OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

UNITED KINGDOM

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

DECEMBER 1969

BASIC STATISTICS OF THE UNITED KINGDOM

THE LAND

Area ('000 sq.km.)	244
Agricultural area ('000 sq.km.)	197

Major cities (population in millions mid-1966):	
Greater London	7.9
Birmingham	1.1
Glasgow	1.0
Liverpool	0.7
Manchester	0.6

THE PEOPLE

Population (mid-1968)	55 283 000
No. inhabitants per sq.km.	227
Net natural increase in population, 1963-68 :	
Annual average	321 000
Annual average per 1 000 inhabitants (1963-68)	6

Total employees in employment, June 1968	22 633 000
Employment in manufacturing industries, June 1968	8 613 000

PRODUCTION

Gross national product in 1968 (millions of £ at market prices	40 341
GNP per head in 1968 (US $)	1 856
Gross fixed investment, 1968:	
per cent of GNP	18.2
per head (US $)	339

Origin of total domestic income (1968, %)	
Agriculture, Forestry and Fishing	3
Industry	39
Construction	7
Services and distribution	51

THE GOVERNMENT

Public current expenditure 1968 (per cent of GNP)	33
General Government current revenue 1968 (per cent of GNP)	38
National Debt 31st March 1968 (ratio to General Government revenue)	198

Composition of House of Commons (July 31 1969):	
Labour	345
Conservatives	262
Liberals	13
Other	5
Last general election: 31st March, 1966	

LIVING STANDARDS

Calories per head, per day, 1966-67	3 220
Consumption of energy per head 1968 (metric tons of coal equivalent)	5.0
Average weekly earnings of men in industry, April 1969	478s.0d.

No. of passenger cars in use per 1 000 inhabitants (1967)	191
No. of telephones per 1 000 inhabitants (1967)	204
No. of television sets per 1 000 inhabitants (1967)	258

FOREIGN TRADE

Exports:	
Exports of goods and services as a percentage of the GNP (average 1963-68)	19
Main exports (percentage of total exports in 1968):	
Machinery	27
Transport equipment	15
Chemicals	10
Textiles	5
Iron and steel	4
Non-ferrous metals	4

Imports:	
Imports of goods and services as a percentage of the GNP (average 1963-68)	20
Main imports (percentage of total imports in 1968):	
Petroleum and petroleum products	11
Machinery	11
Non-ferrous metals	7
Meat	5
Chemicals	5
Fruit and vegetables	4

CURRENCY

Monetary unit: pound sterling.	
Currency units per US $	0.417

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UNITED KINGDOM

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the OECD shall promote policies designed:

- *to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- *to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- *to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The legal personality possessed by the Organisation for European Economic Co-operation continues in the OECD, which came into being on 30th September 1961.

The members of OECD are: Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

The annual review of United Kingdom by the OECD Economic and Development Review Committee took place on 23rd October 1969. The present Survey has been updated subsequently.

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INTRODUCTION

In 1968 the outcome of the balance of payments was disappointing, with the deficits on both current and basic accounts remaining at the 1967 level. Exports rose significantly, but so did imports. There was a favourable trend in the course of the year, but the combined current and long-term capital account remained in deficit in the second half. In real terms, the shift of resources to the balance of payments was much smaller than expected, while domestic demand increased more than envisaged. Significant fiscal measures to restrict the growth of private consumption had been taken, notably in the April 1968 budget. But although credit policy was also tightened, monetary conditions nevertheless remained relatively easy during much of the year.

The first half of 1969 has seen a marked change in the situation, particularly in the balance of payments. The current account showed a surplus at a seasonally adjusted annual rate of almost $450 million, and this has been running at a much higher rate in the second half of the year. Exports are rising sharply, helped by the strong growth of world trade and the competitive edge conferred by devaluation, and the increase in imports has been modest. It seems now that the growth of domestic demand has been brought under better control. Further fiscal measures were taken in November 1968 and in the April 1969 budget, and monetary policy has been significantly tightened. On the basis of present policies—with no relaxation of either fiscal or monetary restraints—prospects for 1970 would seem to be favourable. Although the growth of world trade may slow down considerably, the strong inflow of new orders in recent months points to a further good increase in exports in the first half of next year. And although there may again be a significant rise in imports the current account surplus would seem likely to show a further increase. But these favourable developments will depend on the extent to which policy is able to restrict the growth of domestic demand and incomes. The scope for any relaxation of existing policies seems, at present, to be small.

Part I of the present survey reviews recent trends in the economy. Part II discusses the policy measures taken and their probable impact on demand. Part III considers prospects for domestic activity and the balance of payments for 1970, and Part IV summarises the main policy conclusions that can be drawn therefrom. Annex I provides a more detailed study of monetary developments since devaluation.

I RECENT TRENDS

Demand

It is recalled that the post-devaluation strategy adopted by the authorities consisted of three main elements:

to make room in the economy not only for the external improvement, but for a rise in business fixed investment as well;

to ensure that, even with the envisaged improvement of the balance of payments, the overall expansion of demand did not exceed the rate of capacity growth (assumed to be about 3 per cent a year), thus preserving domestic demand conditions conducive to export growth, import substitution and cost restraint;

to limit the rise of costs in order to maintain as much as possible of the competitive advantage conferred by devaluation.

Compared with the underlying situation in 1967 and allowing for the likely deterioration of the terms of trade after the devaluation, the balance of payments target set at that time required a shift of resources towards the foreign balance of some £800 million at 1958 prices, or 2 per cent of GDP. At the presentation of the April 1968 budget, the Government aimed at a balance of payments surplus on current and long-term capital account (basic balance) of £500 million on an annual basis, to be achieved by the end of 1969. As progress in 1968 was slower than expected, the Government in May 1969 (in its Letter of Intent to the International Monetary Fund) stated that the immediate balance of payments aim was a surplus on current and long-term capital account of £300 million in the financial year ending March 1970.

During 1968, the expansion of activity was rather stronger than expected by the authorities (Table 1). In the second half of the year real GDP was some 4 per cent higher than a year earlier, reflecting a more buoyant trend in domestic demand[1], notably private consumption,

1 The rise in domestic demand in 1968 was to some extent due to the fact that spending was brought forward from 1969 ; investment expenditure increased sharply in the last quarter of 1968 to take advantage of the higher rate of investment grants payable up to the end of the year, and consumer purchases were also accelerated in order to avoid the rise in indirect taxes effected in November.

than envisaged in the April 1968 budget. Real disposable incomes rose more than expected (mainly because prices failed to rise as much as forecast) and the personal savings ratio fell.

Table 1 GDP 1967 II to 1968 II
UK March 1968 Forecast and Outcome
(Volume, per cent change)

	UK Forecast	Outcome
Final domestic demand (incl. stocks)	0.6	2.2
Private consumption	−1.9	1.0
Public consumption	3.0	−0.1
Fixed investment[1]	5.7	3.9
Stockbuilding[2]	n.a.	0.9
Net exports, improvement as per cent of GDP	2.4	1.7
Exports, goods and services	14.8	18.9
Imports, goods and services	0.6	8.6
GDP, market prices[3]	3.5	3.9

1 Adjusted for the effect of the termination of the special bonus on investment grants at the end of 1968.
2 Change in stockbuilding as per cent of GDP.
3 Compromise estimate; see footnote 2 to Table 14.
Source : Financial Statement and Economic Trends.

The shift of resources to the balance of payments was smaller than expected; exports rose much faster than forecast, reflecting notably the very strong rise in world trade, but imports also rose sharply.

The picture improved markedly in the first half of 1969 (Table 2). The foreign balance (goods and services in real terms) improved by the equivalent of ½ per cent of GDP on an annual basis, whilst there was a small fall in output; exports of goods and services rose sharply while imports remained virtually unchanged. Domestic demand also fell. This was partly a reflection of the fact that expenditure had been brought forward to 1968. But it would also seem that the underlying trend of domestic demand had been brought under better control, influenced by the strengthening of fiscal restraints in November 1968 and the considerable tightening of monetary policy. Both private consumption and private fixed investment fell[1], with a particularly sharp decline in resi-

1 See footnote on page 6.

dential construction. The rise in government purchases of goods and services was modest, about in line with the public expenditure programme adopted in January 1968.

Table 2 **Demand and Output**

(Volume)

Per cent changes from previous half year, seasonally adjusted, annual rates	1968 I	1968 II	1969 I	1969 II estimate
Private consumption	1.6	0.4	−0.3	2.0
Public consumption	1.2	−1.4	—	1.4
Fixed investment[1]	5.0	2.9	−4.0	6.4
of which :				
Private (excl. dwellings and public authorities)	8.3	15.8	2.7	10.8
Final domestic demand (excl. stocks)	2.1	0.5	−0.9	2.7
Stockbuilding[2]	—	1.6	0.4	−0.5
Exports of goods and services	27.6	10.8	3.1	14.4
Aggregate demand (total domestic demand plus exports)	5.9	3.6	0.1	4.3
Imports of goods & services	13.6	3.9	0.7	3.7
Gross domestic product[3]	4.4	3.5	—	4.4

1 Adjusted for the effect of the termination of the special bonus on investment grants at the end of 1968.
2 Change as per cent of GDP.
3 Compromise estimate of GDP — see footnote 2 to Table 14.

Source : Economic Trends and Secretariat estimates.

Activity seems to have picked up in the second half of the year. In the third quarter, industrial production and retail sales both stood about one per cent above their second quarter levels. Labour market indicators showed a different picture. Unemployment rose from an average of 2.2 per cent in the second quarter to 2.5 per cent in the third, though there was a fall in October to 2.4 per cent. Unfilled vacancies did not change much, but as noted on page 10, the seasonal adjustment of both the latter series may be unsatisfactory. The expansion is, however, still led by a rapid growth of exports. Domestic demand would seem to have recovered after the weak trend in the first half of the year, probably with a strong increase in private non-residential fixed investment. Although residential construction may have shown a further decline, and public sector fixed asset formation may also have fallen somewhat, total fixed investment has probably increased. There are also indications that consumer spending is picking up again. On the basis of early indicators, real GDP may be rising at an annual rate of about 4 ½ per cent in the second half of 1969.

Table 3 **Analysis of the Shift in Growth of Demand** (Volume)
Per cent

	Annual rates of change		Change as a share of annual growth of GDP	
	From 1960 to 1966	From 1967/68 to 1968/69	From 1960 to 1966	From 1967/68 to 1968/69
Autonomous demand components :	2.8	13.7	0.8	4.0
Exports of goods and services	3.5	12.5	0.7	2.4
Private fixed investment[1]	4.1	7.6	0.4	0.8
Stockbuilding	0.2	0.8	−0.4	0.8
Policy determined demand components :	4.1	−1.4	1.0	−0.4
Public purchases (current and capital)	3.6	−1.7	0.8	−0.4
Public dwellings	12.0	2.3	0.2	0.1
Total	3.4	6.6	1.8	3.7
Private consumption	2.7	0.4	1.8	0.3
Imports of goods and services	2.9	5.4	0.6	1.1
GDP[2]	3.1	2.8	3.0	2.8

1 Including private dwellings.
2 Compromise estimate: see footnote 2 to Table 14.
Source : Economic Trends and Secretariat estimates.

Developments since devaluation have been marked by a number of important disturbances which have tended to conceal the underlying trends in GDP and its components. Table 3 seeks to give a better idea of the underlying movements than half-yearly or calendar year data provide. Given the timing of the major disturbances[1] the comparison of the 12-month period ending mid-1969 with the previous 12-month period should smooth out most of the erratic influences. As very little, if any, of the effects of devaluation and accompanying measures had been felt before the middle of 1968, the 12-month period up to mid-1968 can be taken to represent the pre-devaluation situation. The table also enables comparison of trends since the devaluation with developments in the earlier 1960's.

In the year to mid-1969 real GDP rose by about 3 per cent from the preceding 12-month period, about the same rate of growth as that experienced on average in the earlier 1960's. But the pattern of the

1 The UK dock strike in the autumn of 1967 led to a sharp decline in exports in 1967 II with recovery in 1968 I. In anticipation of a US dock strike, British exports to the United States were brought forward to 1968 II from 1969 I. For private consumption and investment, see footnote on p. 6.

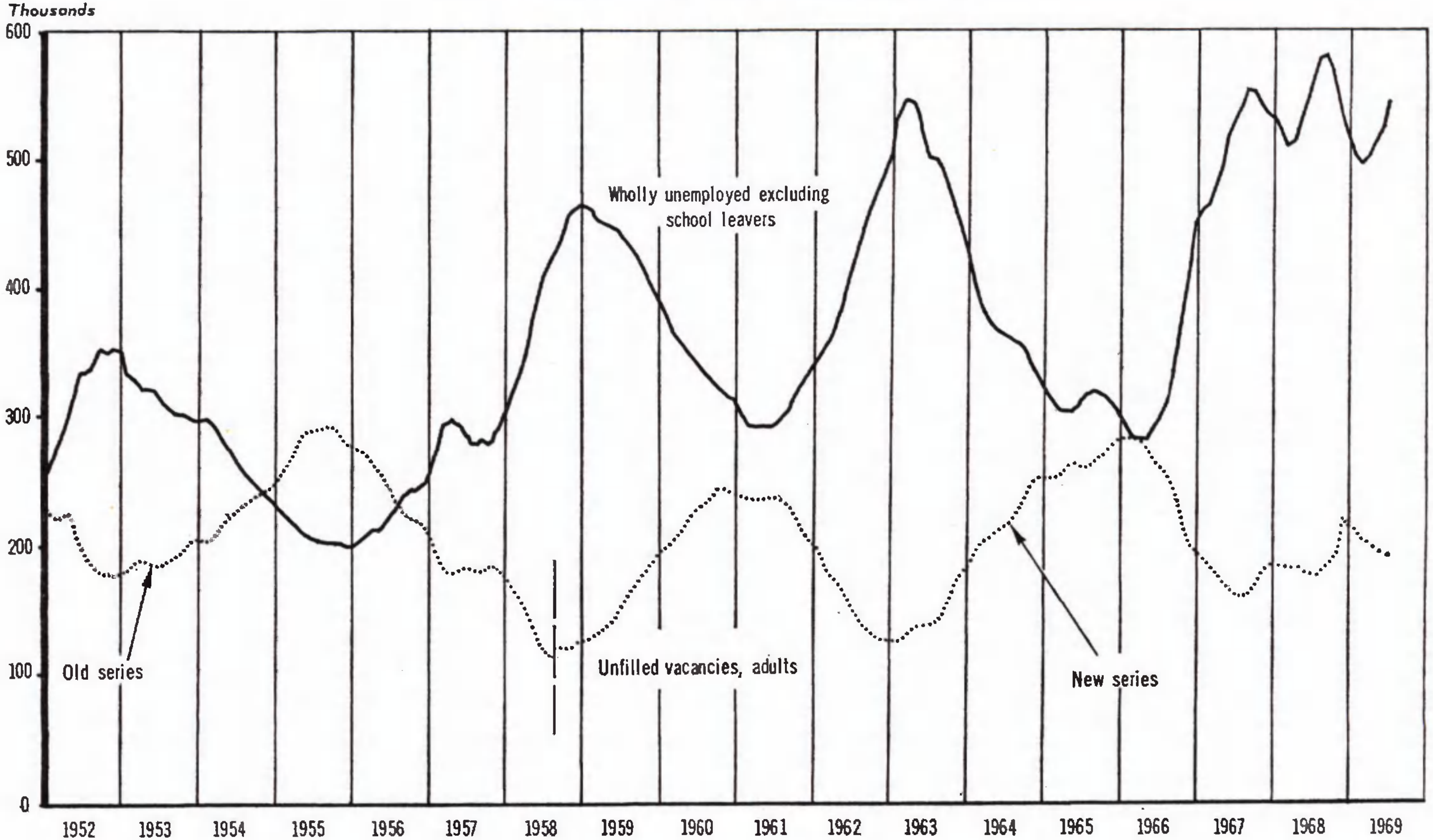
expansion was very different in the two periods, as can be seen from the breakdown of the annual growth of GDP among its components. The recent expansion has been led by exports and private fixed investment, with public purchases of goods and services and private consumption remaining virtually unchanged. In the previous period private consumption and public expenditure were the main expansionary factors, while exports and private fixed investment showed little buoyancy. Thus, although progress towards the balance of payments target has been slow, it is clear that a significant improvement has been achieved. Between the two recent 12-month periods the shift of resources to the balance of payments amounted to about £ 500 million, at 1963 prices, or about 1 ½ per cent of GDP. This is less than the target adopted at the time of the devaluation, and it should be noted that the balance of payments in the first half of 1969 may have been favourably affected by temporary influences. Nevertheless, progress has been substantial, and current trends point to further improvement in 1970.

