a few accounts supplied for areas outside Dublin were ignored. The view was taken that such accounts might show independent characteristics and should therefore not be aggregated with accounts for Dublin; and although non-Dublin accounts are relevant, not enough were made available to merit separate analysis. The following accounts then remained for analysis:

| | "sample of 30" | LVA sample |
|---------|----------------|------------|
| 1966-7 | — | 11 |
| 1967-8 | 25 | 11 |
| 1968-9 | 25 | 19 |
| 1969-70 | 25 | 19 |
| 1970-71 | 7 | 19 |
| 1971-72 | 1 | 14 |

45. In their application the LVA suggested concentration on the three years following the 1968 price settlement. (The Commission has noted that only 19 sets of accounts ending in the year to 30 April 1971, and 14 sets of accounts ending in the year to 30 April 1972 were received in response to general appeals by the LVA to all members. The fact is, then, that 99% of the membership of the LVA were not prepared to support the application for a price increase when called upon to do so by their own Association in a practical way). The number of accounts received was far too small to enable any firm conclusions to be drawn.

46. A firm of accountants acting for the LVA, prepared a statement of the trend in earnings over the period December 1968 to December 1971, using general statistics and knowledge of the trade. Their computations were related to estimates of trends affecting bar trade only, whereas the accounts submitted to the consultants included an unknown proportion of lounge trade. The accountants' computations also allowed for changes in costs and prices after the date of the most recent accounts submitted. They prepared estimates for a typical slice of turnover in December 1968, of value £100, and calculated the effect of subsequent changes in volume of business, prices and rates of cost. Their calculations were summarised by the Consultants as follows:

TABLE 5

LVA Estimates of Changes in Surplus Earned

| Position at: | December 1968 | December 1971 | |
|---------------------------------|---------------|---------------|---|
| | | Actual Wages | Wages Restricted to Government guidelines |
| | £ | £ | £ |
| Turnover (Excluding T.O.T.) | 100.00 | 125.69 | 125.69 |
| Gross Profit —30.96% —29.56% | 30.96 | 37.15 | 37.15 |
| Wages | 12.31 | 19.25 | 16.95* |
| Other costs | 8.21 | 10.93 | 10.93 |
| | 20.52 | 30.18 | 27.88 |
| Surplus | 10.44 | 6.97 | 9.27 |

Surplus earned represents the return to proprietors' labour and the return to basic capital.

*This figure differs from that submitted by the Association's accountants. The latter was based on a minor error in calculation.

47. The turnover figures exclude turnover tax of $2\frac{1}{2}\%$ in 1968 and 5% in 1971. The increase in turnover from 100 to nearly 126 or 26% shows the combined effect of the accountants' assumption of a 4% increase in the volume of sales between 1968 and 1971 and a 23.4% increase in the index of prices, including turnover tax, or around 20% excluding turnover tax. The index of trading activity in "Public House, Wines and Spirits" compiled by the Central Statistics Office for 271 houses (two-thirds of them in Dublin), shows an increase of 49.3% between mid-1968 and mid-1971. Deflating this by the increase in the price of draught stout (35.7%) the Association's accountants deduced that

there was an increase in volume of 10% over the period. However, they claim that this small growth in volume in the three year period is attributable "mostly to increased off sales, entertainment, food, improvements to premises and other factors which the statistical returns cannot reflect or measure. However we will concede that a basic bar might have increased its volume of sales by 4% . . .'

48. Having considered the submission from the Association's accountants together with the sample of accounts provided by the LVA and other information available to them, the consultants concluded that:

- (a) the increase in the volume of business over the three year period was in the range 8% to 15%. This included both lounge business and sales for consumption off the premises, whereas the LVA estimate was for public bar trade only. This wider concept of volume is more relevant because the development of lounge facilities can, *inter alia*, lead to a diversion of trade from the public bar.
- (b) the gross profit percentage remained fairly stable at 31% and may have fallen slightly only towards the end of the period.
- (c) Other costs remained fairly stable at between 5% and 6% of turnover over the period, when variations in interest charges and expenditures on repairs and decoration are excluded because of their varying incidence through time and between public houses.

