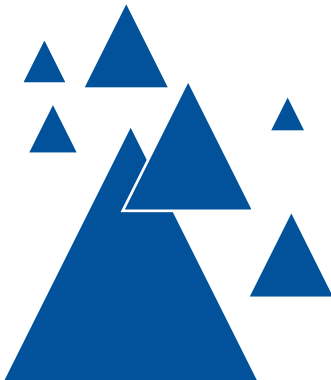


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Interview with Lawrence W. Robson

by Michael Mumford



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LAWRENCE W. ROBSON
INTERVIEWED BY
MICHAEL MUMFORD

29TH MARCH 1979 AT KIDLINGTON HALL, OXFORDSHIRE

Could you begin by telling me something about the Joint Committee on the Definition of Profits and Income, of which I believe you were a member? It comprised accountants and economists.

Yes, it was certainly a matter of great concern. It still is. The initial focus was on the need to measure more accurately the impact of inflation on national accounts. It was important to take inflation into account in estimating the gross national product concepts of 'stock formation', and investment in increased stocks, and so forth. It was needed to produce information on capital and on stocks and so on. They [the economists] were using the same sorts of words as accountants use in defining items in the balance sheet, but using them in a general sense in relation to national finance and national expenditure. And for some reason there was, we felt, a certain amount of confusion created because the economists were using the same words in a different sense to the accountants. The committee was set up to try and define these terms.

So this was linked with the work which Sir John Hicks and Richard Stone were doing at that time, in the early 1940s, on national income accounts?

I don't think it was linked with it. I think it was before that. I forget how that dialogue began. Stone was a professor at Cambridge, wasn't he?

Yes, he was, a little later on.

I knew him. Eventually he went to Cambridge, I think. But I think the idea was that they'd be able to build up a code of accounts for the nation's overall finances, and to build a framework for statistics which didn't then exist. I'm not at all certain there wasn't the intention to endeavour to formulate computer programmes, so that they could feed in, for instance, [the effects of] an increase in the rate of taxation. What impact would this have on government expenditure, government saving and government capital expenditure as opposed to private expenditure and private investment that was left in the hands of the individual?

Stone had to try and build into the thing an interpretation of the impact on the overall income and expenditure of the nation - distinguishing between capital and revenue - of government decisions. But, of course, to develop theories as to what happens if government takes a decision involving a redistribution of wealth as between government and the private individual, running into very considerable figures - it's a very difficult forecast and estimate to make.

It's just as difficult now, in my view, for them to forecast what happens to the money supply if the total payroll of the nation - that's salaries and wages - are allowed to rise by 14% as a result, say, of trade union pressure. 14% is £12-14,000 millions; well, if a government decision allows that to arise you then have the problems of saying: 'Well, how much of this £14,000 million goes straight back to the Treasury?'. Probably approaching 30% of it, by way of tax deducted under Pay As You Earn. How much goes into extra demand or current purchases by the wage and salary earner, to meet rising costs and inflation? How much goes into life policies, mortgage interest and so forth on their mortgages? How much is saved? Well, it's very, very difficult when a government takes an overall decision like that - or not necessarily takes it, but has to face up to it.

Stone is dead now, isn't he?

No, I don't think so.

Of course, the other tragedy is that at the moment you get them, the global figures are never used by trade unions or by the press - the media. The accountancy profession never use them, but in point of fact it begins to have an impact on price levels. And you then get two schools of thought. One says: 'The soft option is to reduce the value of sterling'. The exchange rate has been three times reduced since the 1940s - by 40%, 60% and 40% - all with promises by economists that this would give rise to increased employment, and British exports would boom, and all the rest of it. And three times it has proved not to be the case. Yet there's a school of thought now which says that to get this, to carry the burden of the splurge in wages of 14%, the soft option is to depreciate sterling.

Well now, if they depreciate sterling on the world exchanges, once again the cost of imports (which are running at £50,000 million, minimum) goes up. They assume all the other currencies follow, but they don't follow because most of the nations pursue hard currency policies.

And it is my estimate that half our trouble today is due to the fact that these calculations have been impacted. [The background to] these major decisions is never publicised. For instance, the CBI put up its representations to the Chancellor before the budget, a year ago last December. I think it was about 40 pages, backing up its representation. There was one sentence on exchange policy - just one sentence. When you think of it - I mean the collapse of the pound in 1974. There have been three serious articles in *The Sunday Times* on it since, but they were years after the event. But if the economists computed today the cost to Britain of that [devaluation], in terms of increasing the cost of our imports, they'd probably find that it is approaching £40,000 million.

Yes. I think Professor Nevin, A.G. Nevin of Swansea, has done some estimates along these lines. He certainly did a few years ago, to see just what the cost was.

It ought to be brought up to date you know. The tragedy! You talk about this debate on inflation. I forget when I went on the Council [of the Institute of Chartered Accountants of England and Wales]. I think it was in the 1940s. And I was on the Council of the Institute of Cost and Management Accountants, I think, before I went onto the [ICAEW] Council. They were very concerned. Several of us raised the whole question of inflation creating this problem of having to present accounts in what were virtually two or three different currencies. It's like trying to tell a story and being forced to use two or three different alphabets. I know I tried to raise it in the Council of Institute of Chartered Accountants. There was a small group of Council members who were very concerned about the lack of specific guidance and the failure to press that the problem should be recognised and dealt with, because there were serious repercussions so far as taxation was concerned. The profession had an obligation to do something about it.

This is before the Taxation and Financial Relations Committee was set up?