Employment and Productivity

After the shake-out of labour which started in the middle of 1968, unemployment has remained at a relatively high level by historical standards (Diagram 1). Over the last three years the seasonally adjusted unemployment ratio—the number of wholly unemployed (excluding school-leavers)—has fluctuated within a range of 2 to 2 ½ per cent of the labour force; during the 1960-66 period the ratio typically stayed at a level about one percentage point below this. There are reasons to believe, however, that the unemployment ratio is not fully comparable with that of earlier years, since employers may have been more selective in filling their vacancies because of higher labour costs, whilst redundancy payments and higher unemployment benefits may enable workers to take a longer time choosing a new job. This has brought more flexibility to the labour market.

Doubts have also recently been expressed about the usefulness of the unemployment ratio as presently calculated as an indicator of short-term changes in labour market conditions. In particular, it has been suggested that the seasonal adjustment may be unsatisfactory. The seasonally adjusted ratio has been rising fairly steadily this year to 2.5 per cent in September, though it fell to 2.4 per cent in October. Although some rise in unemployment would not be inconsistent with the relatively slack trend in available indicators of the movement of output, seasonal adjustment may have exaggerated the corrections for seasonal movement in recent years and produced some contra-seasonal movement. Whereas other indicators, such as the number of vacancies, for example, point to an easing of demand pressure in the labour market in the first half

Diagram 1 **Unemployment and vacancies: Great Britain**
Three-month moving average; seasonally adjusted



Source: DEP Gazette.

of this year, there are indications that the situation in the late summer was tighter than a year earlier. In October, the number of vacancies as well as the amount of overtime worked in manufacturing was higher than a year ago. The overall figures for unemployment and vacancies conceal great differences between sectors and regions. In the construction industry, where the trend of activity has been particularly weak this year, unemployment is relatively high. But in industries producing to a large extent for export markets the labour market seems to be rather tighter than a year ago. In the engineering sector, which accounts for about one-third of British merchandise exports (excluding transport equipment), the ratio of vacancies to unemployed among skilled workers has risen from about 0.8 last year to about 1.3 this year (July figures). There also remain important regional differences in unemployment conditions (Table 4), a main feature being that in the main industrial areas (London and South Eastern, Eastern and Southern, and Midland Regions) unemployment is much lower than the national average, and rather lower than at any time since devaluation.

Table 4 **Average Unemployment Percentages by Groups of Regions (1967 Weights)**

	1967	1968	1969 January-July
London and South Eastern, Eastern and Southern, Midlands	1.9	1.8	1.7
South Western, Yorkshire and Humberside, North Western,	2.4	2.5	2.5
Northern, Wales, Scotland	4.0	4.1	4.1
Total Great Britain	2.4	2.4	2.5
Northern Ireland	7.7	7.2	7.4

Source : DEP Statistics on Incomes, Prices, Employment and Productivity; Monthly Digest of Statistics.

Dishoarding of labour since 1966 has caused output per man to increase—output per man hour has been rising as quickly as the longer-term average—in marked contrast with previous experience during recessions. When output recovered in 1968, some slack was taken up. But employment, seasonally adjusted, remained fairly stable and productivity performance improved further. After a short halt in the beginning of 1969, when manufacturing output fell, the favourable development of productivity was resumed from the middle of 1969.

The abnormally fast rise in labour productivity of the last two years or so is likely to be mainly a once for all phenomenon, produced by the shake-out of labour following the introduction of the Selective

Table 5 **Productivity in Manufacturing Industry**
(seasonally adjusted)
Per cent annual rate of change over previous period

	1960-66 average	1967	1968	1968 Q1	1968 Q2	1968 Q3	1968 Q4	1969 Q1	1969 Q2
Output per man	2.7	2.7	7.3	6.4	8.4	4.2	6.8	−1.9	5.4

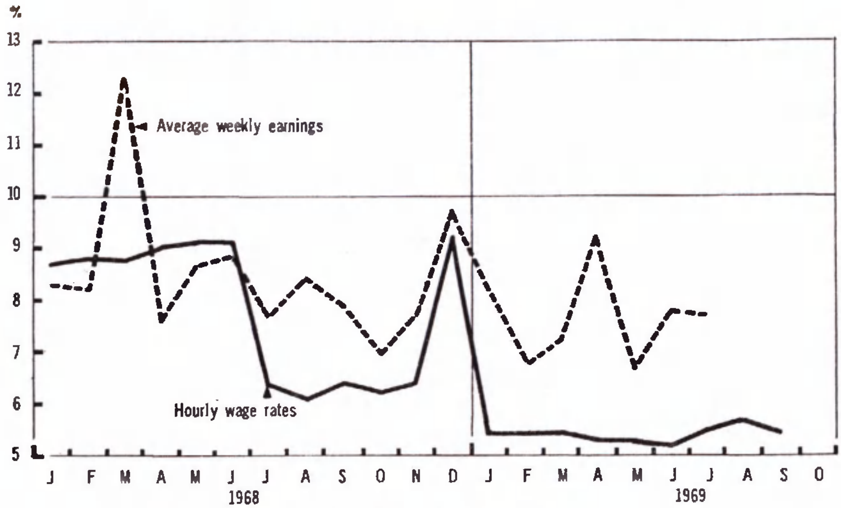
Source : Monthly Digest of Statistics; DEP Gazette.

Employment Tax and increased social security contributions, which raised the costs of employing labour in the industries affected and also encouraged a shift in labour input towards longer hours and fewer workers. Some service branches, notably retail distribution, have registered particularly strong increases in output per head. However, a rise in output per head faster than past trends would suggest is also observed for branches not paying the SET, reflecting a substitution of hours for workers. The reasons for this development have not been fully detected. The squeeze on liquidity in manufacturing industry, caused by the advance of premiums reimbursed later, may have encouraged the savings of labour costs on a more durable basis. There may also have been a shift in the composition of demand compared with earlier upswings in favour of high productivity branches and firms producing to a large extent for exports. There is some evidence that large firms, possibly with higher labour productivity, have taken a bigger share of the output increase than usual. If this holds true, a continuation of the recent growth pattern could involve higher productivity gains for some time. However, in view of the complexity surrounding the measurement and causality of changes in productivity, the authorities have considered it prudent to assume an unchanged rate of increase in labour productivity in the next few years.

Wages and Prices

Following a spurt in the first quarter of 1968, the next two quarters registered more moderate increases in the wage rate index. The acceleration in the fourth quarter of last year and the continued strong increase in the first quarter of 1969 (Table 6), were substantially due to the payment of increases to two large groups of workers—the construction workers and the engineers—in late 1968. Monthly data show that after December the increase has been more moderate.

Diagram 2 **Wages in Manufacturing**
Per cent change over corresponding month in previous year



Source: Monthly Digest of Statistics; DEP Gazette.

Table 6 **Income from Employment in Industry and Services**
(seasonally adjusted)
Per cent annual rate of change over previous period

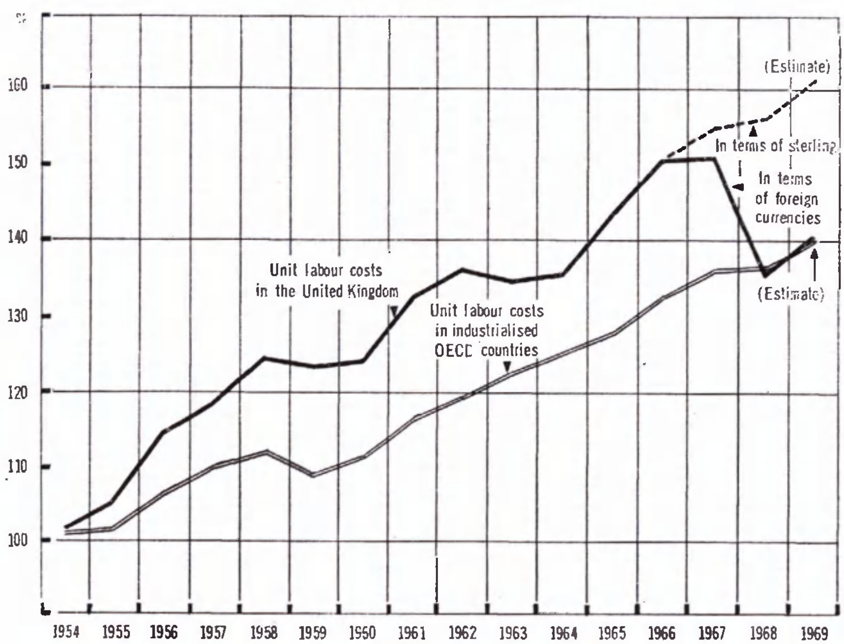
	1965	1966	1967	1968	1967 Q4	1968 Q1	1968 Q2	1968 Q3	1968 Q4	1969 Q1	1969 Q2
Hourly wage rates[1]	6.3	6.7	4.0	6.8	5.4	11.4	2.2	4.1	7.0	7.5	1.6
Civil employment	0.9	0.2	−1.5	−0.6	−1.8	−0.6	−0.8	−0.3	0.3	0.2	n.a.
Income from employment	7.9	7.0	3.8	7.0	5.6	10.4	1.0	8.1	8.2	8.4	2.5
Total output[2]	2.6	1.7	1.6	3.8	5.7	6.3	−0.7	4.5	4.1	−2.7	5.1
Income from employment per unit of putput	5.1	5.2	2.2	3.0	0.0	4.0	1.6	3.6	4.0	11.2	−2.4

1 Not seasonally adjusted.
2 GDP at factor cost (output estimate).
Source: DEP Gazette; Monthly Digest of Statistics; National Income and Expenditure, 1969.

The increase in wage rates in 1968 was higher than in 1967, partly because in 1968 there were two increases in the engineering industry (January and December). The increase in 1969 so far has been small, but it is expected that the index will rise more quickly in the fourth quarter. Recent settlements in both the public sector and in private industries have been well in excess of the 3 ½ per cent ceiling still officially in force. The government incomes policy guidelines and machinery, together with the statutory powers which have been available, have, however, probably helped to moderate the rise in wage rates in most of the post-devaluation period.

Over the one and a half year period up to the autumn of 1969, major wage settlements not opposed by the Department of Employment and Productivity provided for wage increases averaging 4 to 4 ½ per cent annually, more than the 3 ½ per cent maximum set in the authorities' guidelines for their prices and incomes policy. The differences is due partly to higher pay justified by productivity deals allowed for in the guidelines, and partly to compensation for low wages. In addition to the approved increases in wage rates, there were higher earnings because of overtime work, adjustments to payment by result systems and wage drift. The Government has made only moderate use of its power under the Prices and Incomes Act to defer the implementation of wage increases. The National Board for Prices and Incomes has reported on a good number of settlements notified to the Government under the early warning system, but in recent months there have not been any statutory postponements of large settlements.

Diagram 3 **Unit Labour Costs in Manufacturing**
1953 = 100



Source: DEP Gazette; Monthly Digest of Statistics.

Thus, given the slower rise in wages and the better trend in productivity, the pressure on production costs may have eased somewhat compared with previous years. As the cost problem in some important countries has recently become acute, the relative position of the United Kingdom with respect to unit labour costs has developed rather favourably (Table 7 and Diagram 3).

The situation on the labour market would seem unlikely to change very much in the closing months of the present year, and wage rates are expected to follow the trend prevailing later in 1968. There will be a bunching of wage settlements in late 1969, some of which could be delayed into 1970. The engineering industry, a key sector for exports, will implement the next stage of a 3-year agreement concluded at the end of 1968, which will be somewhat similar in effect to the first stage. The Government has announced that it will introduce legislation on equal pay for women in the next session of Parliament. The proposal is that it should be illegal to discriminate against women in rates of pay by the end of 1975. Considering the share of women's wages in the total wage bill, about 20 per cent, equal pay should not have any great influence on overall wage developments in the near future; but since female employment is more concentrated in some industries than others, the impact will be considerable in the sectors mostly affected.

Table 7 **Unit Labour Costs in Manufacturing**

Per cent change from previous year

	Industrialised OECD[1]	United Kingdom
1963	2.7	−0.8
1964	2.1	0.4
1965	2.2	6.0
1966	3.5	5.0
1967	2.7	0.3
1968	0.1	−9.3[3]
1969[2]	2.5	2.9
Average of last 5 years	2.2	1.0

1 Industrialised OECD countries weighted together according to their estimated importance for UK foreign trade (1963-65 average).
2 Estimate.
3 Excluding the effects of the devaluation, labour costs rose by 2.1 per cent in 1967 and 1.5 per cent in 1968.

Source : OECD Secretariat.

Note Unit labour cost is defined as the total cost of wages, salaries and associated employer outlay per unit of output in the manufacturing sector. For the purpose of international comparison national data have been converted to dollars at current exchange rate. A devaluation consequently is registered as a reduction in unit labour cost in the present table. The comparability and the precision of the indicators utilised may not in all cases be completely satisfactory and the estimates should therefore be considered as a crude measure of trends.

In the Budget, it was stated that the Government would not seek further renewal of powers over pay contained within the present legislation—under which pay increases can be deferred for a maximum of twelve months—when it expires at the end of 1969. (The expiring legislation contains similar powers over prices, and also powers to ensure dividend and rent restraint). The authorities would henceforward rely instead on Part II of the 1966 Prices and Incomes Act which gives power to require early warning of proposed increases in pay and prices and to defer proposed increases for up to three months whilst referring them to the Prices and Incomes Board. The early warning arrangements, which were never a statutory requirement, would, it was hoped, continue on a voluntary basis. The proposal to activate Part II of the Prices and Incomes Act was confirmed in October, as a bridging measure pending the establishment of a new body, involving the merger and rationalisation of the Monopolies Commission and National Board for Prices and Incomes, to correct abuses of market power.

The higher costs of imports following devaluation, notably for raw materials and food, and an exceptionally strong increase in wage rates early in 1968 in the engineering industries, were passed on to consumer prices, which rose rapidly up to the second quarter of the year; between that quarter and the third quarter of 1967, the consumer price index (goods and services) increased by 5 per cent (7 per cent annual basis). After the immediate effects of the devaluation had worked through, consumer prices levelled off in the latter part of 1968, helped by stable prices for food imports, an actual fall in raw material prices, and more moderate wage increases. But towards the end of 1968 prices again climbed upwards, influenced by higher indirect taxes and import prices, particularly for imported food and raw materials. Some slackening took place from mid-1969, and it is expected that by the end of the year the consumer price index may be 4 per cent higher than a year before.

Balance of Payments

The current and long-term capital account of the balance of payments (the basic balance) was in large deficit during most of the 1960's; up to and including 1968, the deficit averaged about £250 million annually. There was a steady loss of market shares for United Kingdom merchandise exports. Reserves were low, and the recurrent payments crises made necessary a considerable amount of borrowing abroad. The balance of payments responded only slowly to the new conditions created by the devaluation. Both the current account and the basic balance remained in large deficit in the first half of 1968. But since then there has been a continuous and strong improvement. Merchandise exports have increased significantly. Net invisible earnings have grown sharply, and the deficit on long-term capital account has been considerably reduced. The current balance showed an appreciable and increasing surplus in both the first and the second quarters of 1969, and in the second quarter the basic balance was also in surplus. To some extent the improvement was due to temporary factors, mainly affecting invisibles and inflows of capital. But the underlying trend, confirmed by preliminary estimates of the third quarter outcome, clearly points to a major strengthening of the foreign balance.