49. The consultant's conclusions are summarised in the Table 6 below:

TABLE 6

Estimate of Changes in Surplus Earned

| | 1968 | 1971 | | | |
|--|--------|--------------|-------|---------------|-------|
| | | Low estimate | | High estimate | |
| Turnover (Excluding T.O.T.) £100 (1.195*) (1.08)† | 100.00 | 129.00 | | 137.40 | |
| £100 (1.195) (1.15)† | | | | 42.70 | |
| Gross Profit —31% | 31.00 | 39.40 | | | |
| —30.5% | | | | | |
| Wages —actual | 12.30 | 19.10 | | 19.10 | |
| —per Government guidelines | | 16.95 | | 16.95 | |
| Other costs | 5.50 | 7.10 | 7.10 | 7.10 | 7.10 |
| | 17.80 | 26.20 | 24.05 | 26.20 | 24.05 |
| Surplus | 13.20 | 13.20 | 15.35 | 16.50 | 18.65 |

*This factor represents the increase of 19.5% between December 1968 and December 1971 in the turnover tax exclusive price of drink, assuming that draught stout, whiskey and bottled stout are mixed in the ratios 55:20:25.

†The consultants conclusions, with which the Commission agree, are summarised in the following paragraphs.

50. The LVA argued strongly that actual wages rather than wages which conform to successive Government guidelines should be accepted without restriction for the purposes of their claim. They stated that the actual wages are the minimum at which they could secure a reasonable amount of labour. Indeed, they asserted that even at these wage levels they experienced a shortage of labour due, presumably, to the unpleasant hours and working conditions in the trade. The consultants were not impressed by this argument. Nor are the Commission (see paragraphs 19–25 above). In any case, the Commission have no discretion to allow price increases to compensate for increases in wages above the guidelines (see monthly Report No. 10, paragraph 5).

51. The consultants' best estimate was that licensed traders' actual earnings increased by 10%, and that their actual earnings *plus* wages paid in excess of the Government guidelines increased by rather over 16.5%, over the three years to December 1971. Over this period the consumer price index increased by about 29%, and the average weekly earnings from "transportable goods" (a statistic quoted by the LVA) rose by 47%. If it were desired to maintain earnings in terms of general purchasing power, the 1968 surplus of £13.20 would have to increase to £13.20 (1.29)=£17.00. When wage increases are limited to the Government guidelines, the actual increase in surplus earned seems to have been of about this order. If it were desired to raise the surplus earned in line with the increase in average weekly earnings in transportable goods industries—but this is not a criteria which the Commission have accepted or applied in the case of any other application—a weighted average price increase of slightly over 2% would be required, assuming that the volume of sales would not be affected.

Conclusions and Recommendations

52. The consultants' conclusions, with which the Commission agree, are summarised in the following paragraphs.

53. **Conclusions:** Competition in drink retailing is constrained by the licensing system. The importance of this is reduced by actual and potential competition from hotels (though this appears to be of limited effectiveness, particularly outside the more expensive type of outlet), and by the arrangements for transfer of licences. It is not within our terms of reference to recommend a relaxation of the licensing laws nor do we think that economic arguments are the only ones relevant to such a decision. However, we would recommend that the licensing arrangements be re-examined, because we believe that the economic consequences of the present system are adverse. Competition is inhibited by the present system, and property rights (in licences) with a sale value are created that have no obvious justification. It is not apparent that the system reduces the total amount of drinking, as distinct from affecting detailed drinking habits.

54. A closed shop operates in the industry in Dublin. It seems clear that this, in combination with the licensing constraint referred to above,

operates in a fashion that results in labour costs being higher than is necessary. There are three areas of restrictions; on entry, on the use of female labour, and on the employment of part-time workers. Here again, broader considerations of public policy and labour law arise. But on grounds of economic efficiency, we believe that all possible steps should be taken to relax at least the restrictions on entry and on the use of female labour.

55. The arguments in the previous paragraph apply to Dublin where the closed shop operates and where 550 of the 600 houses are LVA members. They do not apply outside Dublin where wage rates and some other costs are frequently lower.