I think so, yes. And I also advocated replacement cost accounting and got recommendations to that effect included into the report of the first inquiry ever made by a government departmental committee into the workings of the nationalised industries. That was the first report which was made to the government - I think the Ministry of Fuel and Power was the one that was concerned. It was that Department through which the committee was set up, under the chairmanship of Sir Edwin Herbert, who became Lord Herbert. I can remember having very long correspondence - unfortunately I haven't got it now - with William Lawson, Billy Lawson of

Binder Hamlyn, who then proceeded to become President of the Institute [ICAEW]. But he was opposed.

He opposed replacement costs?

Yes. He was a member of the Southern Electricity Board, or Thames Electricity Board, I forget which - one of the regional boards. And he was opposed to replacement cost accounting for new power stations. It is a very complex problem, and I must confess he made one or two very good points. I think pre-war the power stations were constructed at a cost of, I think, £50 or £70 a kilowatt - they were smaller power stations. And then, post war, the Electricity Board decided to put up very, very much larger capacity stations, [working] at much higher temperatures, much higher pressures. And they got the cost per kilowatt of output down to about £60 a kilowatt. So the modern station was in a sense infinitely more economical despite the rise in costs that had taken place in the meantime.

Lawson made a lot of this argument. It really was quite an involved problem, although it meant assuming that power stations last for 25 years. Given the present rate of inflation, it seemed to me crystal clear that this rate of development [i.e. falling costs per unit] couldn't go on. I don't think it has gone on. The costs of production have gone up. They should be writing off against current cost very, very much lower levels of depreciation and in point of fact you should write off in terms of replacement cost accounting. I held to the view because of the life of the power station - 25 years - and because of its very, very heavy capital costs in relation to the income generated. If you look at the accounts of the electricity industry, capital investment - in relation to wages and salaries and the actual costs of operating the station - is very, very high. It is very, very capital intensive. I felt that it really needed much more careful thought to arrive at the true costs of generating power. You couldn't work on an historical cost basis.

As you say, you had then two different factors: you had a question of defining a quantity of capital as embodied in the generating capacity, and you'd have had the problem of technical change - the same problem that Sandilands faced. I suppose it would have been particularly difficult for the electricity industry, even as opposed to the other nationalised industries, in that the installed capacity capital costs would have been an exceptionally high fraction of their costs. Whereas with the railways, I suppose it was a question of maintenance rather than laying down new lines.

That's right. With railways it is [a question of] maintenance and salaries. I was a director of London Transport. I forget what it was, but something like 70 or 80% of the costs were wages and salaries, and supplies.

A bit like a university.

The reason, of course, is that we've got a system now of - what? - 250 miles of railway in London, which was laid down pre-war. Rolling stock lasts for 35 years, and a lot of that stock was built at pre-war figures, and its use was extended because they didn't renew it. But then they got a lot of new stuff [trains] in the 1950s and 1960s at relatively low costs compared with today. But I think the cost of extending the line to Heathrow would probably be something like £15 million a mile. If you start using the [current replacement] cost of constructing London Underground today, and start on a 'green fields' basis, people wouldn't be able to afford to travel on it. We are, so to speak, living on this inherited wealth.

They are facing this problem in Hong Kong, aren't they, with the mass transit railway there. They have immense capital costs, requiring it to be heavily subsidised.

Your conviction about the replacement cost technique; did that stem from your interest in standard costing? I met your son Maurice; he came to

stay overnight at home, and I made a passing comment to him that your firm had been started in, I think, the 1920s. He said that you became interested in costing after a visit to America. Is that right?

No. When I left Peat Marwick Mitchell in 1927, I went into practice. I had only one client. And when you have only one client, it makes you very concerned to make the most of it and look after him. It took me some time before I got together a reasonable connection. But I was determined not to be concerned purely with history - that is, the audit and the duties of an accountant as auditor, limited to his responsibility to a client where you were retained to look after his taxation and so forth - but to get close to the client, whether it was in service or manufacturing industry: to understand his business, if possible as well as he did, and to help him to control it and use modern budgetary control techniques and costing techniques. In point of fact we developed methods of financial control and monthly accounting in the textile industry pre-war which I think were as good as anything that existed.

As a result of having this interest, when the war came and one was asked to help not only to ascertain costs but to predict the costs of war contracts - contracts with the Ministry of Supply for large engineering companies with which I was connected - I began to realise that there was far more work than one could do personally. It was then that I ran into Ian Morrow, in 1942. He actually applied for a job, a post which I was endeavouring to fill, of financial controller of Brush Electrical at Houndsworth. [This account may be confirmed by Ian Morrow's own history of this period in his life history included in Walker 2005.] Whilst I was interviewing him, I realised that his knowledge of budgetary control and standard costs was unusually high. And I proposed to him at the interview - I'd just been asked to look at a chaotic situation which had arisen in connection with the manufacturing of the Messier undercarriage at Warrington, for the Halifax and Lancaster bombers. This particular firm was called Rubery Owen (Warrington) Ltd. The government had threatened that the business

would be handed over to the management of Vickers if they didn't deliver these undercarriages within the revised delivery date which they had been given. So they were given this one chance to put their house in order. I was asked to go up and deal with it.

And so that's how Robson Morrow came to be born. We recruited an engineer - a very good production engineer - and we resolved the problem by a massive use of sub-contractors to bring the work up to date, building up records of the parts that were in short supply. I think there were over 900 parts in a single undercarriage. The weight of these new bombers - there had been nothing like it. I think they carried ten ton bombs. Anyway, this was successfully accomplished, and that was the first assignment of Robson Morrow, concerned with the undercarriages for those two bombers.

Did you require the sub contractors to have cost control systems as well, or did you have to leave that up to them?