Merchandise Trade

The growth of exports remained strong throughout 1968. The US dock strike and exceptionally low deliveries of ships and aircraft caused a temporary fall in the first quarter of 1969, but the trend has been strongly upward again in recent months. Increases have been registered for almost all commodity classes, led by machinery and transport equipment. Shipments to Western Europe have increased sharply. Both high levels of foreign demand and the effects of the devaluation have played a role in the growth of exports. The recent expansion of world trade —OECD exports rose by 13 per cent in 1968 and 1969 may see an even sharper increase—has been well above the longer-run average. But since the devaluation, Britain has been better placed to take advantage of it. In contrast to the average loss of export market shares[1] of about 3 percentage points a year earlier in the 1960's, there was a gain of shares in 1968. The rising trend of exports was accelerated during the second quarter of 1969, and for the three months August to October the value of exports was 4 per cent higher than in the previous three months[2].

1 The loss of market shares is defined as the difference between the actual growth of UK exports and the growth which would have taken place if UK had exactly maintained its share in total OECD exports.

2 Export figures in this review are corrected for under- and over- recording. It is thought by the authorities that under-recording has grown progressively since the end of 1963, when the relaxation of exchange controls completed the removal of pre-entry requirements of export documents for most exports to non-sterling countries. The authorities have estimated that under-recording may have reached a peak in 1968 and the first half of 1969 of about 2 per cent of exports. In absolute figures, it has grown progressively from £20 million in 1964 to £70 million in the first half of 1969. With the introduction from 1st August 1969 of full checking of all export documents, the under-recording is expected to disappear by the end of 1969. Figures in the third quarter were inflated by quicker lodging of export documents, and the submission of documents relating to exports in earlier months: it is estimated that exports were thereby inflated by a gross total of £40 million in July-September, equivalent to a net over-recording of £17 million when adjusted for unrecorded exports of £23 million in the quarter.

The strong growth extended to trade with most countries and most classes of goods. For 1969 as a whole, the UK may be maintaining its share of OECD export markets.

Imports rose more rapidly immediately after the devaluation. In 1968 as a whole the volume of imports (excluding US military aircraft deliveries) was 9 per cent higher than in 1967. Two out of the 9 percentage points were due to abnormally high imports of silver bullion and diamonds. The remaining 7, although rather large, were probably within the margin of error of past relationships between the rise of imports and the growth of expenditure. This does not necessarily mean that the devaluation had no effect on imports. It seems possible that an underlying rise in the import propensity had been underestimated as analysis of import relationships was rendered difficult by the various measures in recent years to limit the growth of imports.

Since early 1968 imports have shown a more stable trend. The volume in the first nine months of 1969 saw an increase of about 1 per cent over the same period last year. But since import prices have been rising relatively fast, the value of imports has been on an upward trend in recent months.

Invisibles

Net invisible earnings have risen appreciably since the devaluation. In the second quarter of 1969, they were about 50 per cent higher than the average quarterly rate experienced in 1968. Although the recent buoyancy partly reflects erratic influences, notably in oil earnings, the underlying trend would seem to be strong, with the improvement affecting most items.

Government net expenditure abroad, predominantly for military purposes, has been virtually unchanged since 1966, with a decline in real terms. Shipping earnings rose sharply in 1968, reflecting high rates for oil transport, but the first half of 1969 saw a setback; the longer-term trend is for freight rates to fall, as new ships operating at much lower costs are coming into service. The 1968 figures for civil aviation were adversely affected by the pilots' strike in the summer, but earnings have risen sharply this year. Tourism has benefited considerably from devaluation; the number of visitors as well as expenditure per head have increased more than in previous years. Interest, profits and dividends rose sharply in the first half of 1969; much of the increase may have been

Table 8 **Invisible Earnings and Payments, net**
$ million

	1966	1967	1968	1969 1st half
Services (net) :				
Government	−812	−759	−682	−336
Shipping	6	50	146	19
Civil aviation	78	77	48	41
Travel and tourism	−218	−111	26	48
Financial services	837	1 049	1 059	540
Total	−109	306	598	312
Transfers, (net) :				
Interest, profits and dividends				
— Public sector	−456	−468	−564	−398
— Private sector	1 620	1 624	1 569	1 118
Other transfers (net) :				
— Government	−504	−517	−427	−214
— Private	−137	−172	−187	−96
Total	523	467	391	410
Total invisibles (net)	414	773	989	722

Source : Economic Trends; Secretariat estimates.

due to exceptionally large repatriation of oil companies' profits and, possibly, to difficulties in distinguishing statistically between current and capital receipts. In the first half of the year, net invisible carnings were running at a monthly rate of $120 million but the underlying rate (excluding special factors) may be less, perhaps about $100 million a month.

The Current and Long-Term Capital Account

There was a surplus on current account in the first half of 1969 of about $220 million ; even after allowing for abnormal factors, this represented a marked swing from the deficit of more than $700 million recorded in both 1967 and 1968. At the same time there was a large inflow of long-term capital for direct investment; inward oil investment continued on a high level, and overseas purchases of United Kingdom company securities in the London market rose sharply in the second quarter. Loans were raised on international capital markets by private companies and public corporations (British European Airways $16.8 million loan in Switzerland, the Gas Council issue of a Deutschemark loan equivalent of $74.4 million). The new interest in foreign currency borrowing for the purpose of financing domestic expenditure by private companies may be sustained as monetary conditions are tight but

Table 9 **Balance of Payments, Main Trends**
$ million

	1967	1968	Actual 1968 I	Actual 1968 II	Actual 1969 I
Seasonally adjusted :					
1 Exports, f.o.b.	14 111	14 959	7 176	7 783	8 047
2 Imports, f.o.b.*	15 596	16 584	8 146	8 438	8 546
3 Trade balance	−1 485	−1 625	−970	−655	−499
4 Services and transfers, net[1]	773	903	466	437	722
5 Current balance	−712	−722	−504	−218	223
6 Long-term capital	−369	−476	−481	5	−108
6 1 Private capital inflow	1 031	1 375	449	926	847
6 2 Private capital outflow	−1 253	−1 766	−878	−888	−773
6 3 Government capital, net[1 2]	−147	−85	−52	−33	−182
7 Basic balance	−1 081	−1 198	−985	−213	115
Not seasonally adjusted :					
8 Basic balance	−1 081	−1 198	−851	−347	269
9 Short-term capital and unrecorded[3]	4	−972	−744	−288	550
10 Balance on non-monetary transactions	−1 077	−2 171	−1 595	−576	819
11 Banking funds and other monetary items[4]	−210	−1 025	−564	−462	−580
12 Balance on official settlements	−1 287	−3 196	−2 159	−1 038	239
* of which 2 1 Progress payments on military aircraft purchases from the United States	267	262	130	132	115

1 1968 data include waived debt obligations payable to Canada and the United States.
2 Adjusted for special transactions under offset arrangements with Germany.
3 Includes the exchange adjustment on pre-devaluation forward deals.
4 Adjusted for redenomination of Hong Kong official balances in 2nd Qtr. 1968, and reversal of this operation in 3rd Qtr. 1968.

Source : UK Balance of Payments and Economic Trends.

production and business fixed investment are buoyant. Exchange control consent is required for foreign currency borrowing by UK companies but, provided that the terms of the loans are appropriate, consent is normally given when the finance is to be applied for productive home investment.

The net outward movement of direct investment in the first half of 1969 was little changed from the level in the second half of 1968. But there was a sharp improvement in net portfolio investment, reflecting

Table 10 **Balance of Payments, million dollars**
Summary Financing Statement[1]

	1967	1968	1968 2nd half	1969 1st half
A Balance on non-monetary transactions	−1 077	−2 171	−576	819
B Non-official monetary movements	−210	−1 025	−462	−580
B 1 Net foreign exchange position of commercial banks	118	84	−35	−124
B 2 Net liabilities in sterling and O.S.A. currencies	−328	−1 109	−427	−456
C Total financing requirement (balance on official settlements = A + B)	−1 287	−3 196	−1 038	239
C 1 Net liabilities to national monetary authorities	1 140	1 543	869	−234
C 2 Non-sterling liabilities to non-official holders	103	−103	−103	—
C 3 Special transactions[2]	490	223	173	—
C 4 Net IMF position	−851	1 260	−161	17
C 5 Change in reserves	405	274	263	−23
— Gold	650	−183	2	—
— Currency assets	−245	457	261	−23

1 Assets increase = — decrease = +
Liabilities increase = + decrease = —
2 Comprising offset arrangements with Germany; transfer (in 1967) of the security portfolio to the reserves; and the debt waiver (in 1968) from the United States and Canada.

Source : United Kingdom Balance of Payments ; Economic Trends ; IMF Balance of Payments Yearbook.

NOTE Components may not add to totals due to rounding.

favourable movements in both inward and outward flows. Although charged to the basic balance, a large portion of the private capital outflow is financed by borrowing in Euro-currencies from UK banks, registered under monetary movements. About $240 million of investment was financed in this way in 1968 and $120 million in the first half of 1969, which more than offset the deficit on capital account in the latter period. Exchange reserves, therefore, are less affected than suggested by the gross figures entering the basic balance.

Known borrowing programmes and available information on the outflow of capital suggest that the long-term capital account has shown a net deficit in 1969 considerably below the average of recent years (about $350 million). The basic balance showed a surplus, for the first time since 1962, of $115 million in the first half of 1969, and this may have been considerably higher in the second half.

Table 11 **The United Kingdom's Medium-Term Credits since October 1964[1]**
(excluding the cost of servicing)

$ million

	Date	Amount	Repayment dates	Amounts Outstanding (end of month) Dec. 1968	Mar. 1969	June 1969	Sept. 1969
IMF	Dec. 1964	1 000	Repaid	—	—	—	—
Swiss National Bank	Dec. 1964	80	Repaid	—	—	—	—
IMF	May 1965	1 400	1968-70	1 200	1 000	800	600
Swiss National Bank	May 1965	40	1968-70 (Repaid)	26	9	—	—
IMF	Mar. 1966	123	1969-71 (Repaid)	123	—	—	—
Ex-Im Bank (military aircraft loans)	Apr. 1966	52	1966-73				
	June 1966	34	1966-73				
	Aug. 1966	185	1967-74				
	July 1967	528[2]	1968-75				
Total Ex-Im Bank		799		527	568	562	569
Swiss Bank Consortium	Oct. 1967	103	Repaid	—	—	—	—
BIS	Nov. 1967	250	1968-69 (Repaid)	103	38	—	—
Deutsche Bundesbank	Apr. 1968	50	1972	50	50	50	50
IMF	June 1968	1 400	1971	1 400	1 400	1 400	1 400
IMF	June 1969	500	1974-75	—	—	500	500
IMF	Sept. 1969 to Mar. 1970	500		—	—	—	175
Deutsche Bundesbank	Aug. 1969	125	1979	—	—	—	125
Totals outstanding				3 429	3 065	3 312	3 419
of which, IMF				2 723	2 400	2 700	2 675
Other				706	665	612	744

1 The table does not cover confidential central bank transactions.
2 In addition to the total credit of $ 528 million arranged in July 1967 and indicated above, a further credit of $ 100 million is available for use in 1969, if necessary. Total drawings at end-September 1969 were $ 400 million.

Source : Hansard ; Economic Trends ; Secretariat Estimates.

The proceeds of the better balance of payments and net favourable monetary inflows in the first half of 1969, were used to pay off official debt under swap arrangements and credit facilities with other monetary authorities. Net liabilities to official holders in non-sterling countries were reduced by $880 million. Sterling liabilities to non-official holders (in sterling and non-sterling countries) were also reduced considerably ($473 million). On the other hand, the balances of monetary authorities in sterling countries rose by $646 million. The net IMF position was virtually unchanged. There was a big outflow matched by an almost equal inflow of Euro-currency funds through UK banks, reflecting heavy demand for Euro-dollars from United States banks through their branches in London, and speculative borrowing by non-residents wishing to switch into Deutschemark. Official reserves rose by a small amount. Speculation in favour of the Deutschemark in September seems to have affected the pound sterling to a smaller extent than on previous occasions of unrest on international exchange markets.

However, there still remains outstanding a large amount of the official debt contracted in recent years to foreign monetary authorities and international bodies. The bulk of this falls due within the next couple of years. Table 11 shows that of the medium-term credits arranged in the past five years, some $3.4 billion remained outstanding by the end of the third quarter. In addition, credits taken up from other Central banks in respect of short-term swap transactions may amount to a further $ 4 billion. The net outflow of official long-term capital is also expected to increase next year. Furthermore, there will be growing repayments on loans raised recently by private business and public corporations.

II ECONOMIC POLICY

In its balance of payments strategy after the devaluation the Government relied primarily on fiscal policy as an instrument of demand management. Despite the monetary measures taken at the time of the devaluation, monetary conditions remained relatively easy; private liquidity had increased considerably in 1967, and the money supply showed a further strong increase in 1968, despite the ceilings set on bank advances. In 1969, fiscal restraint has been reinforced, and monetary policy has been tightened significantly. The Government has decided to continue the import deposit scheme for a further 12 months from 5th December 1969. It will cover the same range of imports and the period of deposit will remain unchanged at 180 days, while the rate of deposit was reduced from 50 to 40 per cent. The tourist allowance of £ 50 per person a year will remain unaltered, though the Chancellor of the Exchequer expressed the hope that it could be abolished before long.

Fiscal Policy

The size of the fiscal policy measures taken since devaluation has been considerable by any standards. The tax increases effected in the 1968 budget were estimated to yield more than £900 million in a full year, with an estimated demand impact of some £500 to £600 million (1 ½ per cent of GDP). In November 1968, when it became clear that private consumption was much stronger than expected, taxes were further increased, with an estimated demand impact of about £200 million (½ per cent of GDP). The tax changes contained in the April 1969 budget were estimated to raise revenue by some £270 million in the fiscal year 1969/70, and £340 million in a full year; their impact on domestic demand was officially estimated to build up (including secondary effects) to an annual rate of about £280 million (or rather more than ½ per cent of GDP) in the first half of 1970. Moreover, large cuts in public expendi-

Table 12 **Public Sector Transactions**

£ million

	1967/68 Outturn	1968/69 Outturn	1969/70 Estimate
Tax receipts, total[1]	14 553	16 668	18 689
Current exp. on goods and services, total	−7 152	−7 662	−8 122
Central government	−4 552	−4 736	−4 999
Local government	−2 600	−2 886	−3 123
Transfers, interest, dividends net	−5 262	−5 671	−6 027
Current surplus	2 139	3 375	4 540
of which, Central government[2]	2 078	3 226	4 383
Fixed capital formation	−3 760	−3 829	−4 034
Other capital items, net	−421	139	−175
Borrowing requirement	2 043	315	−331
of which, Central government	1 483	−281	−592[3]
Local government	760	678	500
Public corporations	−200	−82	−239

1 Includes gross trading surpluses and National Insurance contributions, etc.
2 Excluding transactions within the public sector.
3 After taking account of lending to Nationalized Industries (£ 215 million) for stock redemption.

Source : Financial Statements and Budget Reports.

NOTE The fiscal year runs from 1st April to 31st March.