56. These conclusions are not incompatible with a situation in which publicans argued that they were not earning excessive profits (though insufficient accounting information was provided to enable us to pass any confident judgment on profits in the trade). If the union controls the labour force, and the LVA can act co-operatively, protected by the licensing system, then wage increases can simply be passed on to consumers as price rises without concern for potential competition. Any control over prices thus squeezes employers faced with a wage-bid; but if such cost increases are accepted automatically as a justification for price increases, the control over prices must prove ineffective. This is a further reason for associating the recommendations which follow with some recommendation for reform.

57. **Recommendation:** Having considered the LVA's application for an increase in prices, as submitted to the Minister on 1 October 1971, in the light of the consultants' report, and all other information available to us of cost increases that have occurred since then, and of an underlying tendency for the volume of total business to rise by around 3% per year, the Commission recommend as follows:

(a) No price increases are justified on the basis of the LVA application on 1 October 1971.

(b) Since the LVA application, the following increases in costs have occurred (or are imminent):

- (i) The payment from 1 October 1972 of the second phase of the 13th Round National Agreement, under which all employees received an increase of 4% on basic wages plus a cost of living adjustment of 73½p per week for adult workers, with *pro rata* increases for apprentices.
- (ii) An increase of 4p per dozen in the cost of bottled beers to publicans from 1 September 1972 (see July Report, Appendix A).
- (iii) An increase of £0.50 per case or 0.2 pence per half glass in the price of Irish Spirits to publicans, effective from 9 November, 1972 (see October Report, Appendix A).

In addition, the first phase of the 14th Round National Agreement will be payable by publicans from 1 April 1973. We recommend the following price increases at retail level to compensate for the above:

| | |
|---------------------------------|-----|
| Draught stout, ale and lager: | Nil |
| Half-pint bottle stout: | ½p |
| Pint bottle stout: | 1p |
| Half-pint bottle; ale and lager | ½p |
| Half glass of spirits: | ½p |

In the absence of increases in excise taxes or in costs other than those itemised above no further applications for price increases would be considered by the Commission earlier than 31 December 1973.

- (c) A Retail Price (Drink) Display order should be made. All licensees (i.e. including hotels) should be required to display the retail price charged for the items specified in the order in both their lounge and public bars, in an accessible and clearly visible position. We would hope that a court conviction of a licensee for failure to display a price list, or for having a list unsatisfactorily displayed, could be used as valid grounds for objecting to the renewal of his licence.
- (d) The Commission would not be prepared to consider any future application for an increase in drink prices unless it was supported by a statistically adequate sample of accounts.

(e) Future applications for increases in drink prices should relate not only to public bar prices but also to lounge bar prices.

58. Since the Commission were set up, we have tried to inform the public about prices, price changes (and the reasons for them) and margins (their size and effects). In the context of this aspect of our functions, we publish in Appendix A the brewers' and distillers' prices for a selection of beers, ale, lagers and spirits, as at 9 November 1972. Some 60% of the average ex-brewery prices, and almost 77% of the ex-distillery prices, consists of excise duty. In addition, the prices listed are subject to discounts for cash or prompt payment (usually 2½%) and value-added tax is added to the net total of all invoices. In Appendix B we publish the ex-factory prices for the main categories of soft drinks as at 9 November 1972.

APPENDIX A

Brewers' and Distillers Prices' as at 9 November, 1972

1. Draught stouts, beers, ales, lagers.

| | | | |
|-----------------------|---------------|--------------------|--------|
| Guinness | Hogshead | 52 gallons | 48.52 |
| | Barrel | 32 " | 29.92 |
| | Kilderkin | 20 " | 18.73 |
| | Keg | 11 $\frac{1}{4}$ " | 10.53 |
| | Bulk Delivery | 504 " | 470.32 |
| | Cellar tank | 165 " | 154.55 |
| Porter | Kilderkin | 16 " | 13.04 |
| | Firkin | 8 " | 6.52 |
| Double Diamond | Container | 11 " | 10.30 |
| Macardles | Container | 11 " | 10.30 |
| Phoenix | Container | 11 " | 10.30 |
| Smithwicks Draught | Container | 11 " | 10.30 |
| Smithwicks No. 1 | Container | 11 $\frac{1}{4}$ " | 12.67 |
| Time | Container | 11 $\frac{1}{4}$ " | 12.67 |
| Harp | Container | 11 $\frac{1}{4}$ " | 12.67 |
| Carling Black Label | Full Keg | 11 " | 12.39 |
| Crawford's Golden Ale | Full Keg | 11 " | 10.30 |
| Bass Ale | Full Keg | 11 " | 10.30 |
| Carlsberg | Full Keg | 11 " | 13.64 |
| Beamish Cream Stout | Full Keg | 11 " | 10.30 |
| Murphy | Keg | 10 " | 9.14 |