In this case we eventually had to bill at cost, but the government's attitude to this was that cost was no object. It was delivery that mattered, to get the bombers into the air. And so we went off to something like 30 or 40 engineering companies with jigs, fixtures, drawings and general lay outs for the individual parts where the blockages in delivery had arisen, and asked them to commence manufacture immediately, to build up the arrears. Assembly was carried out at Warrington. Eventually, they delivered it. They got the whole production in balance, with the aid of the sub contractors. The deliveries took place, and the bombers flew. It was a very romantic thing really. The Messier undercarriage was a French design, and it was got out of France after the fall of France in a fishing boat which left from some Biscay port. And these drawings were got out and reached England, and from there, through the Ministry of Aircraft Production I think it was, MAP, it was eventually accepted as being a really important development in undercarriage design.

Actually, this undercarriage design was, I think, blown up to carry much heavier aircraft. The designs - the principles - were maintained, but it was redrawn for much heavier aircraft, and it was successfully produced by the Rubery Owen Group in conjunction with the Brush Group, at Warrington.

Well, then we went on, and after the war we were called in to standardise the financial control and accounting for a thousand pits after nationalisation of the coal mining industry after 1946. There are only 200 pits today. We found disparities in production costs at the face running into 200%, 300% as between various pits.

It would be difficult to say how far that was a result of geology though, wouldn't it?

Oh yes, it was entirely geology - depth of the seam. One of the reasons for nationalisation was that coal owners were hanging on, and coal prices tended to be fixed in relation to very high costs production. You could only begin closing it down once you controlled the whole industry. And of course [Reginald] Beeching had the job of doing it. Quite extraordinary. The government opted to use oil for power stations - designed for oil. The whole of Britain's locomotives were taken off the tracks and substituted by diesel locomotion because oil was considered to be cheaper than coal and more plentiful. The output of our mines was reduced by a half and our mining communities reduced to about a quarter. There were 1,000,000 men in mining at the end of the war; I think there are about 250,000 now. I don't know. Looking back, that may have been a very serious mistake.

The tonnage of coal cannot have been that much reduced.

I think the [annual] tonnage of coal at the end of the war was something like 250 million tons, and now I think you will find it is about 140 million

tons. Now they're trying to change the policy, despite North Sea oil, to raise the targets.

The interesting thing about the accountancy profession - I've been in practice now for over 50 years - I can remember Sir Josiah Stamp saying to the London members at one of the autumnal conferences words to the effect that the accountancy profession - I think he meant principally the major firms in the profession - were in the possession of financial and economic information of enormous importance which was almost entirely unused in trying to work out national economic policies and so forth, and it seemed to him to be a tragedy. The attitude of the profession was very, very conservative - the practising professional firm obtained its knowledge in a very confidential practitioner/client relationship, and therefore you couldn't use this knowledge or build on it to provide information of national importance, although it could be aggregated by questionnaire and so forth, industry by industry if you like. The profession didn't respond.

The profession also felt that it was its duty to implement legislation whatever the colour of the government in power. And so no attempt was made - apart from suggesting improvements in fiscal legislation to make it work more easily and so forth and to point out anything that was manifestly unjust - to advocate fiscal policy for the nation or any other area of policy. It was felt not to be any business of a professional accountant.

And this was true even in 1948, when Stafford Cripps specifically invited comments on the effects of tax upon reinvestment and so on? Around 1948 and 1949, there was a lot of concern about the failure of British industry to maintain productive capacity. You remember the Millard Tucker Committee was very concerned with exactly this aspect. But the accountancy profession is noticeable by its absence from most deliberations.

That is right: I think it was. I don't know whether any accountant was invited to serve on those committees. I think we had someone on the Millard Tucker Committee, didn't we?

Yes there was: I can't remember who it was. The Federation of British Industry and the TUC were invited to form a joint working party, but nothing seems to have come out of that either. In the end, the English Institute published Recommendation N12, and that produced a furore on price level changes, and then again, N15 in 1952. By 1952 so many people had become concerned about this that the Association of Certified Accountants published their book, and you in CIMA published yours. Were you involved in that book of the Cost and Works Accountants in 1952? It was a strong replacement cost statement.

I don't think I was a member of that committee, although I was a member of Council at that time; you know, I might have had a hand in setting it up. I've done so many at the time. I was invited to join the Economic Committee, I think they called themselves, of the CBI [Confederation of British Industry]. Geddes was the chairman - [Reay] Geddes of Dunlop - in National Productivity Year, when they had the productivity conference, in Warwick or Brighton or somewhere. I think Lord Netherthorpe was involved with it, and the chairman of Lucas. They had a very big conference, and a dinner which was attended by Prince Philip. There were about six or seven studies undertaken for that conference, and the profession asked me if I would prepare the paper on behalf of the profession - that was the ICWA, the London Association and the Institute of Chartered Accountants - for a professional view on capital formation, which I did.

Lord Netherthorpe's group - this was not organised by the FBI was it? This would have been an ad hoc committee?

It was a specially set up productivity committee, for Productivity Year. All industry was involved; the professions were drawn in, the CBI was

drawn in, and so forth. There was beginning to be this general concern, following various reports that were produced for British industry by the Anglo-American Productivity Council. I went over [to the US] as a member of one committee on material handling, and then as a result of my experience I persuaded the CBI to press for a committee to go out to study the use made by American industry of accounting methods of linking standard costing with production control, in order to encourage high speed production and high profitability in American industry. That was, the committee went out under the leadership of Ian Morrow. I laid on arrangements for that committee through the CBI, because I was connected with the Anglo American Productivity Council.

I see. This would have been before the end of the war or after the end of the war?

After the end of the war. It was an American gesture to say to British industry, which had had to concentrate purely on war-time production and so forth: 'You've lost your markets, and five years have gone by, and you're facing a lot of problems. This is a gesture of goodwill by American industry to open up American industry to specialised studies by British groups'.

As a part of Marshall Aid?