Table 13 **Tax changes in the April 1969 budget**
£ million

	Yield in : 1969/70	Full year
Corporation tax : raised from 42 ½ to 45 per cent	75	105
Selective employment tax :		
contributions of employers raised from 37/6d to 48/— for adult male workers (other rates to rise also)	123	130
Indirect taxes :		
Extension of purchase tax to previously exempt commodities, higher fuel and excise duties	88 ½	118 ½
	286 ½	353 ½
Other tax changes (including income tax relief)	— 14 ½	.. [1]
	272	(340)

1 Difficult to estimate.

ture programmes for 1968/69 and 1969/70 were announced in November 1967 and January 1968. As a result, the financial position of the public sector has changed markedly—from a deficit (net borrowing requirement) of more than £2 billion in 1967/68 to an estimated surplus of £ 331 million in 1969/70. The change primarily reflects a swing of more than £2 billion in the financial position of the Central Government—from a deficit of almost £1.5 billion in 1967/68 to an estimated surplus of nearly £600 million in 1969/70. The total swing amounts to about 5 per cent of GDP and the demand impact, although smaller, is also important.

Monetary Policy

The fiscal changes that accompanied the devaluation were mainly designed to affect the financial year 1968/69. As a more immediate step to bring speculative outflows of short-term funds to an end, restore confidence in sterling, and restrain growth of domestic demand, principal reliance was placed upon monetary policy. Bank rate was raised to a new crisis level of 8 per cent, hire purchase terms were tightened anew, and ceilings on bank advances to the private sector, with some exemptions, were reimposed.

The use of monetary policy for demand management purposes was, however, subject to important constraints. The gilt-edged market was unsettled and depressed throughout this period. On the one hand in the United Kingdom, as elsewhere in the world, expectations of continuing inflation led investors to prefer equities and real assets to fixed debt securities. Moreover, the upward trend in interest rates abroad together with outbreaks of international monetary uncertainty led to heavy selling of Government debt, particularly by the non-bank private sector. Faced with these pressures, and convinced that the long-term aims of debt management are best served by preserving an orderly market in which the ready marketability of gilt-edged can be assured, the United Kingdom monetary authorities felt obliged on occasion to support the market; interest rates rose throughout the period therefore, but rather slowly. There was also some reduction in national savings in the period so that over 1968 as a whole the non-bank private sector's holdings of Government debt fell by £318 million compared with net purchases of £275 million in 1967. These debt sales in 1968 implied a considerable increase in the liquidity of the private sector.

In the area of bank lending to the private sector, the authorities imposed quantitative ceilings. Restrictions on hire purchase introduced at the time of the devaluation were adjusted in May and further tightened in November 1968. Simultaneously, the authorities endeavoured to cover a broader range of credit institutions. The import deposit scheme, introduced in November, put further pressure on the liquidity of the banks and the company sector. To influence spending of the private sector, the main emphasis, apart from fiscal policy, was placed on direct control of domestic bank lending, rather than on changes in total money supply and interest rates.

Total bank credit extended to the private and public sectors combined was smaller in 1968 than in 1967, but it remained on the high level of previous years. In 1968, however, almost the whole expansion was to the private sector. Bank lending to the public sector increased only marginally because the central Government borrowing requirement was more than matched by receipts of sterling arising from the deterioration in the balance of payments. The total flow of credit, including funds raised in money and capital markets, by the personal and business sectors combined, was much larger than in 1967. Monetary conditions, despite apparently strong measures of restraint, therefore remained easy for most of the period, thus bringing into question the adequacy of credit controls which applied only to a portion of bank assets and to part of the total credit and capital market.

However, monetary policy was tightened further in 1969. In its Letter of Intent to the International Monetary Fund the Government adopted the concept of "domestic credit expansion" as a monetary indicator. They regard DCE as establishing a link between bank lending, the fiscal surplus and the total foreign balance. Thus, provided DCE is on course, there is a general presumption that monetary and fiscal policies are working in harmony with each other, and that monetary policy is properly adapted to developments in the balance of payments. In fact, monetary policy in 1969, whether measured by the flow of credit or the movement of interest rates, has been considerably more restrictive than in 1968. During the first half of 1969, the money supply fell by 1.4 per cent at a seasonally adjusted annual rate. The marked change in the financial position of the Central Government, entailing reduced public sector demand for credit, has enabled some increase in credit to the private sector without undue expansion of the total credit volume. Interest rates have risen appreciably. In September the yield of gilt-edged stock was 1 percentage point higher than in December 1968, and the Treasury bill rate showed a similar increase. Many rates showed a sharper rise.

A more thorough study of monetary developments since the devaluation, with observations on the policy pursued and the implications of the new measure of domestic credit expansion, is contained in Annex I to this Survey.

III PROSPECTS

The present assessment is made on the assumption that existing policies are maintained throughout the remainder of 1969 and in 1970. It is assumed that the growth of public expenditure will be maintained within the limits of the public expenditure programme published in February 1969 and that there will be no further change in taxation. This would entail a further considerable fiscal surplus in 1969/71, which would greatly facilitate the implementation of monetary policy. Monetary conditions are expected to become tighter in the next few months, and it is assumed that a stringent policy will be continued in the next fiscal year.

The expansion of world trade seems likely to slow down next year by about half from the exceptionally high rates experienced over the last two years. The OECD countries' export markets may grow by some 10 per cent, after a probable increase of 16 per cent in 1969. The United Kingdom's export markets may grow by an approximately similar rate. Although US imports, which weigh heavily in British exports, are expected to decelerate, world trade conditions as a whole should provide a good prospect, on the basis of gains already made in 1969, for consolidating the balance of payments position.

The competitive position of British industry, so far as costs are concerned, would seem to remain favourable, and the flow of new export orders has been very buoyant this year (see Diagram 4). A less favourable element, however may be the fact that the degree of capacity utilisation in the export industries has been increasing, though it is still below the peak level of 1966. This, together with the growing number of working days lost because of strikes, raises the question of how far

Table 14 **Forecast of Output and Demand**

Volume, per cent change between second halves of 1969 and 1970

	1969 I outcome £ million, 1963 prices	1969 II to 1970 II
Private consumption	11 247	2.5
Public consumption	2 912	0.7
Fixed investment	3 376	4.1
Final domestic demand	17 535	2.5
Stockbuilding	164	0.3[1]
Foreign balance	−43	−0.1[1]
GDP at market price	17 656[2]	2.6
GDP price deflator	—	2.8
Exports of goods and services	3 811	3.6
Imports of goods and services	3 854	4.4

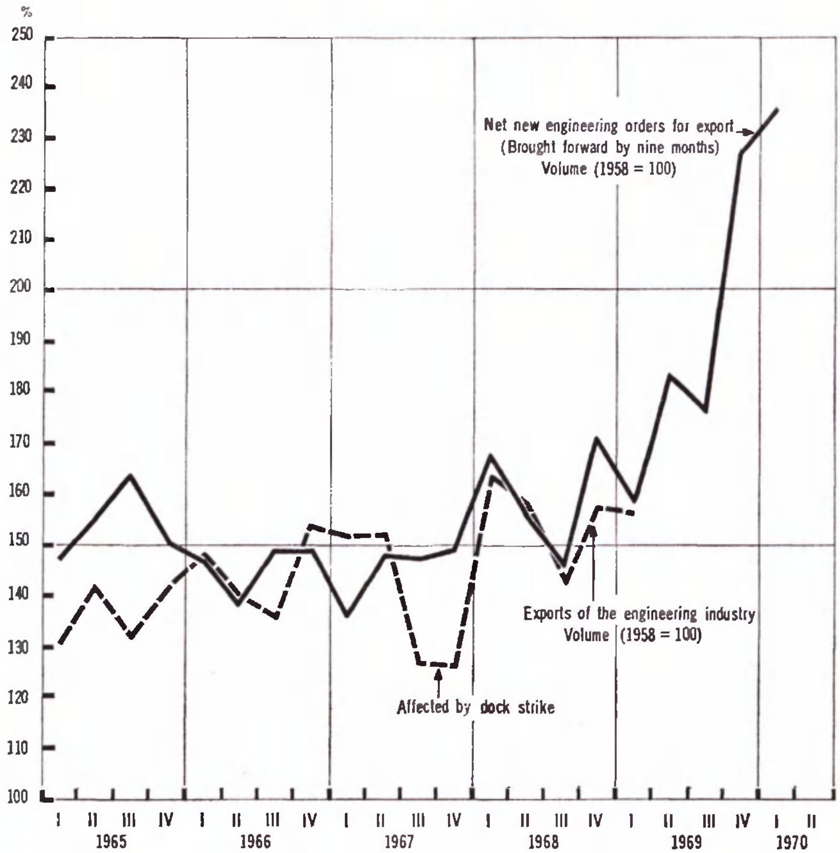
1 Change in stockbuilding and foreign balance as per cent of GDP.
2 Compromise estimate of GDP. This is the weighted average of three GDP estimates — Expenditure, Output, and Income — the weights assigned being 40 per cent, 40 per cent and 20 per cent respectively. The difference between the compromise and the expenditure estimates is distributed amongst the various components of GDP at the forecaster's discretion.

Source : Secretariat estimates.

British industry will be able to take advantage of the growth in world trade. Some loss of market shares has therefore been assumed for 1970, although a much smaller loss than experienced in the pre-devaluation period. The volume of exports of goods and services might rise by about 3 ½-4 per cent between the second halves of 1969 and 1970, compared with perhaps over 8 per cent in the preceding 12-month period.

On the assumptions adopted, the growth of public sector purchases of goods and services should remain moderate. Public housing has fallen this year, but the authorities seem to be planning for a recovery next year. Prospects for private sector fixed investment are very uncertain. Investment seems to have recovered in the second half of this year following the weak trend in the first half, and recent surveys suggest that industry's plans remain buoyant. Profits have remained on a high level

Diagram 4 **Export and Net New Export Orders of the Engineering Industry**
Excluding motor vehicles; seasonally adjusted



Source : Board of Trade Journal.

this year, the pressure on capacity is strong in many industries, and the balance of payments performance may have improved business confidence in future expansion. But how far tighter monetary conditions will limit the rise in business fixed investment is very uncertain. It has been assumed that credit policy will represent a real constraint on capital expenditures. But given the buoyancy of present intentions, a rise of private non-residential fixed investment by as much as 6-7 per cent over the next twelve months may be a reasonable estimate[1].

1 The August-September Board of Trade Enquiry into Investment intentions suggests a 10 per cent underlying rise in manufacturing investment between 1969 and 1970.

Private residential construction has fallen considerably this year, reflecting shortage of mortgage funds. The inflow of funds to the building societies improved in the second quarter of this year following the increase in their deposit rates in April, but the better trend was not sustained in subsequent months. Nevertheless, a further sharp fall in private house-building would seem unlikely; it has been assumed that it will remain virtually flat between the second halves of 1969 and 1970.

Private consumption may resume a somewhat faster rate of growth, given the assumption of no further change in taxation. Even with the maintenance after 1969 of the existing ceiling on pay increases, hourly earnings may rise faster than the 3 ½ per cent per annum provided by the ceiling. Wages and salaries per employed person may have risen by 6 ½ to 7 per cent over the last twelve months, a period with relatively strong increases in prices. The price rise is likely to be more moderate from now onwards, but since formal arrangements governing incomes policy have been relaxed somewhat, it is unlikely that the rate of growth of wages and salaries per employed person will diminish from now on. Employment may not change much, given the outlook for output, and the personal savings ratio is assumed to change little. Total disposable income may rise by a little more than 5 per cent. Given the expected rise in wages and salaries, no increase in the overall pressure of demand, and a levelling out of the rise in import prices, consumer prices are expected to increase by a little less than 3 per cent over the next twelve months. On this basis, private consumption could expand by about 2 ½ per cent.

With regard to stockbuilding, the forecast reflects what is considered to be the typical stock increase when output grows at about capacity rates but when tightening monetary conditions induce a rather lower level of business stocks than would otherwise have been the case.

On these assumptions, aggregate demand (total domestic demand plus exports) could rise by about 3 per cent. The rise of imports would seem likely to accelerate somewhat. The flat trend in the volume of imports since early 1968 may have reflected two broad tendencies—a rising propensity to import offset by the effects of devaluation. As the devaluation effect wears off, the tendency for the import propensity to rise may reappear. Imports may therefore rise more rapidly than earlier. The volume of imports of goods and services is expected to increase by 4 ½-5 per cent between the second halves of 1969 and 1970. Domestic output may therefore rise by about 2 ½ -3 per cent. As productive capacity may be growing at about this rate, there should not be much change in the pressure on resources.

The current account of the balance of payments would seem likely to show some further improvement over the next year. On the basis of the demand forecast in real terms discussed above, there would not be any further switch of resources to the foreign balance; imports of goods and services are assumed to rise somewhat faster than exports of goods and services. With regard to the balance of merchandise trade (including imports of US aircraft) no further improvement is expected between the second halves of 1969 and 1970, as both exports and imports are thought likely to rise in value terms by about 6 per cent. But net invisible earnings would seem likely to rise further, the improvement mainly reflecting higher net earnings on tourism, civil aviation, insurance, and interest, profits and dividends. The current account surplus could increase to more than $1 billion in 1970. The long-term capital account is difficult to forecast, as it depends heavily on monetary conditions and

Table 15 **Balance of Payments Forecast**
Value, $ million

	Outcome 1969 I	Estimate 1969 II	Forecast[1] 1970 I	1970 II
Seasonally adjusted				
Exports	8 047	8 750	9 050	9 250
Per cent change[2]	6.9	18.2	6.9	4.5
Imports[3]	8 546	8 800	9 100	9 350
Per cent change[2]	2.6	6.0	6.9	5.6
Trade balance	−499	−50	−50	−100
Services and transfers, net	722	550	650	700
Current balance	223	500	600	600
Long-term capital	−108			
Basic balance	115			

1 Secretariat forecast.
2 Over previous period at annual rates.
3 Including progress payments on military aircraft purchases from USA.

interest rates both in the United Kingdom and abroad. But with the assumptions on which this forecast has been based—continued tight conditions in Britain—the net outflow of long-term capital might not be very great, if long-term borrowing by private and public enterprises abroad is continued, and as confidence in sterling recovers. There are thus reasonable prospects that the immediate target of a surplus on current and long-term capital account of $720 million (£300 million) in the fiscal year ending March 1970 will be attained. It should be within the reach of policy to achieve the original target of a £500 million surplus, at an annual rate, not long after the end of calendar 1969.

IV CONCLUSIONS

In the last few months the United Kingdom balance of payments has run large surpluses on current account and probably also in the basic balance. The marked improvement from only a year ago can to some extent be ascribed to exceptionally favourable external circumstances: the growth of United Kingdom export markets in 1969 has been very rapid; the pressure on resources in some important competing countries, notably Germany, has been very strong, with bottlenecks and long delivery dates; and costs have been rising sharply in some countries. But it is also clear that UK policies this year have enabled advantage to be taken of the situation. With the considerable tightening of fiscal and monetary policies, the rise in domestic demand has been moderate, providing room in the economy for an intensified shift of resources to the balance of payments. Moreover, the post-devaluation rise in labour costs has been kept within reasonable limits so that much of the competitive advantage resulting from the devaluation has been maintained.

The main concern of economic policy must now be to consolidate the current favourable trends in the economy so that a further strengthening of the balance of payments can be achieved. The forecast discussed above suggests that, on a "no-policy-change" basis, a surplus on the current account of the balance of payments of around $1.2 billion could be achieved in 1970. This, though a large turnaround over a period of two years, would not be excessive in relation to the need to repay debt (unless there were an important net inflow of long-term capital). The desirability of abolishing as soon as possible the import deposit scheme and the limitation on the foreign exchange allowance for travel to non-sterling area countries underlines the need for a further strengthening of the foreign balance. This suggests that no important acceleration of the growth of domestic demand will be possible. Nonetheless, the degree of austerity required by such a forecast for the external balance would not seem extreme: private consumption would be able to grow, in real terms, almost as fast as during the 1960/66 period.

The need to keep the growth of public expenditure and private consumption within narrow limits will call for a continuation of firm fiscal policies. It is important that public spending should be kept within the expenditure programme adopted for 1970/71. It does not at present appear likely that there will be much scope for a decrease in taxation affecting private consumption; even with unchanged taxation, consumers' expenditure may rise almost as fast as output over the next twelve months.