2. Bottled beers, ales, lagers (half-pints sold to retail trade)

| Returnable Bottles | | £ National | £ Dublin |
|-------------------------|-----------|---------------|-------------|
| Phoenix | (2 dozen) | 1.86 | 1.90 |
| Time | (") | 1.86 | 1.90 |
| Smithwicks No. 1 | (") | 1.86 | 1.75 |
| Macardles No. 1 | (") | 1.86 | 1.75 |
| Double Diamond | (") | 1.97 | 1.97 |
| Harp | (") | 1.98 | 1.98 |
| Skol | (") | 1.98 | 1.98 |
| Harp Extra | (") | 2.51 | 2.51 |
| Mackeson | (") | 1.93 | 1.93 |
| Carling Black Label | (1 dozen) | 0.96½ | 0.96½ |
| Crawford's Golden Ale | (") | 0.85½ | 0.85½ |
| Bass | (") | 0.90½ | 0.85½ |
| Carlsberg Export | (") | 1.14 | 1.12 |
| Carlsberg Special | (") | 1.84 | 1.80 |
| Tuborg | (") | 1.14 | 1.12 |
| Murphy | (") | 0.84 | 0.84 |
| <i>One trip bottles</i> | | | |
| Phoenix | (2 dozen) | 2.11 | 2.11 |
| Smithwicks No. 1 | (") | 2.11 | 2.02 |
| Macardles No. 1 | (") | 2.11 | 2.02 |
| Double Diamond | (") | 2.21 | 2.21 |
| Harp | (") | 2.20 | 2.20 |
| Harp Extra | (") | 2.84 | 2.84 |
| Mackeson | (") | 2.27 | 2.27 |
| Carling Black Label | (1 dozen) | 1.08 | 1.07½ |
| Bass Ale | (") | 1.03 | 0.98½ |
| Carlsberg Export | (") | 1.92 | 1.18 |
| Carlsberg Special | (") | 1.92 | 1.88 |

3. Spirits (per case of 12 bottles)

| | | £ |
|---------|---------------------|-------|
| Whiskey | Midleton Reserve | 29.85 |
| | Jameson Crested Ten | 30.50 |
| | Powers Gold Label | 29.85 |
| | Paddy | 29.85 |
| | Jameson Red Seal | 29.70 |
| | Hewitts | 29.35 |
| Gin | Cork Dry | 27.50 |
| | Commodore | 27.50 |
| | Powers | 27.15 |
| Vodka | Huzzar | 25.65 |
| | Nordoff | 25.65 |
| | Saratov | 25.65 |
| Rum | Kiskadee | 29.50 |

APPENDIX B

SOFT DRINK AND BEER BOTTLERS ASSOCIATION LIMITED

Application of approved Price Increase from 9 November, 1972

| Product Description (all brands) | Maximum price increase in pence per dozen | Maximum new trade prices (ex-factory) | | Increase in retailers absolute margin at 1p per bottle retail price increase |
|-------------------------------------|---|---------------------------------------|---------------------|--|
| | | in pence per dozen | in pence per bottle | |
| 4 oz Baby mixer R | 6p | 33½p | 2.79p | 0.50p |
| 4 oz Pure fruitjuice R | 6½p | 58½p | 4.87p | 0.46p |
| 6-7 oz Split R | 6½p | 40½p | 3.37p | 0.46p |
| 8.8 oz Carrypack franchise N/R | 7½p | 65p | 5.42p | 0.37p |
| 8.8 oz other minerals N/R | 7½p | 65p | 5.42p | 0.37p |
| 26 oz Family franchise R | 10p | 110p | 9.17p | 0.16p |
| 26 oz other minerals R | 8p | 76p | 6.33p | 0.33p |
| Canned minerals N/R | 10p | 84p | 7.00p | 0.16p |

"R" = container returnable; "N/R" = non-returnable

Houses of the Oireachtas

Houses of the Oireachtas