No - it was an adjunct to it. It was a very, very valuable gesture. I was invited as the financial member of a team on American developments in material handling. It was the greatest field for cost reduction they discovered in the war in American industry. The greatest field for economy in manpower and cost reduction was to take the muscle out of loading and carrying and all the rest of it, and do it all mechanically. By the time a lump of metal starts off in the factory, and it's lifted and put down, lifted and put down, the amount of energy that goes into moving that bit of metal through the assembly line is enormous unless you mechanise

it. The Americans had concentrated on this in the war, right through to handling cargoes in ports and so forth. They had developed a very, very wide range of fork lift trucks for use in factories and warehouses, and a very wide range of variable speed clutches for handling assembly lines in locomotive and armoured car and tank production and so forth.

This report was one of the most successful reports that led to the development by licensing, the development of a British mechanical handling industry which became, and is now, very, very important. One of the best men on the committee was a chap called Sharp, who was then managing director of Lansing Bagnall, which was quite small, but he really pushed Lansing Bagnall ahead as a result of his experiences on that committee. Another company that forged ahead was Coventry Climax, a joint company set up between Morris Motors or Austin and Rumbery Owen, with a joint agreement to build conveyancer trucks and things.

I should have thought that Dunlop would be pretty closely in that, too. You mentioned Lord Geddes just now. Was de Paula involved?

It wasn't de Paula - it was Geddes.

Because de Paula was then a director of Dunlop, Clive de Paula's father.

Yes, yes, Freddy de Paula.

I don't think they really were involved. They made tyres and all that. Lucas was interested in the battery side of it - electric batteries. Coventry Climax made petrol and diesel driven trucks - they became very big manufacturers. I kept in touch with the industry for some time after that. I know that they built up very, very substantial businesses and stimulated export markets for British mechanical handling equipment.

My accountancy report was also a best seller and I think that it had a big influence in the profession. I wrote a book for a committee that was set up by The Institute of Chartered Accountants (of England and Wales) on recent developments in cost accounting which was produced for the chaps returning from the war. It sold 11,000 copies: *Recent developments in cost accounting*. De Paula was chairman of this committee; Basil Smallpeice was vice chairman. The committee made very little progress, and in the end I volunteered to take three weeks off, and I produced this 50-page document which was used for the basis of the book. I never got an acknowledgement: my name was not even in the book. They just asked me to sign a notice saying I wasn't interested in any royalties. But, you know, I did it for the profession. It was based on the work we were doing in Robson Morrow. The book was published by the Institute of Chartered Accountants [the ICAEW].

That would have been 1946 or 1947?

A bit later, I think. But they'd have it in the Institute Library. We lectured a lot. Those of us who had stayed in practice in the war, we took Oxford colleges and Cambridge colleges, and lectured the chaps coming back and gave them some idea of what had been going on in the profession, and the way the profession was likely to move in the future. Well now, all that was foreseen then - a lot of it has come about. Now you've got very big management accounting divisions in all the big firms. We did all Deloitte's work for years, under the name Deloitte Robson Morrow; we had a joint firm. It was our staff. Now, the firm of Robson Morrow is a part of Deloitte's - junior partners. When I retired and the older partners retired, the junior partners merged with Deloitte's.

The impact of Robson Morrow on the accountancy profession is really great. When they realised - we were quite open about it - there was a whole field of work dealing with the future: financial control in industry, and investment appraisal techniques, investment trading, corporate planning

(where the accountant has very definitely a role) - all these new fields of work. It is work that's now undertaken by the major firms. I think Peat's have 150 people in their division. Some of our managers went to Cooper Brothers, and they now are very big. Deloitte's now have my firm, so that is three of the major firms. Price Waterhouse established a division. But at first there was a very big debate in the profession saying that this type of work was not really within the orbit of the profession. This view was very, very strongly held by a lot of members of the Council.

Led by anyone in particular?

No; but Guy Densem, I know, of Deloitte's held that view, and I think Sir Thomas Robson of Price Waterhouse held the view. And I had to undergo an examination by five members of the Council of the Institute as to what Robson Morrow was doing and the ethics of it - whether any ethics were being contravened. I had to undergo this before I was ever admitted to the Council of the Institute.

Good gracious. Robson Morrow was a distinct consulting firm, quite distinct from your practice?

I was senior partner in both practices.

Yes, but it was a distinct practice?

Robson Morrow had a different type of man, do you see. A lot of them were chartered: we had one or two engineers and others in the firm, who did production engineering and that sort of thing. But we recruited chartered accountants with experience in manufacturing industry or in major service industries or extractive industries like coal - chartered accountants with that experience, preferably who were also cost management accountants and had subjected themselves to the discipline of the double qualification, and who had had at least five or six years in industry.

So it was a pretty highly paid but highly experienced staff. The accountants who were members of that staff had quite a different background of experience to the chartered accountant who remained in the profession from the time of articles - from the time he qualified. Those people were looking after their legal obligation as an auditor, and obligations of looking after tax, a certain amount of liquidation, trusteeship and so forth.

What seems so extraordinary to me, as an academic looking back now, is how little relationship there was between the profession, either on the auditing side or on the consultancy side, with the universities. The universities seemed to distance themselves from any of these activities. Now, was this something which was mutually agreed, or was it that universities failed to respond to approaches, or the other way round?

Well I do not know what the figures were, but I was told when I became articled at the age of 16½ and came to London there were 5,000 chartered accountants, and I was warned by an engineering friend of my father that he had heard that it was very much an over-crowded profession. And I think most of the recruits to the profession tended to be non-university men. There were relatively few graduates who looked upon it as a graduate profession. I can recall coming to the view that you had to get people from the universities into the profession, and I was fortunate enough to meet Baxter at the London School of Economics, Professor [W. T.] Baxter. My office then was just across the road in the late 1930s from the London School of Economics. And he used to send me graduates whom he had taught - he was a chartered accountant himself - whom he thought ought to go on, and could afford to go on, to take a second qualification. I began taking all the graduates that would come to me onto my staff. This was before the war - long before he [Baxter] went to South Africa.