The maintenance of tight credit conditions may also be of particular importance in existing circumstances. If monetary policies are relaxed, an excessive boom in business fixed investment might well develop. An increase in the rate of investment is desirable from a longer-term point of view, but the movement to a higher rate must not be so rapid as to entail excessive pressure on resources and endanger the improvement of the balance of payments. It is therefore important that credit conditions should remain as tight as is necessary to prevent undue pressures on the economy, and they should not be too much influenced by the possible advent of easier monetary conditions abroad.

Manpower policy would also seem to have an important role to play in the present situation, especially given the uneven pressure of demand as between industries and regions. There has been an increase in demand for skilled labour in the engineering sector which accounts for about one-third of merchandise exports, while easier conditions prevail elsewhere. In seeking to enlarge the capacity to export, importance attaches to schemes relating to the retraining and mobility of labour. Moreover, alleviation of labour shortages could help to ease the pressure on labour costs and facilitate the operation of incomes policy.

Although the effects of incomes policy are difficult to measure, there are indications that the energetic efforts made in recent years to increase productivity and limit the rise in nominal incomes have served to moderate the rise in labour costs. The statutory powers, introduced in August 1966, to support the voluntary application of prices and incomes policy are due to expire at the end of the present year, reducing the Government's power to deal with breaches of voluntary restraint. There could therefore be some fear of a faster increase in wages and incomes. This would be unfortunate, particularly if the present active use of disinflationary policies in other countries succeeded in restoring more stable trends elsewhere. The devaluation was made necessary by a large external deficit, reflecting essentially the fact that costs and prices were too high. The improvement in the relative competitive position brought about by the devaluation has so far been well maintained. But this is partly because of the rather strong rise in costs in other countries, which may prove temporary.

Annex I

A NOTE ON MONETARY DEVELOPMENTS IN BRITAIN SINCE DEVALUATION

A major objective of British policy since devaluation has been to restrain the growth of domestic demand sufficiently to produce a substantial improvement in the balance of payments on current account. Although greater reliance has been placed on fiscal than on monetary measures, there has been a considerable shift of emphasis, particularly in 1969, towards the latter.

Developments prior to the Devaluation

Under the combined impact of deflationary measures and a weaker demand for UK exports, economic activity levelled off in the second and third quarters of 1967, with seasonally adjusted unemployment continuing the upward trend which began in mid-1966. Consequently, the emphasis of policy was progressively shifted towards reflation. Bank rate had already been lowered in three steps from 7 per cent at the beginning of the year to 5 ½ per cent in early May, and hire-purchase terms were progressively relaxed. With bank rate at this relatively low level, and with renewed weakening of the balance of payments, prospects for a further decline in interest rates and consequent rise in the price of gilt-edged appeared remote, and the private sector—bank and non-bank—considerably decreased its holdings of long-term government securities[1]. Gilt-edged liquidation by the non-bank private sector and the need to finance a growing budget deficit were the principal factors leading to an expansion of bank credit to the public sector which, in the last three quarters of the year, amounted to £800 million, compared with £640 million in the same period of 1966[2]. With the withdrawal of the ceiling on bank lending in April, and no action to moderate the latter by

1 The private—bank and non-bank—sector liquidated nearly £400 million of long-term securities in the second and third quarters of 1967 after absorbing more than £1 billion worth of stock in the fourth quarter of 1966 and first quarter of 1967.

2 Net figure, including currency holdings and long- and short-term debt. Of the £800 million in 1967, £480 million consisted of Treasury bills acquired by the banking system (excluding the Bank of England).

influencing the amount of cash available to the banking system, bank credit to the private sector also rose rapidly, so that total lending[1] reached £1,149 million in the last three quarters of 1967, compared to only £365 million in the corresponding period of 1966.

As a result, the seasonally adjusted annual rate of increase of the money supply accelerated from around 6 per cent in the first quarter, to 11 per cent in the next three quarters. For the year as a whole[2], the rate of increase reached 9.8 per cent, compared with 4.2 per cent in 1966.

Since the balance of payments deficit was also much larger in the last three quarters of 1967 than in the same period of 1966, the rise in domestic credit expansion[3]—from £916 million to £2,186 million—was even greater than the rise of the money supply.

Bank rate was raised from 5 ½ to 6 per cent on October 19th and to 6 ½ per cent on November 9th, in view of the sharp deterioration of the balance of payments. Short-term interest rates followed Bank rate, while long-term rates were allowed to rise, albeit slowly, in the face of the private liquidation of gilt-edged stocks already mentioned.

But by all the customary measures, monetary conditions were relatively easy almost up to the time of the devaluation, and the result was, as stated in the 1968 OECD Economic Survey, that "by the end of the year most sectors were well placed to increase their spending and lending"[4].

Monetary measures accompanying the devaluation

The devaluation of the pound in November 1967 was accompanied by a package of restrictive fiscal measures mainly affecting the financial year 1968-69, and the immediate application of a more restrictive monetary policy. Since the bulk of the new fiscal measures would not become effective for several months, principal reliance was placed at

1 To UK residents and in sterling to overseas residents, as defined for purposes of calculating DCE.

2 December over December.

3 Domestic credit expansion is equal to the sum of bank lending to the private and public sectors, changes of currency in the hands of the non-bank public, and overseas lending to the public sector. This last item can take the form of reductions in gold and foreign exchange reserves, as well as credit received by the public sector from foreign official institutions and other overseas sources (including changes in foreign holdings of marketable public debt).

4 Because building society rates were left unchanged in the early months of 1967, while other competing rates fell, building society inflows were exceptionally high in the second, third and fourth quarters of 1967 leading, with a lag of two quarters, to a sharp expansion of their lending activities. This had its principal effect on construction activity (private dwellings) with a lag of another quarter, that is in late 1967 and in 1968.

first upon monetary policy to bring about the desired degree of tightening to enable a significant shift of resources to improve the balance of payments. Bank rate was raised to a new crisis level of 8 per cent. Hire-purchase terms were tightened anew. A ceiling on bank lending to the private sector was reimposed—banks being requested to hold their aggregate sterling lending to the private sector and to borrowers abroad at existing levels, with allowance for seasonal variations, and with credit associated with exports and shipbuilding exempted.

Volume of Money and Credit in 1968

In spite of generally higher interest rates than in 1967 and the ceilings on bank credit, most aggregate measures of money and credit increased during 1968 at rates that were relatively high by historical standards, and in some cases higher than in 1967—a year of relatively easy monetary policy.

Total bank credit extended to the private and public sectors combined in 1968 (£0.7 billion) was smaller than in 1967 (£1.1 billion), but approximately equal to the 1963-67 average (see Table 1)[1]. The 1968 expansion was almost entirely accounted for by credit to the private sector, which amounted to £681 million compared to £562 million in 1967, in spite of the fact that during that year the ceiling on bank lending was apparently observed[2]. The central government's borrowing requirement—down from £1,134 million to £751 million (see Table 2)—

1 "Bank lending" as defined for purposes of calculating domestic credit expansion. This magnitude cannot be expressed in terms of percentage changes since stock figures are not published. A roughly similar concept of bank credit, excluding the Banking Department of the Bank of England and non-interest-bearing government debt, increased in 1968 (December to December) by about 5 per cent, compared to about 9 per cent in 1967 and only 2 per cent in 1966.

2 In May 1968, all banks were requested to respect a new ceiling on lending to the private sector and to overseas borrowers in sterling — 104 per cent of the November 1967 level (seasonally adjusted). Lending to priority sectors — export finance and shipbuilding credits — exempted from the restrictions imposed in November 1967 was included. London clearing banks and Scottish banks were also asked to ensure that their lending to local authorities (which had risen appreciably since November 1967) would return to "normal levels". In November 1968, export and shipbuilding credits were again exempted (under more rigid definitions than formerly), and the clearing and Scottish banks were asked to reduce their remaining lending to the private sector to 98 per cent of the mid-November 1967 level by March 1969. The ceiling for other banks was fixed at 102 per cent of the November 1967 base. Finance houses were also asked to reduce their lending by March 1969 to 98 per cent of the figure at the end of October 1967. During much of 1969, the ceilings were not observed by the clearing banks despite the introduction (at the beginning of June) of a penalty for non-compliance—a reduction by half in the rate of interest paid on the special deposits maintained by the clearing banks with the Bank of England. The figures cited in the text include bank assets not subject to the ceilings.

was more than covered by the increase in the balance of payments deficit. But the "opportunity" of using the sterling proceeds of the overseas financing to reduce bank-held public debt was lost as the non-bank private sector reduced its holding of central government debt (excluding currency) by £318 million, compared to net acquisitions of £275 million in 1967.

This swing in the non-bank private sector's net purchases of government debt was facilitated by official support of the gilt-edged market (though at continually declining prices during the year). The motive underlying this support was, probably, that it would—at least over the longer run—aid in achieving the "Government's policy to meet its own needs for finance as far as possible by sale of debt to the non-bank public"[1]. The desire of the public to reduce its holding of gilt-edged —interrupted only temporarily in the third quarter—presumably reflected in part a trend, evident elsewhere in the world, towards a preference for equities and real assets over fixed interest securities. In the UK case, this trend was enhanced by growing evidence that progress in solving the balance of payments problem was slower than hoped for, which in turn led to expectations—justified in the event—of further monetary tightening and higher interest rates.

In 1968, the somewhat slower expansion of total bank credit to the economy was accompanied by a roughly similar slowdown in the growth of the money supply—from £1.3 billion in 1967 to £1.0 billion in 1968. This deceleration of the annual rate of growth (from 9.8 per cent in 1967 to 6.6 in 1968) was in accord with the policy announced at the time of devaluation. That objective, however, had been fixed in the expectation of a "substantial recovery in reserves"[2], which would have had a correspondingly expansionary effect on the money supply. In the event, therefore, it is clear that the expansion of bank credit to domestic borrowers was far larger than originally contemplated, since the anticipated recovery in reserves failed to occur; the loss of reserves plus direct overseas borrowing by the central government from official institutions was in fact £502 million higher in 1968 than in 1967[3].

The quarter-by-quarter growth of the money supply was rather erratic, even on a seasonally adjusted basis. Its growth (at annual rates) accelerated from just above 3 per cent in the first quarter to nearly

1 Letter of Intent to the International Monetary Fund, Hansard, Vol. 755/1967, No. 23, col. 648 ff.

2 *Ibid.*

3 Financial Statistics, August 1969, Table 16: sum of the 10th and 11th columns.

10 per cent in the second quarter, decelerated to less than 2 per cent in the third quarter and accelerated again to above 12 per cent in the final quarter of 1968. This pattern, to a large extent, reflected variations in bank lending to the private sector, as well as the official support of the gilt-edged market, though the yield on gilts was progressively allowed to move upward. Selling pressure on the gilt-edged market was particularly strong in the second quarter and in the fourth quarter, especially at the time of the Franc/Deutschemark crisis; in each of those quarters the public (including the banks) liquidated over £400 million of marketable government securities. Of these amounts, the Bank of England's acquisitions from the domestic non-banking sector amounted to £100 million in the second quarter and about £200 million in the fourth[1].

The rate of growth of the money supply usually quoted (and used so far in this note) refers to changes in the stock of money from the beginning to the end of a period. The average level of the stock of money during any given period is probably more meaningful—in terms of its impact on the economy—than the level at any arbitrary moment. On this basis, the money supply grew at an annual rate of 6.7 per cent from 1965 to 1966, 6.1 per cent from 1966 to 1967 and 9.7 per cent from 1967 to 1968—the high rate of growth of the average money supply in 1968 resulting largely from the increase in the stock of money during the course of 1967.

The income velocity of circulation of money—defined as the ratio of GNP at current market prices to the annual average stock of money—continued the gentle decline begun in 1966, falling from 2.94 in 1965 to around 2.86 in 1968. Since the growth of the money supply accelerated in 1968, the decline in velocity had a somewhat offsetting effect[2].

The impression of relative monetary ease in 1968 that is gained from an examination of the bank credit and money supply data is

1 Based on figures for bank "make-up" dates, around mid-month.

2 See National Institute Economic Review, August 1969, Table 7, page 48. This pattern of behaviour of velocity, however, does not seem to originate from the activity of non-bank financial intermediaries. In the post-devaluation period the behaviour of money supply and liquidity (see definition in footnote on page 42) was very similar, indicating that non-bank financial intermediaries did not play any short-term destabilising role. In other words, the slower rate of growth of the money supply was not accompanied by any offsetting acceleration in the growth of liabilities of building societies or hire-purchase finance companies. In fact the growth of deposits and shares of building societies accelerated sharply in 1967 and again in the fourth quarter of 1968 when the growth of bank deposits and the money stock was also accelerating; it decelerated in the first three quarters of 1968 when bank deposits were also slackening. This similarity of short-term developments in liquidity and money supply coincides well with long-term developments reported in academic studies.

enhanced by the behaviour of the newly adopted measure "domestic credit expansion". In any economy, but especially in one with a relatively large foreign sector, an expansion of bank credit may lead, to a significant extent, to an external deficit and loss of reserves rather than to an increase in the money supply. In such a case, the rate of growth of the money supply may overstate the restrictive effect of monetary policy. This is particularly unfortunate when the major goal of the authorities is the correction of a balance of payments deficit. These considerations obviously apply to the recent UK experience, and led to the adoption, in 1969, of the concept of domestic credit expansion (DCE) as a principal indicator of monetary policy. The crucial point is that while an expansion of domestic bank credit, to the extent that it results in an external deficit (i.e. a decline in net official reserves) leaves the money supply unaffected, it always increases DCE. Conversely, a balance of payments surplus or deficit affects the money supply but not DCE[1].

The assessment of monetary policy and credit conditions on the basis of DCE confirms that 1968 was indeed a year of easy credit conditions. DCE amounted to as much as £1.9 billion, compared with £1.8 billion in 1967 and £0.8 billion in 1966.

Flow of Funds

While 1968 saw a faster rise than in 1967 for both the money supply and DCE, there was a considerable drop between the two years in the total flow of credit[2] to final spending units (the personal sector, non-financial companies and the consolidated public sector). Credit received by the public sector fell appreciably (see Table 3) because of declines in both the central government's borrowing requirement[3] and the needs of local authorities and nationalized industries to borrow from sources other than the central government. But credit received by the personal sector did not fall much. And credit to non-financial companies rose significantly.

This break-down of the total flow of credit thus confirms the picture of a fairly easy monetary situation in 1968. The contraction of borrowing reflected restraints emanating from fiscal rather than monetary policy.

1 Therefore, if a country commits itself to a maximum DCE for a given period and its balance of payments turns out worse than expected, it will have to reduce pro tanto the increase in its money supply, and its major counterpart, bank credit. If its balance of payments turns out better than expected, it will be able, if it so wishes, to allow the money supply to increase more rapidly.

2 Including funds raised in money and capital markets.

3 Of nearly £400 million (see Table 2). As in the case of DCE, sales of gold and convertible currencies are treated as borrowing.

Restrictive monetary conditions would be likely, in the main, to have affected expenditure by the private sectors, and here 1968 saw small change in borrowing by households and a substantial acceleration of non-financial corporate borrowing.

Interest Rates

On the surface the evolution of interest rates in 1968 points to much tighter credit conditions than implied by the quantitative indicators discussed above. The yield on long-term government securities rose from 7.1 per cent in December 1967 to over 8 per cent in December 1968 (see Table 4). Similarly, the yield on long-term private securities rose from 7.9 to 9 per cent. However, Bank rate was decreased from 8 per cent to 7 ½ per cent in March and to 7 per cent in September. Since the rate on advances of clearing banks is pegged to Bank rate—with the prime rate then set at one half of a percentage point above Bank rate (since October 1st, 1969, 1 percentage point)—the cost of bank credit declined in absolute terms and even more in relation to the yield on securities. This widening gap between the cost of borrowing from banks and from the capital market is likely to have artificially inflated the demand for bank advances and made it more difficult for banks to respect the credit directive, especially after November 1968 when the ceiling was lowered.

Thus, the movement of interest rates in 1968 was by no means uniformly upward. But even a general increase in interest rates does not necessarily imply an effective tightening of monetary policy if, at the same time, other factors are causing the demand for credit to increase and if prices are also rising rapidly. An increase in interest rates depresses aggregate demand only if it makes borrowing less attractive, and this depends, among other things, on price expectations, which, in turn, are generally believed to be heavily influenced by recent price changes. Correction of the nominal interest rate by the rate of inflation suggests that the real cost of borrowing (expected real interest rate) rose in the United Kingdom in late 1967 and early 1968 but may then have declined somewhat before resuming an upward trend at the end of the year[1].

1 For example, the nominal interest rates on company debenture and loan stocks shown in Table 4 were corrected for inflationary expectations by deducting the average increase in the implicit GDP price deflator during the previous four quarters. The resulting "real" interest rate increased in late 1967 and early 1968, reaching a high of about 6.8 per cent in the first quarter of 1968. It then declined to a low of 4.5 per cent in the third quarter, but resumed an upward trend thereafter, exceeding 5 per cent in the first quarter of 1969. Other techniques for deriving the "real" interest rate give somewhat different results, but nearly all indicate a decline of the "real" rate in mid-1968.

Changes in holdings of liquid assets

The period immediately preceding and following the devaluation of the pound was characterised by unusually high liquidity of the economy and of the private sector[1]. In 1965 and 1966, the saving ratio had been very high and the personal sector accumulated wealth and increased its net position in financial assets at a record pace. In 1967, personal saving and the saving ratio dropped; but the personal sector greatly increased its preference for liquidity and sold large amounts of government securities as well as corporate and overseas securities. At the same time, it greatly expanded its cash balances and, through the process of intermediation by non-bank financial institutions, lent heavily in short-term form and borrowed in long-term form. (This last development, by itself, left the net position of the private sector in financial assets—as well as in wealth—unchanged, but increased its liquid position).

To a certain extent, the build-up of liquidity in 1967 represented a typical cyclical development. In a period of economic recession or slack, the preference for liquidity increases and market interest rates with a cyclical behaviour fall, making the (less volatile) rates paid by building societies more attractive. These institutions receive a larger flow of savings, facilitating the financing of construction, which plays a countercyclical role. Proponents of the relevance of liquidity as a macroeconomic variable affecting demand also regard the high degree of liquidity of the economy typical of this phase of the cycle as a welcome element facilitating the revival of private consumption.

However, the build-up of liquidity in 1967 was probably due less to domestic cyclical considerations than to uncertainties and fears related to the balance of payments and the external position of sterling. In any event, the relatively high ratio of liquid assets to current income at the end of 1967—combined with the continued rapid expansion of money and credit during the course of the year 1968—was probably instrumental in the failure of monetary conditions in 1968 to tighten to a degree compatible with the intentions which the authorities announced (but not in precise quantitative terms) at the beginning of the year.

1 Liquidity is here defined in a broad sense to include the money stock, liabilities of building societies and hire-purchase finance companies, national savings, premium saving bonds, and Post Office and Trustee Saving Banks ordinary accounts. Liquidity increased from a low of about 58 per cent of GDP (at current market prices) in the fourth quarter of 1966 to a high of about 63 per cent in the first quarter of 1968. It then steadily decreased, reaching 61 per cent in the last quarter of 1968.

Developments in 1969

The failure in 1968 to achieve balance of payments goals, and the autumn exchange crisis, led to new monetary and fiscal measures in November[1] and again at the time of the 1969-70 budget. These measures, and the recognition in the Letter of Intent to the International Monetary Fund of a prospect for domestic credit expansion of £400 million during the financial year 1969-70, were taken to ensure that monetary and fiscal policy worked in harmony with each other. Moreover, the greatly improved fiscal situation[2], by converting the public sector from a net user of capital funds to a net supplier, has significantly helped to reduce the rate of money and credit expansion.

Total bank credit outstanding to the private and public sectors contracted by £492 million in the first six months of 1969, compared with a £75 million expansion in the same period of 1968. Bank claims on the public sector decreased by £889 million, reflecting mainly the favourable revenue season but also the improved underlying fiscal position of the central government, while credit to the private sector rose by £ 397 million. The reduction in public sector debt held by the banking system was £154 million greater than in the first half of 1968. At the same time, bank credit to the private sector expanded by £413 million less than in the corresponding period of 1968.

In spite of the pressure by the authorities to bring the clearing banks' advances to the private sector down to the ceiling, advances remained 1-4

1 Existing rates of purchase tax and several other taxes were raised, the target for bank lending to the private sector was revised, and an import deposit scheme was introduced, originally, for one year. The proceeds of the latter scheme, which are deposited on arrival of the goods and repaid 180 days later, are included in government receipts, reducing the borrowing requirement. Designed to discourage imports and to draw off liquid funds available to importers, the scheme also stimulated short-term borrowing from abroad, particularly in its first weeks, before the announcement that importers would no longer be allowed to borrow from overseas for this purpose. UK banks were requested to give very low priority to financing import deposits. In the first five months of 1969 the yield of import deposits averaged £93 million a month, but, as repayments of earlier deposits fell due, there was a sharp decline in net yield after May. In August and particularly in September, when the schedule of repayments was accelerated, the net yields were negative. By end-September 1969 the net amount of import deposits collected since November 1968 was £557 million.

2 The surplus (negative borrowing requirement) of the central government amounted to £1,454 million and that of the total public sector to £1,199 million in the first quarter of the calendar year. The central government had a surplus of £236 million even in the second quarter, for the first time in many years. The large public sector surplus in the first half-year was reflected in its repayment of both external and domestic debt. Net overseas redemptions amounted to £264 million, and net domestic repayments to about £1,050 million.

per cent above the limits on make-up dates. In August 1969 they were £220 million, or 4 ½ per cent, above the target, the largest excess since the present ceiling was imposed in November 1968[1], and the excess was maintained in September and October.

Money supply, which had increased by £205 million during the first half of 1968, fell by £378 million in the first half of 1969, mainly reflecting the contraction in bank lending brought about by the big improvement in the central government borrowing requirement and, from April, a recovery in the gilt-edged market. Seasonally adjusted, the annual rate of decrease was 1.4 per cent (a growth of 1.8 per cent per annum during the first quarter but a fall of 4.8 per cent during the second quarter).

Total credit extended by the London clearing banks declined at an annual rate of about 5 per cent from December to July, compared to an increase of about 5 per cent per annum during the corresponding period a year earlier. Had the ceilings on bank lending been observed, with no offsetting increases in other bank assets (which would have been by no means certain), the decline in money supply and total bank credit so far in 1969 would have been even more substantial.

As overseas lending to the public sector was negative to the extent of £ 264 million in the first half of 1969, the swing in DCE was considerably larger than that in domestic bank credit and money supply—from £1,001 million in the first half of 1968 to a negative £704 million in the first half of 1969, a change of £1,705 million. The shift in the fiscal position made this swing possible, while still allowing for an increase in bank lending to the private sector. Bank lending to private and overseas sectors amounted to £397 million in the first half of 1969, against £ 810 million a year earlier.

By letting interest rates rise, with a consequential lowering of prices, particularly in the long-term sector, the authorities discouraged private liquidation of government stock. The non-bank public had reduced its holdings of gilt-edged in the first quarter by £193 million. The markets revived following the Budget, to some extent because of the exemption from capital gains tax of gilt-edged transactions announced in the Budget, but more probably because of a growing presumption that interest rates had about reached their peak and would be more likely to fall than to rise in the immediate future. In the second quarter the non-bank private

1 See footnote 2 on page 37.

sector acquired £108 million of gilt-edged while the banking sector's holdings of gilts continued to fall throughout the first six months of the year.

Full information concerning the total flow of credit to final spending units is not yet available for the first half of 1969, but to judge from the first quarter figures and other developments, there has been a decline from the 1968 rate. Net credit received by the personal and public sectors has clearly been contracting, but the flow to non-financial companies has been at least as strong as in 1968. The large central government surplus and the squeeze on personal loans has enabled domestic credit expansion to be contained within the target despite a substantial growth of credit to non-financial companies.

By September, the yield on gilt-edged stock was about 1 per cent higher than in December; over the same period the yields on company debenture and loan stocks and local authority 90-day deposits rose by nearly 2 per cent. The rate on Treasury bills rose by 1 per cent when Bank rate, to which it is closely tied, was put up to 8 per cent again at the end of February. Faced by the rising trend in competing rates, the building societies raised their interest rate in April by ½ per cent and the mortgage rates by $^7/_8$ per cent. In September, it was announced that the rates charged on bank advances were to be raised by ½ per cent with effect from October 1st, without any corresponding change in Bank rate.

Rising interest rates abroad would probably have made some increase in United Kingdom rates inevitable in 1969. But a major consideration of the authorities in allowing rates to increase was the need to restrain the growth of domestic demand. The rise of United Kingdom rates was, in fact, greater in absolute terms than in several other countries; for example, the spread between UK and US (domestic but not Euro-dollar) rates has increased in the long-term sector by one full percentage point (see Table 4). The rise in nominal interest rates to new record levels has certainly exceeded any plausible increase in inflationary expectations, so that there can be little doubt that the "real" rate of interest has markedly increased.

The clearing banks have evidently encountered substantial difficulties in respecting the credit ceiling. The view has been expressed that the limits might be too severe, especially in months when large tax payments are made. In any case, available evidence on the behaviour of other monetary magnitudes indicates a sharp reduction in the rates of expansion from 1968 and the achievement of structural shifts in credit distribution in line with policy targets. Thus monetary conditions, as measured both by the cost and availability of credit, have been significantly more restrictive in 1969 than in 1968.

Concluding Remarks

The statistical evidence summarized in the present note supports the generally accepted judgement that monetary policy and conditions in the United Kingdom were too easy in 1968 to provide the intended contribution to overall demand management and balance of payments adjustment. Most strikingly, domestic credit expansion, at £1.9 billion, was slightly larger than in 1967. This reflected the degree of official support for the gilt-edged market, and the large increase in bank lending to the private sector.

The increase in the money supply—especially if measured on an annual average basis—also indicates that monetary conditions were relatively easy. Given the UK's underlying rate of growth of potential GNP (about 3 per cent), the strong monetary expansion that had taken place in 1967 and the difficult external position of the country, a reasonable target for the rate of growth of the money supply in 1968, if that were to be considered a desirable target variable for monetary policy, might have been about 4 per cent rather than the actual result of 6.6 per cent. About half of the difference of £400 million was accounted for by the increase in the money supply which originated from the support of the gilt-edged market[1]. A smaller increase in the money supply would, within the framework of the existing use of monetary policy instruments, have required some combination of the following policy actions:

(*a*) less support of the gilt-edged market;

(*b*) lower ceilings on the categories of bank credit covered by the restrictions;

1 The principal objective of British debt management policy is to maximize non-bank holdings of public debt and to lengthen as much as possible the maturity of such holdings. Presumably this objective is based not only on the desire to facilitate the management of a large, constantly maturing, and (until very recently) growing public debt but also the judgement that as high a proportion as possible of the public sector's borrowing requirement should be financed by attracting the savings of the non-bank public. The achievement of this objective can best be served, in the view of the British authorities, if the market for gilts does not suffer unduly abrupt changes in price over short periods of time. This, in turn, frequently requires fairly large-scale purchases by the authorities which, because of the resulting expansion in the liquidity of both the bank and non-bank sectors, may lead to short-run inflationary pressures. The authorities have, however, allowed the yield on long-term debt to rise rapidly in 1968 (especially in the second and fourth quarters) and in 1969. By mid-year, this policy — undoubtedly helped by the improvement in the fiscal and balance of payments situations — seems to have gone far enough to have brought a substantial return of buyers to the market.

(*c*) the application of ceilings on bank credit to the exempted categories or to some of them;

(*d*) less recourse to bank credit by the local authorities.

In 1969, monetary policy has clearly been considerably more restrictive, and there has been a significant improvement in the balance of payments. Both these developments probably owe much to the changed fiscal picture which, by reducing public sector demand for credit, enabled private investment to be financed without undue expansion of total bank credit. If these favourable trends continue, there should be room —within the DCE ceiling—for both money supply and bank credit to the private sector to rise at least a little more rapidly in the immediate future than in the first part of 1969. But no general relaxation of policy would yet seem warranted.

Recent experience, especially since November 1968, has revealed the shortcomings of ceilings on bank advances as a monetary weapon, at least as employed in the UK environment. In the first place, ceilings which apply to only a portion of the assets of the commercial banks cannot alone be relied upon to control the growth of total bank credit or the money supply. They may serve in some measure to hold the growth of bank credit to the non-bank private sector below what it would otherwise have been. But there may be some tendency to substitute exempt for non-exempt credits within the private sector. A more general objection to such a quota system is that it tends to inhibit competition and to freeze the relative positions of the institutions affected, thus presumably leading to a less than optimum use of resources. Moreover, the authorities in the United Kingdom have apparently not yet found a means to compel reasonably prompt compliance.

The example of many other countries raises the question whether the cash reserve ratio or the special deposit system or some other device could be used to manage the total (sterling) deposit liabilities of the banking system and, in consequence, total credit extended to the public and private sectors combined. The successful operation of such a system would depend basically on two conditions: the ability of the authorities to enforce and to vary the prescribed ratio and, more importantly, their ability substantially to affect if not actually control the quantity of eligible reserve assets at the disposal of the banking system. The latter, in turn, implies that the principal target variable of monetary policy would be the rate of growth of bank credit and the monetary stock, leaving interest rates—including the rate on long-term government securities—to be determined by the market. But these far-reaching questions would require further and detailed examination.

The attention given to "domestic credit expansion" cannot, in itself, resolve this underlying dilemma. In the immediate context, however, the combination of higher yields on gilt-edged, the changed fiscal situation, and the improvement in the balance of payments may enable the authorities again to become net sellers of long-term securities to the non-bank private sector. In such a situation, the task of confining the growth of total bank credit to the target limit would be greatly facilitated.

Table 1 **Bank Credit, Domestic Credit Expansion and Money Supply**
£ million

	Bank lending			Currency with non-bank private sector[2]	Overseas lending to public sector	DCE	Money supply[2]	
	Public sector	Private sector[1]	Total					
Calendar years :								
1967	571	562	1 133	125	500	1 758	1 309	
1968	56	681	737	52	1 104	1 883	987	
Financial years :								
1967/68	−26	741	715	106	1 446	2 262	1 239	
1968/69	93	601	694	69	413	1 176	919	
Quarters :								
1968 - I	−825	391	−434	39	485	90	−314	137[3]
II	90	419	509	61	345	915	519	331[3]
III	596	−352	244	−104	−69	71	100	60[3]
IV	195	223	418	56	343	817	682	459[3]
1969 -	−788	311	−477	56	−206	−627	−382	69[3]
II	−101	86	−15	−4	−57	−76	4	−184[3]

1 Including lending to overseas sector in sterling.
2 Change during period.
3 Seasonally adjusted figure.

Source : Bank of England Quarterly Bulletin, September 1969, and Financial Statistics.