Then the profession began to take an interest in graduate training, and a special committee was set up to discuss with various universities desirability of establishing a degree in finance, accounting and economics

[the McNair Committee] which would give certain privileges to the chap entering the accounting profession - certain exemptions from Intermediate [examinations], I think it was, if he would take this degree which was a special degree. And that was a step really in the right direction, but since then thinking in the accountancy profession has changed enormously over the past fifteen to twenty years, and the major firms - and my own firm, too - have been very keen on recruiting graduates who were graduates in almost any discipline, merely because they were entering the profession with a trained mind. We didn't mind if the person had read PPE [Politics, Philosophy and Economics] at Oxford, or engineering, or law, or economics - didn't mind. We would be very glad to give them articles.

I still think that the profession should, probably in conjunction with industry and the universities, do some research into certain aspects of national economic and fiscal policy to compare the performance of comparable nations, industrial nations at home and abroad. Nobody can be happy about the condition of Britain - the lack of investment in its industry, lack of marketing techniques compared with techniques used by other nations, lack of investment in productive enterprise. Nobody can be happy about it. Failures in economic policy. One detects advocacy of policies which are based on false concepts. I've always said that if other nations can be successful, then we can - like Germany, Japan, Holland and certainly France since de Gaulle, pursuing hard currency policies where you buy in the cheapest market and buy as much as you can, and then you process it through your factories and then sell in export markets. I've always felt we could be that much more competitive, as the Germans have proved and the Japanese have proved, than we can by bumbling along paying enormous sums for our imports and then finding that wage increases and inflation and devaluations of the currency within months - or at the most a year - come through into prices. Any competitive advantage that is advocated by the Cambridge school of economists is gone in a year. It hasn't produced more employment, and it hasn't produced more competitive exports.

Yet we still have these low wages in this country; low wages and low productivity by comparison with France and Germany.

Well, it is said they are low. I think that the standard of living of the British workers is not so very different. One of the reasons why you get a false concept is because the wage of the German worker is translated in marks in relation to sterling, or French francs into sterling, so you get an entirely false concept of the purchasing power of these foreign currencies in their own countries. It is very much less than you would get in terms of pound sterling. The moment you change your pounds into these currencies, if you go for a holiday in Switzerland, you are bound to realise that you get half the purchasing power in terms of the overseas currency. If you try and relate wages without allowing for this disparity in the rates of exchange between different currencies, you get a very false concept of what people are being paid.

I employ fifteen people on this estate now. The general feeling, from the manager downwards, was that they didn't want the 14% increase in agricultural wages they've got, and they'd have been content to go on if only everybody else did the same. With the down to earthiness of the agricultural worker, they ask 'where does it lead?'. A 14% increase means a 14% increase in prices within 12 months - and that was the attitude, going round this estate. Anyway, they've got it, and they got increased overtime rates so that the two cowmen, working I think a 52 or a 54 hour week - they get up at five, and they do a longer day than the chap who ploughs and works the tractors - they are on over £5,000 a year, two cowmen under existing rates. And the chaps who do, say, five hours' overtime get an extra £10 a week - that's 20% of the basic wage. People don't realise.

They have had an increase of 14%, and they've had an increase in the overtime rate of £1.82 an hour, so the wages of the chaps on the arable side of the estate for many months of the year - hay-time, silage making, harvest - for those who are prepared to do a bit of work at weekends feeding

stock and so forth, they are now earning quite well. But you would never believe this reading from the press. And they have no travelling time, they pay nothing for their cottage housing, no rates, no rent, and the vast majority of agricultural workers have got perquisites. The nonsense that you see in the press - they don't bother to understand it.

You see, in agriculture the people producing livestock have had a tougher time than the arable farmer - the arable farmer, and the mixed farmer. Through the collapse of the pound, the price of wheat rocketed. The Americans were selling millions of tons of wheat to Russia at about £27 a ton five years ago. It is now £90 odd a ton, and the world price of wheat in dollar prices, because of the collapse of sterling so far as British agriculture is concerned, it has pushed the world price of wheat up to close to the [European] Economic Community price. So the British farmer has been paid in the free grain market; he hasn't needed any guaranteed price. If he grows two tons to the acre he has got nearly £200 an acre; the farmer does not say anything. There are large areas of British farmland which have been doing very nicely, thank you, and people have kept very quiet about it, including the National Farmers' Union.

What about hay?

Hay is £50 pounds a ton. It has been a dreadful winter. You can't see a blade of grass showing yet. But fortunately we made around 1,500 tons of silage and a fair amount of hay and a good crop of barley, so we are all right. God, there's a chap with 600 sheep that are starving to death in Yorkshire, it says in the papers.

Could I ask what the attitude was in the 1940s towards the Society of Incorporated Accountants and Auditors? Here we've got this interesting body, very progressive it seems looking back at it, people like Bertram Nelson, anxious to bring in some sort of inflation accounting, setting up their journal *Accounting Research*, building up their professional journal

and so on - and then being taken over in 1957. I've no idea what was behind that merger which took place with the English Institute.

Well - again, I think the Council was divided about it until finally they came round to the view that it was a sensible thing to merge with the Incorporated Accountants, who had quite high standards of entry and so forth. I can remember the final meeting at the Festival Hall; there was a very vociferous group, I remember, from the north, from Manchester, violently opposed to the merger. One after another of them spoke at the meeting at the Festival Hall to endeavour to secure a vote against the merger. Members of the Councils, for some reason, thought that they shouldn't intervene. They were supposed to be seeking the view of the rank and file of the profession. But in view of the speeches that were made, I felt that something had to be done, and I actually took the microphone as a member of Council and made a very strong plea for the merger. *The Accountant* commented on this quite wrongly, saying that the Council of the Institute obviously had me sitting there ready to intervene if necessary; but that was quite untrue - it was purely a personal intervention.