Table 2 **Financing the Public Sector**

£ million

	Calendar years		Fiscal years		1968				1969	
	1967	1968	67/68	68/69	Q1	Q2	Q3	Q4	Q1	Q2
Public sector borrowing requirement:										
Central government	1 134	755	1 331	−273	−426	394	360	427	−1 454	−236
Other public sector	673	541	622	708	86	153	208	94	253	157
Total	1 807	1 296	1 953	435	−340	547	568	521	−1 201	−79
less: overseas lending	500	1 104	1 441	413	485	345	−69	343	−206	−57
equals: net domestic borrowing	1 307	192	512	22	−825	202	637	178	−995	−22
Financed by:										
Banking sector	571	56	−26	93	−825	90	596	195	−788	−101
Bank of England, Banking Dept.	−19	128	−131	177	−135	183	13	67	−86	−43
National debt[1]	250	−268	−140	−450	−727	−111	428	142	−909	−129
of which: stocks[2]	(233)	(−283)	(−110)	(−551)	(−47)	(301)	(299)	(−234)	(−315)	(−68)
Other public debt	340	196	245	366	37	18	155	−14	207	71
Non-bank private sector	736	136	538	−71	0	112	41	−17	−207	79
National debt[1]	409	−266	140	−457	−50	−78	−17	−121	−241	27
of which: stocks[2]	(286)	(−207)	(14)	(−425)	(25)	(−110)	(72)	(−193)	(−193)	(108)
Other public debt	327	402	398	386	50	190	58	104	34	52
Total domestic financing	1 307	192	512	22	−825	202	637	178	−995	−22

1 Including currency.
2 Gilt-edged.

Source: Bank of England Quarterly Bulletin, September 1969, and Financial Statistics.

Table 3 **Flow of Identified Credit**

£ million

	1967	1968	Swing
Credit received by the personal sector from :			
Banks	177	64	−113
Non-bank financial intermediaries	827	920	93
Others, including overseas[1]	92	7	−85
Total	1 096	991	−105
Credit received by non-financial companies from :			
Banks	291	645	354
Non-bank financial intermediaries	767	1 034	267
Others, including overseas[1]	−743	−878	−135
Total	315	801	486
Total credit received by the private sector[2] (non-consolidated) from :			
Banks	468	709	241
Non-bank financial intermediaries	1 594	1 954	360
Others, including overseas[1]	−651	−871	−220
Total	1 411	1 792	381
Total credit received by the public sector (consolidated) from :			
Banks	599	57	−542
Non-bank financial intermediaries	680	198	−482
Others, including overseas[1]	559	743	184
Total	1 838	998	−840
Total credit received by the private and public sectors from :			
Banks	1 067	766	−301
Non-bank financial intermediaries	2 274	2 152	−122
Others, including overseas[1]	−92	−128	−36
Total[3]	3 249	2 790	−459
DCE	1 758	1 883	125

1 In addition to overseas, "others" include: non-financial companies, the personal sector, the central government and local authorities.

2 This is the sum of the personal sector and the non-financial company sector.

3 These figures are derived from identified flows of credit and thus differ from total flows including unidentified items.

Source : Bank of England Quarterly Bulletin, Sept. 1969, and Financial Statistics.

Table 4 **Interest Rates in the United Kingdom and in Dollar Markets**

Per cent per annum

	Dec. 1967	1968 M	1968 J	1968 S	1968 D	1969 M	1969 J	1969 S	1969 Latest	1969 Date
United Kingdom										
A Bank rate	8.0	7.5	7.5	7.0	7.0	8.0	8.0	8.0	8.0	(7/11)
B Treasury bills	7.48	7.11	7.24	6.58	6.78	7.78	7.88	7.81	7.74	(31/10)
C Local authority 90-day deposits	7.81	8.06	8.13	7.41	7.75	8.88	9.38	9.88	9.44	(17/10)
D 2 ½ per cent Consols	7.06	7.18	7.75	7.45	8.05	8.69	9.25	9.12	8.86	(10/10)
E Company debenture and loan stock	7.93	7.98	8.17	8.36	9.00	9.67	10.77	10.84	10.77	(10/10)
The Dollar markets										
A Discount rate	4.50	5.00	5.00	5.25	5.50	5.50	6.00	6.00	6.00	(7/11)
B U.S. Treasury bulls	5.10	5.15	5.40	5.18	6.20	6.07	6.46	7.02	7.00	(3/11)
C 90-day Euro-dollar deposits	6.25	6.38	6.75	6.00	7.44	8.50	10.50	10.62	9.88	(17/10)
D U.S. long-term govt. bonds	5.35	5.42	5.15	5.09	5.82	6.07	6.04	6.41	6.34	(10/10)
E U.S. Corporate bonds A aa	6.19	6.11	6.28	5.97	6.45	6.85	6.98	7.14	7.37	(10/10)
Difference (U.K. rate minus dollar rate)										
A	3.50	2.50	2.50	1.75	1.50	2.50	2.00	2.00	2.00	(7/11)
B	2.38	1.96	1.84	1.40	0.58	1.71	1.42	0.79	0.74	..
C	1.56	1.68	1.38	1.41	0.31	0.38	−1.12	−0.74	−0.44	(17/10)
D	1.71	1.76	2.60	2.36	2.23	2.62	3.21	2.71	2.52	(10/10)
E	1.74	1.87	1.89	2.39	2.55	2.82	3.79	3.70	3.40	(10/10)

Source : National Statistics.

NOTE Rates in effect at or near end of period, except line E, which is a monthly average.

STATISTICAL ANNEX

Table A **National Product and Expenditure**

£ million

	1961	1962	1963	1964	1965	1966	1967	1968
				At current prices				
Private consumption	17 810	18 906	20 125	21 493	22 865	24 236	25 339	27 065
Public consumption	4 589	4 920	5 184	5 512	6 043	6 572	7 246	7 702
Fixed investment	4 619	4 731	4 916	5 854	6 303	6 707	7 262	7 798
Change in stocks	323	69	219	654	416	253	202	204
National expenditure	27 341	28 626	30 444	33 513	35 627	37 768	40 049	42 769
Exports of goods and services	5 370	5 504	5 815	6 109	6 532	6 969	7 125	8 610
less : Imports of goods and services	5 515	5 604	5 946	6 711	6 842	7 092	7 577	9 038
Gross domestic product at market prices	27 196	28 526	30 313	32 911	35 317	37 645	39 597	42 341
less : Net indirect taxes	3 057	3 296	3 487	3 945	4 422	5 055	5 211	6 074
Gross domestic product at factor cost	24 139	25 230	26 826	28 966	30 895	32 590	34 386	36 267
				At 1963 prices				
Private consumption	18 846	19 258	20 125	20 819	21 169	21 617	22 039	22 562
Public consumption	4 945	5 100	5 184	5 272	5 420	5 561	5 825	5 851
Fixed investment	4 847	4 829	4 916	5 717	5 949	6 102	6 525	6 791
Change in stocks	337	80	219	642	400	241	169	160
National expenditure	28 975	29 267	30 444	32 450	32 938	33 521	34 558	34 364
Exports of goods and services	5 487	5 578	5 815	6 029	6 314	6 555	6 564	7 321
less : Imports of goods and services	5 628	5 946	5 946	6 501	6 549	6 705	7 104	7 609
Gross domestic product at market prices	28 834	29 109	30 313	31 978	32 703	33 371	34 018	35 076
less : Net indirect taxes	3 342	3 346	3 487	3 752	3 755	3 871	4 026	4 222
Gross domestic product at factor cost	25 492	25 763	26 826	28 226	28 948	29 500	29 992	30 854

Source : **National Income and Expenditure 1969.**

Table A1 **National Product and Expenditure**

£ million

	1967				1968				1969	
	I	II	III	IV	I	II	III	IV	I	II
	At current prices — Unadjusted									
Private consumption	5 852	6 295	6 432	6 760	6 438	6 626	6 797	7 204	6 614	7 125
Public consumption	1 805	1 763	1 795	1 883	1 938	1 877	1 927	1 960	2 013	1 985
Fixed investment	1 812	1 768	1 799	1 883	1 961	1 823	1 908	2 106	1 940	1 852
Change in stocks	56	130	39	−23	−121	152	140	33	124	74
National expenditure	9 525	9 956	10 065	10 503	10 216	10 478	10 772	11 303	10 691	11 036
Exports of goods and services	1 808	1 842	1 782	1 693	2 071	2 102	2 193	2 244	2 177	2 425
less : Imports of goods and services	1 844	1 914	1 897	1 922	2 235	2 227	2 318	2 258	2 311	2 367
Gross domestic product at market prices	9 489	9 884	9 950	10 274	10 052	10 353	10 647	11 289	10 557	11 094
less : Net indirect taxes	1 208	1 297	1 329	1 377	1 352	1 451	1 559	1 712	1 594	1 721
Gross domestic product at factor cost	8 281	8 587	8 621	8 897	8 700	8 902	9 088	9 577	8 963	9 373
	At 1963 prices — Seasonally adjusted									
Private consumption	5 383	5 466	5 569	5 621	5 758	5 505	5 622	5 677	5 582	5 650
Public consumption	1 459	1 446	1 445	1 475	1 483	1 453	1 465	1 450	1 462	1 441
Fixed investment	1 586	1 671	1 643	1 625	1 683	1 663	1 681	1 764	1 609	1 616
Change in stocks	83	43	−33	76	−74	61	40	133	117	22
National expenditure	8 511	8 626	8 624	8 797	8 850	8 682	8 808	9 024	8 770	8 729
Exports of goods and services	1 737	1 669	1 645	1 513	1 817	1 750	1 870	1 884	1 867	1 944
less : Imports of goods and services	1 763	1 805	1 733	1 803	1 901	1 867	1 910	1 931	1 920	1 934
Gross domestic product at market prices	8 485	8 490	8 536	8 507	8 766	8 565	8 768	8 977	8 717	8 739
less : Net indirect taxes	975	1 006	1 017	1 028	1 080	1 012	1 053	1 077	1 029	1 064
Gross domestic product at factor cost	7 510	7 484	7 519	7 479	7 686	7 553	7 715	7 900	7 688	7 675

Source : Monthly Digest of Statistics.

Table B **Origin of Gross Domestic Product**

£ million

	1961	1962	1963	1964	1965	1966	1967	1968
	At current prices							
Agriculture, forestry, fishing	952	988	982	1 024	1 054	1 075	1 129	1 127
Mining and quarrying	695	732	735	737	709	698	700	687
Manufacturing	8 454	8 568	9 068	10 010	10 825	11 106	11 488	12 527
Construction	1 509	1 636	1 740	2 014	2 180	2 295	2 335	2 456
Electricity, gas and water	676	741	837	920	1 035	1 081	1 148	1 288
Transport and communications	2 023	2 115	2 288	2 441	2 651	2 768	2 828	3 065
Wholesale and retail trade	2 888	3 029	3 192	3 419	3 594	3 771	3 797	4 082
Ownership of dwellings	964	1 052	1 149	1 262	1 396	1 521	1 656	1 801
Public administration and defence	1 383	1 459	1 552	1 673	1 801	1 965	2 083	2 258
Other services	4 702	5 014	5 462	5 868	6 277	6 739	7 274	7 755
Adjustments and residual error	−107	−104	−179	−402	−627	−429	−52	−779
Gross domestic product at factor cost	24 139	25 230	26 826	28 966	30 895	32 590	34 386	36 267

Source : National Income and Expenditure 1969.

Table C **Fixed Investment**

£ million, 1963 prices

	1961	1962	1963	1964	1965	1966	1967	1968
TOTAL GROSS FIXED INVESTMENT	4 847	4 829	4 916	5 717	5 949	6 102	6 525	6 791
Residential construction	895	924	944	1 175	1 198	1 206	1 306	1 377
Other construction	1 534	1 599	1 568	1 797	1 871	1 879	2 038	2 127
Machinery and equipment	2 418	2 306	2 404	2 745	2 880	3 017	3 181	3 287
Non-residential :								
Manufacturing	1 301	1 196	1 055	1 190	1 309	1 351	1 310	1 349
Public services and utilities	977	1 121	1 265	1 468	1 529	1 669	1 862	1 810
Transport and communications	517	451	433	503	514	513	616	765
Distribution	310	301	327	377	359	318	339	344
Other	847	836	892	1 004	1 040	1 045	1 092	1 146
Government non-residential	1 642	1 671	1 752	1 977	2 058	2 196	2 506	2 504
of which : public enterprises	941	950	1 024	1 140	1 213	1 304	1 474	1 395
Private non residential	2 310	2 234	2 220	2 565	2 693	2 700	2 713	2 910

	1967				1968				1969	
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII
Seasonally adjusted :										
TOTAL GROSS FIXED INVESTMENT	1 586	1 671	1 643	1 625	1 683	1 663	1 681	1 764	1 609	1 616
Residential construction	317	326	336	327	344	351	343	339	324	302
Other construction	495	514	518	511	524	535	531	537	518	518
Machinery and equipment	774	831	789	787	815	777	807	888	767	796
Non-residential :										
Manufacturing	327	344	321	318	316	317	337	379	319	353
Public services and utilities	439	476	476	471	473	455	446	436	431	407
Transport and communications	151	162	147	156	172	177	188	228	161	174
Distribution	81	84	86	88	91	84	82	87	85	86
Other	271	279	277	265	287	279	285	295	289	294
Government non-residential	599	625	639	643	646	629	611	618	594	564
of which : public enterprises	356	370	371	377	365	354	336	340	331	302
Private non-residential	670	720	668	655	693	683	727	807	691	750

Source : National Income and Expenditure 1969; Monthly Digest of Statistics.

Table D **Income and Expenditure of Households and Private Non-Profit Institutions**

At current prices, £ million

	1961	1962	1963	1964	1965	1966	1967	1968
Compensation of employees :								
Wages and salaries	14 855	15 640	16 390	17 750	19 085	20 325	21 050	22 450
Pay and allowances of armed forces	385	401	419	450	467	523	524	542
Employers' contributions to social security	1 167	1 266	1 382	1 503	1 709	1 893	2 041	2 275
Incomes from property and entrepreneurship :								
Incomes of independent traders	2 117	2 155	2 217	2 342	2 527	2 665	2 772	2 840
Interest, rents, dividends and corporate grants	2 648	2 778	3 064	3 370	3 687	3 819	3 976	4 299
Current transfers from government	1 712	1 885	2 133	2 257	2 604	2 834	3 202	3 687
Current transfers from the rest of the world	109	111	113	131	135	134	135	147
INCOME OF HOUSEHOLDS, ETC.	22 993	24 236	25 716	27 803	30 214	32 193	33 700	36 240
less : direct taxes on households, etc.	2 249	2 458	2 510	2 801	3 344	3 714	4 051	4 559
DISPOSABLE INCOME	20 744	21 778	23 206	25 002	26 870	28 479	29 649	31 681
less : Current transfers to government	1 072	1 197	1 303	1 444	1 685	1 804	1 909	2 167
less : Current transfers to rest of the world	116	125	146	173	187	205	218	249
less : Consumers' expenditure on goods and services	17 810	18 906	20 125	21 493	22 865	24 236	25 339	27 065
Whereof : Food	4 370	4 565	4 695	4 895	5 065	5 322	5 479	5 673
Clothing	1 709	1 751	1 845	1 938	2 054	2 113	2 139	2 257
Housing	1 775	1 955	2 161	2 343	2 586	2 835	3 055	3 284
Durables	1 388	1 476	1 703	1 883	1 894	1 894	2 014	2 206
Other	8 568	9 159	9 721	10 434	11 261	12 072	12 652	13 645
Savings of households, etc.	1 746	1 550	1 632	1 892	2 133	2 234	2 183	2 200

Source : **National Income and Expenditure 1969.**

Table D1 Income and Expenditure of Households and Private Non-Profit Institutions

At current prices, £ million

	1967				1968				1969	
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII
Compensation of employees :										
Wages and salaries	5 088	5 247	5 327	5 388	5 523	5 531	5 635	5 761	5 893	5 932
Pay and allowances of armed forces	132	129	131	132	134	132	140	136	137	131
Employers' contributions to social security	496	505	509	531	552	562	576	585	588	597
Incomes from property and entrepreneurship :										
Incomes of independent traders / Interest, rents, dividends and corporate grants	1 634	1 657	1 758	1 699	1 765	1 775	1 779	1 820	1 881	1 838
Current transfers from government	772	789	805	836	893	909	933	952	964	954
INCOME OF HOUSEHOLDS, ETC.[1]	8 122	8 327	8 530	8 586	8 867	8 909	9 063	9 254	9 463	9 452
less : direct taxes on households, etc.	974	976	1 044	1 057	1 082	1 115	1 170	1 192	1 223	1 285
DISPOSABLE INCOME[1]	7 148	7 351	7 486	7 529	7 785	7 794	7 893	8 062	8 240	8 167
less : Current transfers to government	467	471	470	501	527	534	553	553	550	552
less : Current transfers to rest of the world (net)	12	23	22	26	31	24	22	25	25	27
less : Consumers' expenditure on goods and service	6 157	6 265	6 404	6 513	6 742	6 579	6 799	6 945	6 922	7 081
Whereof : Food[2]	1 329	1 369	1 363	1 418	1 383	1 403	1 400	1 487	1 448	1 494
Clothing[2]	441	516	505	677	466	549	531	711	468	579
Housing[2]	737	776	771	771	788	834	831	831	848	896
Durables[2]	462	516	502	534	659	507	507	533	508	560
Other[2]	2 883	3 118	3 291	3 360	3 142	3 333	3 528	3 642	3 342	3 596
Savings of households, etc.	515	592	590	489	485	657	519	539	743	507

1 Excluding current transfers from the rest of the world.
2 Unadjusted.

Source : Monthly Digest of Statistics.