And the merger then took place, in 1957. So many incorporated accountants were allowed onto the [ICAEW] Council. But the Council of the Institute of Chartered Accountants [ICAEW] insisted that any incorporated accountant who had had the presidency of the incorporated accountants would not be considered in this capacity as a member of the combined Council of the Institute and the Society for presidential honours. That eventually applied to myself, because I had taken presidency of the Cost and Management Accountants. I think it also applied to Tony Howitt. It was a bit silly.

One of my partners - all our partners at Robson Morrow became Presidents of the Cost and Management [Institute] in turn over a period of a decade. Willy Risk became president of the Scottish Institute - another partner of Robson Morrow. And Ian Morrow will very likely be president of

the Scottish Institute in the next two years. But he has been too busy to function in that capacity until recently. So it's a pretty fair record of presidents. Amazing, isn't it? Four ICMA [presidencies], and it'll be two Scottish Institute.

You didn't come yourself from a family of accountants then?

No; my father was an engineer, with South Durham Iron and Steel for years, and then ICI. He only ever had two jobs in his life. He was apprenticed to Armstrong Whitworth.

And so the idea of accountancy came to you personally?

Yes, through reading an article by Lord Birkenhead, I think it was, in some careers magazine. It gave me an entirely false concept of what the profession was [laughter]. But I must say after I qualified and joined Peat's, I really got the most tremendous thrill out of the profession, and I have done ever since. It has taken me all over the world. I've had an amazing variety of problems.

Yes, people are always astonished that I get so enthusiastic about it; I find it a fascinating subject, most interesting.

Are you a chartered accountant?

No, when I left school I decided to go into accountancy and I made some enquiries. I didn't like the idea of auditing very much and I did like the idea of industrial accounting and so I trained with Dunlop.

Did you? One of the trainees in London, were you?

Yes. I qualified as a certified accountant. It was a very good training.

They were very good people. By the way - that paper which I wrote for Productivity Year. There were very few people either in politics or industry familiar with, or who had diagnosed, the problem of under-investment in British industry. Other countries were investing to a much greater extent in manufacturing industries, in planned exports and planned world markets and so forth. Take the Germans and the Japanese. The first part of the paper dealt nationally with capital formation, corporate capital formation. The second part of the paper dealt with the treatment of capital formation within the individual enterprise. I dealt with it on a national scale, and on a company scale. And you get the CBI, and National Productivity Year - well, the amount that was written for these conferences! The tragedy is that I don't think anybody had time to read it. And yet it was very, very closely related to the policy recommendations which were made.

I'm very interested to hear your comments on your paper, which I haven't seen. The Association's 1952 book *Accounting for Inflation* and the paper which Percy Barrowcliff gave to the London International Congress [of Accountants] in 1952, both put tremendous weight upon this question of capital formation, and they both presented statistics on the rate of capital formation in Britain and some estimates. I hadn't appreciated that you'd written this earlier paper, bringing in some of the same material.

[Lady Stina Robson had entered the room]: 'It was 1952 wasn't it? Was it while you were President?' [i.e. of the ICWA.]

It was National Productivity Year, whenever that was. 1951? I was on the Council of the Institute and on the Council of the Cost and Works. There was a joint committee set up at the request of the CBI or the Productivity Council, and they said: 'Well, now come on now - the profession ought to make a contribution'. W. E. Parker at Price Waterhouse turned to me and said: 'Will you go on behalf of the Institute onto this committee?' So I said: 'Well, it'll never be done as a committee. I've had enough of that. I will, if you like, write the paper. The Cost and Works, and the

Certifieds - they can look at it and say whether they like it or not. If they think some of it ought to come out, I'll consider it. But somebody's really got to get down to it.' I was up until three in the morning. I put a lot of effort into it.

And the result of it?

I don't think it registered with anybody. I remember I was very disappointed. I think it was the last paper presented, at the end of the [National Productivity] conference to be considered. It was dealt with in open conference, and it was almost impossible to deal intelligently with it. There were one or two speeches from the body as a whole. I had a funny feeling that, whereas it should have made a real impact, it hadn't got home with the British industrial leaders. I suppose some of them were investing what they thought was quite enough in their industry, and others could not get hold of the money to invest.

This was very much the theme in the other 1952 papers - that by the time one had paid dividends and taxation there were no profits left over for reinvestment: there was just nothing left. There was the dual line of argument in favour of reform, partly on the grounds of the econometric point of view that we needed this re-investment, and partly the argument that for tax purposes if only replacement costs were allowed for taxation then everyone would be far better off. Stafford Cripps, in I think the 1949 Budget Speech, made it absolutely clear that if it did prove at the end of the Millard Tucker deliberations that replacement costs were right, he had no intention whatsoever of allowing the corporate sector to pay less taxation in total. There would have to be a re-distribution within the corporate sector.

What they did was to give incentives for the purchase of machinery. They gave incentives, but then they put up the rates of tax in various directions in order to pay for these incentives. But other countries were

much bolder. The ratio of loan capital, for instance, to equities in Japan is very, very much greater than ours. Their world planning of exports, and the establishment of entirely new industries on a major scale, and the capture of world markets - I mean, this report, this inquest on the British motorcycle industry is terrifying. How a whole industry is brought low by superior investment, design, marketing methods and capital investment by the Japanese.

When you were drafting this paper from National Productivity Year, how far were you aware of the literature that there was in America on replacement cost accounting? Sweeney's book, for example, from 1936?

Not very.

It is easy enough looking back now, with the advantage of hindsight to see what papers there were in *The Accounting Review* and the *Journal of Accountancy*. This is the area that I'm interested in academically: it is so interesting to see how these ideas have grown. Apparently the same ideas come up half a dozen different times in different places quite independently of the earlier iterations.

I'm not certain, but I think one of the prejudices held by industrialists, as well as by people concerned with the stock markets and so forth and with the major banks - I think they are nervous of disclosing the terrible impact which our economic policies have had, and the consequences of the devaluation of sterling and so forth: the pressure for substantial wage increases and the enormous impact they've had on fixed interest securities. Now there are companies that pursued a policy of maximising their fixed interest issues - loan stocks, you know - in the 1940s and 1950s. It's been an enormous windfall to them. Debentures, and even preference shares - fixed interest non-participating preference shares

I'm sure, yes.

See what has happened as a result of these policies and not facing up to the consequences of them - I would say not being honest about them. So called 'gilt-edged' securities (I'm told that the national debt is £80 billion now against £40 billion when the present government came to power 4 years ago) this £80 billion has purchasing power today of £40 billion of five years ago. So, in a sense, the total burden of debt is the same, but the people who purchased the debt five years ago have lost half their capital. People with fixed interest stocks have lost half their capital, even with price control, profit control, and so forth. I believe that for the equity market index to have kept pace with inflation, equity shares should be somewhere between 1,200 and 1,300. But people are throwing their hats in the air when it reaches 530. So that there is a vast switch of purchasing power as between the fixed interest monetary stocks as an asset held as part of a person's wealth, and people who have been sensible enough to invest in tangible things. I mean, a startling illustration is what has happened to land values.

And yet house prices are so much cheaper here than they are on the continent. Would you say so?

But is that right? You know you have to take 40% off to get the relevant exchange rate. No, I don't think that it is so. People are better housed in Sweden, and they are better housed in Germany. That is the impression I get. The working class have better houses. The figures get so obscured by this exchange factor. That is why I say that the accounting profession - the international firms have offices everywhere - by questionnaire you could take the relative purchasing power for a given number of things appearing in, say, the retail price index and you could introduce rent factors and house price factors, if you like, for people on say the equivalent of £4,000 a year in Britain and rising to £6,000 a year and taking the purchases to find a person with a comparable income abroad. But you've got to

make them comparable. The rates get terribly distorted. You could get comparable standards by finding what people are actually getting paid for doing comparable jobs, in the mining industry, the motorcar industry in different grades of work, and finding what they can buy, having paid their tax in Germany and paid it over here.

The Diamond Commission's findings are interesting on the distribution of wealth. They point out what a large difference it makes once one includes the value of pension rights. There has been a substantial shift in wealth it would appear over the past ten years, but the value of pension rights evens it out no end, with this enormous increase in pension rights across the board - amongst those people who have them, of course.

It is still true that a comparatively small number of people have a considerable amount of wealth. But it has levelled out with this attack on income now, and there will be even more evening out of wealth under the Capital Transfer Tax. That is going to bite as the present generation dies off.

Yes. It will take some years, won't it, to appear?

Yes, but it is a very, very tough tax.

It seems to me that there's a great deal to be said for having taxes which are not fierce but which are strictly enforced.

Yes. The top rate of tax in Germany is about 50% I think, and in Holland 52%. In France it is even less, but they have higher VAT and higher petrol taxes, higher taxes on day-to-day purchases. But British taxation, at 85% or 90% on investment income - it is difficult to see what they achieve by that. It is a relatively small band of people that get into this class of leadership, and they are virtually hounded on tax. It forces industry to find all sorts of ways, even hiring people's suits, which I find degrading

- when you get a television programme with the director of a merchant bank saying: 'Oh yes, my suits are hired to me at £20 per annum a suit. I can't afford to buy myself good class suits'.

I think there is only one country [with higher tax rates] in the world, and that is Sweden, but I think there are various concessions in Sweden that make the lot of the highly paid manager better off than over here. But over the rest of the industrialised world there is nowhere where managers and highly paid people are subjected to such heavy direct taxation - nowhere. And this does cause quite a lot of first class brains to push off and get overseas posts, which is rather sad.

But you know this is a whole area where again the accountancy profession could put up readable statistics in a very simple fashion, taking representative salaries throughout Western Europe and the United States. Wider share ownership is another one; it has been shown in America to have a big impact on profitability to have employee share ownership. The French have just given this overall incentive to save, with F.Frs 5,000 deduction from tax if you are prepared to invest in French industry, in a certain selected range of investments. Direct deductions are given for the cost for tax purposes. It's having a tremendous effect, and it will provide more money for investment. The only approach we've got at the moment - its beginning but it's having an impact at the moment - is this bill on a wider share-ownership drive. I am told that ten public companies a week are applying to find out about it, to establish schemes. In three years it could cover the vast majority of leading companies in the *Financial Times* index.

I was interested, at a meeting of the North West Regional Liberal Party some months ago now, in a discussion on industrial democracy. About 16 people spoke in this discussion - it was a day meeting - and 14 out of the 16 were within companies which were practising industrial democracy in some form or another. They were mainly small companies; they were

mainly experimenting with ways to do it. And I think in a couple of cases it seemed it was not genuine; there was a lot of talk and it didn't appear to amount to very much. But in the majority of cases there was indeed a common ownership of shares and a considerable measure of response by the directors towards the workers.

What is democracy? Democracy, as I see it, means that every so often you have a General Election which gives you the right to give bureaucratic power to a cabinet and a party, who exercise it in a way you probably never even imagined it ever would. And often it is the minority who vote for it: and that's called democracy. God knows if it is democracy. I don't think you can run anything on the basis that you can involve say 1,000 people (if you have a workforce of 1,000 people) in day-to-day decisions, certainly not. You might involve them in a major decision such as a take-over bid, or such as a factory closure.

In my own firm, we faced up to the question of size some years ago. We were approached by Dearden's with a view to a merger, and we thought about it. But we decided that a London office with 1,600 people in it, and about 100 partners, was not our idea of a way of life and that we were big enough. And we would have had something like 20% to 30% of the voting power. So we felt we couldn't go on with the merger, and they then merged with someone else.

I was interested recently to have the chance to ask Mr [Kenneth] Wright about the formation of The 1949 Group. This was pressing within the Institute [ICAEW] for constant purchasing power accounting, the form of accounting which has come out in ED8 and SSAP7. I believe Mr Wright was a strong protagonist for the accounting purchasing power adjustment together with Mr Parker.

Peter Parker?

W. E. Parker.

The partner with Price Waterhouse: I think he was Peter Parker, wasn't he? Oh, no; Peter Parker is the chap who is chairman of British Rail. That's right. W. E. Parker became senior partner at Price Waterhouse after Thomas Robson, and he became President of the English Institute.

That's right.

After Thomas Robson. He became President of the Institute.

I think that Mr Parker probably wrote the 1968 study *Accounting for Stewardship in a Period of Inflation*, which was published by the Research Foundation at the Institute.

The difficulty that the profession finds itself in largely arises as a result of what, in my view, are the enormous failures in our own national policies that has led to these repeated devaluations over a period of 20 or 30 years: 40% under Cripps, 60% under Wilson, and 40% or thereabouts under Callaghan. You know, it's very recent, that last 40%. To me, that's a disaster - an absolute disaster. And the accounting profession - I'm sure they didn't want to see the devaluation of sterling - but the impact on the nation's purchasing power in the world markets, and then the higher costs working through into British industry, eroding the temporary so-called competitive power that you get and the erosion of the value of money in fixed interest stocks and so on and so forth - the burden that throws on the accountant to try and tell a coherent and sensible story in a set of accounts. It is (as I said before) like telling somebody to use three different languages in the statements, and then trying to say: 'No: this is wrong - now tell it in one'. It is an impossible thing to do. But you don't get the criticism.

I don't know how economic policy is developed. You say you don't know how it is developed in the profession. The editor of *The Banker*, who

wrote this tremendous criticism of Britain's fiscal policy, says it tends to be the result of fashionable economic theories that are chatted over between economists and civil servants at the Reform Club. And then it gets into the Civil Service and it gets back through to the government. And they start, everybody, using the same terms, coining new phrases, which become fashionable. Everybody gets on the bandwagon so that you get all the newspapers saying: 'Britain must - or the Bank of England must - let the exchange rate fall'. And you get a fashionable line of thought. I'm sure this exists.

I'm on the Council of Institute for Fiscal Studies, and I religiously went to a lot of the things they held, these one-day conferences. Well, they had a one day conference shortly after the pound collapsed a year or so ago. The pound had gone down to \$1.56 dollars to the pound, and gradually it climbed back to \$1.70. And I can remember saying you can't really discuss taxation and the theories of taxation and inflation outside the context of exchange policy. With North Sea oil flowing for us, they say it's a £2 billion surplus on the current account in this coming year. The OECD people say: 'With everything running for you, what is so wrong with allowing the pound to do what the mark has done - or the franc or anybody else - and buy cheap, get your imports in cheap?'. Now, you don't get any advocacy along these lines, and I can remember saying this at this day conference: 'Just to talk about rates of taxation outside the context of inflation and its impact on wages and salaries just does not make sense, with the Treasury raking off ...'. You see, wages have risen in the national statistics. I do not know how they are built up now, but the total payroll in 1974, I think you will find, wages and salaries came to £43 billion. It is now over £90 billion, and we're supposed to have had wage controls for three years.

Well, anything less like control ...! Now, of that £90 billion, how much has gone through to the Treasury in tax? And how do you get these chaps who have taken a university degree at Oxford and gone straight into the Civil Service, sitting around with all their statistics, with the money flowing

in because the trade unions are successful in pushing wages up 30% in 1974, and then another 10% - you know, the £6 maximum was 10% of the average industrial wage at that time - and it is now, by the last figures I saw before this recent 14% overall increase, £86 billion, with the GNP of £100 billion. Well, I just get so angry with the sort of thing. Isn't that an extraordinary thing. People don't know it.

I say this. A person with a portfolio finds the index has gone down from a 1973 figure of 500 to 156 and back again to 930 in this span of years. People with a portfolio say: 'We are very well off, with a portfolio of £100,000 in equities'. But in purchasing power they've lost a large proportion in five years. And the income has been taxable. And I honestly think that people don't know what's happened to them in this last five-year period. They don't know. And while that goes for middle-class people with their portfolios, the highly skilled investment manager, the pension fund manager - he knows. And he knows when to get in and out of gilt-edged and fixed interest stock, and it shows a profit so he does not care.

The thing that I've always felt instinctively, having been in the profession for 50 years, and watching one Finance Act after the other, and one political party after the other, and watching how the pound buys one tenth of what it did in 1939 (this may be true of a great number of currencies, but it is disastrous for us). When I was reading for my exams you know, in the 1920s, there had been a big depression, in 1920 a collapse of world exchanges and so forth. And just before the Wall Street Crash, in the middle and later 1920s, things were climbing back. Then we had the Hatry crash, and the Wall Street crash, but wages were tending to fall. Churchill made them fall, putting us back on the gold standard. But you got value for money. The definition, I remember when I was reading economics: 'Money is a medium of exchange and a store of value'. Well, it is not honest any more. How on earth you can account properly until the value of money becomes stable I just cannot see.

My thanks to you.



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