Table E **Production, Employment and Productivity in Industry**

Seasonally adjusted, 1963 = 100

	1965	1966	1967	1968	1968				1969		
					QI	QII	QIII	QIV	QI	QII	QIII[1]
Production :											
Mining and quarrying	96	90	89	85	87	85	84	84	81	80	80
Manufacturing	112	114	114	121	118	120	122	124	124	126	127
Basic metals	118	111	105	111	107	110	112	115	114	117	114
Ferrous[2]	120	112	105	111	111	114	104	117	119	122	97
Non-ferrous[2]	113	108	104	109	108	109	103	113	117	116	100
Metal products	113	116	115	122	118	123	124	125	125	129	130
Transport equipment[2]	111	109	104	112	96	113	105	122	109	120	101
Food, beverages and tobacco	105	109	111	115	114	112	115	117	115	117	119
Textiles clothing and shoes	108	107	104	114	111	113	115	117	116	119	116
Chemicals, petrol and coal	117	123	129	138	134	137	140	143	143	146	153
Other manufacturing[2]	114	115	116	123	123	125	115	128	125	126	
Electricity and gas	112	117	121	128	130	125	128	129	142	132	130
Total	111	113	113	119	117	118	120	122	122	123	125
Employment in manufacturing	102.6	102.6	99.7	98.8	98.7	98.7	98.8	98.9	99.2	99.3	
Output per person employed	109.6	111.3	114.3	122.7	119.7	122.2	123.5	125.6	125.0	126.7	
Index of average weekly hours worked : per operative in manufacturing[2]	99.3	97.7	97.0	97.8	96.7	97.7	98.4	98.3	97.4	98.3	98.6

1 July-August.
2 Unadjusted.

Source : Department of Employment and Productivity Gazette; OECD Industrial Production.

Table F The Labour Market and Employment

Thousands

	1964	1965	1966	1967	1968	1968 QI	1968 QII	1968 QIII	1968 QIV	1969 QI	1969 QII	1969 QIII
Labour force (seasonally adjusted) :[1]												
Wage and salary earners	22 878	23 131	23 285	22 813	22 633	22 681	22 633	22 612	22 629	22 642		
Self-employed	1 635	1 622	1 612	1 682	1 680	1 681	1 680	1 681	1 680	1 682		
Total employment	24 513	24 753	24 897	24 495	24 313	24 362	24 313	24 293	24 309	24 324		
Labour force	25 303	25 497	25 618	25 427	25 268	25 311	25 268	25 232	25 216	25 241		
of which, female (%)	34.6	34.8	35.3	35.2	35.5	35.4	35.5	35.4	35.5	35.5		
Labour force by sector (not seasonally adjusted)[1]	11 470	11 538	11 610	11 221	11 017	11 032	11 017	11 068	11 080	10 958	10 934	10 963[3]
of which, manufacturing	8 840	8 955	8 976	8 701	8 613	8 613	8 613	8 682	8 723	8 666	8 647	8 693[3]
mining and quarrying	655	622	574	551	486	509	486	471	461	456	448	442[3]
construction	1 572	1 612	1 637	1 546	1 506	1 491	1 506	1 507	1 492	1 436	1 444	1 434[3]
agriculture, etc.	526	484	464	433	413		413					
transport and other services	10 896	11 064	11 227	11 174	11 215		11 215					
Index of average weekly hours worked per operative in manufacturing (1962 = 100)[2]	100.7	99.4	97.8	97.1	97.9	96.8	97.8	98.5	98.4	97.5	98.3	98.6[4]
SEASONALLY ADJUSTED :												
Unemployment	361	309	325	515	543	511	550	580	533	499	527	581
Unfilled vacancies for adults	221	265	254	175	189	184	180	182	210	206	195	192

1 Annual figures refer to June, quarterly figures to the final month of each quarter.
2 Averages of months in each period.
3 August.
4 July-August.

Source : DEP Gazette.

Table G **Prices, Wages and Labour Costs**

	1963	1964	1965	1966	1967	1968
GDP DEFLATORS (at market prices)						
Total	100.0	102.9	108.0	112.8	116.4	120.7
Private consumption	100.0	103.2	108.0	112.1	115.0	120.0
Gross fixed investment	100.0	102.4	106.0	109.9	111.3	114.8
Cost of living :						
Food	100.0	102.7	106.3	109.7	112.0	115.1
Non-food	100.0	103.4	108.5	112.9	115.7	121.2
Goods	100.0	102.9	107.4	110.7	112.7	117.2
Services[1]	100.0	104.2	109.4	115.6	119.8	126.3
WHOLESALE PRICES						
Non-food manufactured goods						
Fuel and material inputs	100.0	103.9	106.8	110.2	108.4	120.5
Output for home market	100.0	101.9	104.6	107.3	108.2	112.4
Export prices (unit values)						
Manufactures	100.0	101.9	104.8	109.6	111.5	121.2
Import prices (unit values)						
Manufactures	100.0	104.0	107.9	112.9	114.9	133.7
Building prices (new work)	100.0	102	106	111	113	118
Average hourly wage rates[2]	100.0	105.7	113.4	119.8	126.1	134.5
Average hourly earnings[2]	100.0	108.2	119.1	126.5	133.2	142.8
Income from employment	100.0	108.3	116.9	125.0	129.8	138.9
Income from employment per unit of output[3]	100.0	102.5	107.2	113.2	116.5	120.3

1 Including housing.
2 October of each year (all industry).
3 Based on income estimate of GDP.

Source : National Income and Expenditure 1969; Monthly Digest of Statistics; DEP Gazette.

Table H Money and Banking

	1964	1965	1966	1967	1968	1968				1969		
						I	II	III	IV	I	II	III
BANK RATE (end of period)	7	6	7	8	7	7 ½	7 ½	7	7	8	8	8
Treasury bill rate of discount (per cent)[1]	6.63	5.52	6.53	7.48	6.78	7.11	7.24	6.58	6.78	7.78	7.88	7.81
Average yields of 2 ½ per cent Consols[2] (per cent)	6.03	6.42	6.80	6.69	7.39	7.13	7.30	7.47	7.69	8.42	9.11	9.15
Currency circulation with the public[3] (£ million)	2 341	2 517	2 702	2 796	2 887	2 889	2 950	2 846	2 902	2 958	2 954	
New capital issues (gross) (£ million)	757.9	825.9	1 080.0	1 012.5	1 328.1	214.6	314.6	444.8	354.1	419.1	310.9	246.7
Hire purchase debt outstanding (end of period) (£ million)	1 280	1 386	1 261	1 226	1 269	1 230	1 229	1 226	1 269	1 230	1 237	
New hire purchase credit extended (during period)[4] (£ million)	1 025	1 033	856	924	968	273	210	242	243	213	207	
LONDON CLEARING BANKS (£ million)[3]												
Current accounts	4 836	4 869	4 955	5 084	5 334	5 337	5 275	5 298	5 487	5 224	5 180	5 133
Deposit accounts	2 922	3 292	3 536	3 769	4 177	4 068	4 131	4 243	4 273	4 350	4 343	4 358
Other deposits	791	829	885	919	920	897	873	904	976	954	985	1 000
Total liquid assets	2 589	2 763	2 908	2 990	3 182	2 958	3 106	3 336	3 385	3 095	3 187	3 137
Total liquid assets (per cent of total deposits)	30.3	30.7	31.0	30.6	30.5	28.7	30.2	31.9	31.5	29.4	30.3	29.9
Investments	1 220	1 087	1 137	1 341	1 375	1 360	1 324	1 380	1 432	1 232	1 182	1 119
of which : Government securities	1 098	956	997	1 195	1 213	1 205	1 159	1 215	1 266	1 064	1 009	949
Investments (per cent of total deposits)	14.3	12.1	12.1	13.7	13.2	13.2	12.9	13.2	13.3	11.7	11.2	10.7
Advances	4 328	4 653	4 732	4 725	5 075	5 139	5 089	5 071	5 039	5 340	5 251	5 389
Advances (per cent of total deposits)	50.6	51.8	50.5	48.4	48.6	49.9	49.5	48.5	46.9	50.7	50.0	51.4
Net deposits[4]	7 891	8 316	8 675	9 024	9 645	9 595	9 575	9 775	9 825	9 845	9 720	9 655

1 End of period; average rate of discount on allotment for 91 day bills at the weekly tender.
2 Average of working days.
3 Annual figures are averages of months; quarterly figures refer to the last month in the quarter.
4 Seasonally adjusted.

Source : Financial Statistics.

Table I **Foreign Trade**

Seasonally adjusted

	1964	1965	1966	1967	1968	1968				1969		
						I	II	III	IV	I	II	III
IMPORTS c.i.f.[1] (£ million)												
Value (monthly averages)	475	479	497	536	658	647	642	666	678	674	698	693
Volume index (1961 = 100)	119	120	122	132	146	146	143	147	148	146	150	150[2]
Unit value index (1961 = 100)[3]	107	107	109	109	121	120	121	122	123	124	125	126[2]
IMPORTS BY COMMODITY GROUP (£ million)												
Value (monthly averages)												
Food, beverages and tobacco	148	142	143	147	159	169	157	152	158	160	168	157
Crude materials, oils and fats	93	92	88	84	101	95	102	104	103	103	103	105
Fuels	49	51	52	61	75	69	77	76	78	79	73	71
Semi-processed manufactures	110	114	123	133	177	177	170	183	178	184	187	200
Finished manufactures	70	74	83	104	138	131	125	141	155	140	158	151
EXPORTS[4] f.o.b. (incl. re-exports, £ million)												
Value (monthly averages)	380	408	437	434	533	518	503	548	563	559	590	625
Volume index (1961 = 100)	111	117	121	119	136	135	130	139	141	139	146	154[2]
Unit value index (1961 = 100)[3]	106	108	112	114	123	121	123	125	126	127	127	128[2]
Manufactures, value, monthly averages	308	333	357	356	440	428	418	451	463	468	489	522
Share of United Kingdom in world exports of manufactures (per cent)	14.2	13.5	12.9	11.9	11.1	11.3	11.1	11.0	11.0	11.1	10.7	
EXPORTS BY AREA (£ million)												
Value (monthly averages)												
Sterling area	127	137	132	127	146	150	141	146	147	152	163	168
North America	50	59	70	69	95	96	87	99	98	89	99	104
EEC	75	75	80	80	100	96	94	101	109	108	111	122
EFTA	52	56	62	63	71	65	68	76	75	78	83	91
Terms of trade (1961 = 100)	99	102	103	105	102	101	102	103	102	103	102	101

1 Including imports of US military aircraft.
2 July-August.
3 Not seasonally adjusted.
4 Not corrected for under-recording.

Source: Board of Trade Journal; Report on Overseas Trade; NIESR Review.

Table J Balance of Payments
£ million, seasonally adjusted

	1964	1965	1966	1967	1968	1968 I	1968 II	1968 III	1968 IV	1969 I	1969 II
CURRENT ACCOUNT											
Trade : Goods											
Exports fob	4 486	4 817	5 168	5 106	6 233	1 523	1 467	1 600	1 643	1 636	1 717
of which : under-recording of exports	20	40	60	80	130	32	31	33	34	35	35
Imports fob	5 005	5 054	5 252	5 672	6 910	1 694	1 700	1 755	1 761	1 768	1 793
Visible Balance	−519	−237	−84	−566	−677	−171	−233	−155	−118	−132	−76
Services (net)	−83	−73	−39	114	249	47	67	75	60	54	76
of which : government (net)	−269	−270	−290	−276	−284	−73	−70	−71	−70	−71	−69
Other invisibles (net)	221	260	187	169	163	33	65	73	−8	96	75
of which : government (net)	−279	−310	−343	−362	−413	−103	−103	−101	−106	−125	−130
Invisible Balance	138	187	148	283	412	80	132	148	52	150	151
CURRENT BALANCE	−381	−50	64	−283	−265	−91	−101	−7	−66	18	75
CAPITAL ACCOUNT											
Official :											
Ex-Im. Bank loans (net)	—	—	51	76	74	16	22	25	11	8	2
Other (net)	−116	−85	−131	−133	−53	−27	6	−10	−22	−52	−34
Total (net)	−116	−85	−80	−57	21	−11	28	15	−11	−44	−32
Private :											
Investment abroad	−399	−354	−304	−457	−736	−193	−173	−140	−230	−173	−149
Investment in UK	152	237	272	380	573	79	108	261	125	147	206
Total (net)	−247	−117	−32	−77	−163	−114	−65	121	−105	−26	57
BALANCE OF LONG TERM CAPITAL	−363	−202	−112	−134	−142	−125	−37	136	−116	−70	25
BALANCING ITEM[1]	−13	15	−80	176	−130	−129	−26	16	9	176	−78
" BASIC BALANCE "	−757	−237	−128	−241	−537						

1 Quarterly figures for this item are not seasonally adjusted.
Source : Economic Trends: United Kingdom Balance of Payments 1969.

Table K Monetary Movements

£ million

	1964	1965	1966	1967	1968	1968				1969	
						I	II	III	IV	I	II
NON-STERLING LIABILITIES (NET)											
United Kingdom official	+578	+229	+894	+957	+2 788	+127	+82	−121	−70	−55	+88
United Kingdom bank	−358	−354	−1 040	−744	−2 735	+33	+17	+31	−46	−14	−38
Total	+220	−125	−146	+213	+53	+160	+99	−90	−106	−69	+50
STERLING AREA CURRENCY LIABILITIES (NET)	+8	+7	−45	+24	−46	+1	+97	−122	−22	+6	−11
STERLING LIABILITIES (NET)											
With sterling area countries :											
With central monetary institutions	+43	−51	−46	−127	−80	+85	−284	−25	+144	+204	+65
Other	−44	+54	+51	−19	−62	+17	−88	+88	−79	−10	−73
Total	−1	+3	+5	−146	−142	+102	−372	+63	+65	+194	−8
With non-sterling area countries :											
With central monetary institutions	+92	+104	+309	+456	+662	+376	−167	+172	+281	−88	−311
Other	−48	−37	−195	−119	−366	−134	−114	−17	−101	−101	−13
Total	+44	+67	+114	+337	+296	+242	−281	+155	+180	−189	−324
With IMF (net)	+359	+499	−2	−318	+525	+4	+588	−31	−36	−127	+134
With other international organisations	+5	−6	+13	−16	+12	−5	+4	+4	+9	+12	—
Total sterling liabilities	+407	+563	+130	−143	+691	+343	−61	+191	+218	−110	−198
MISCELLANEOUS ITEMS											
E.E.A. losses on forward commitments incurred before devaluation	—	—	—	−105	−251	−120	−83	−23	−25	—	—
Transfer of dollar portfolio to the reserves	—	—	+316	+204	—	—	—	—	—	—	—
Changes in the reserves	+122	−246	−34	+115	+114	−11	+16	−14	+123	−20	+11
Other	—	+38	−93	−67	−24	+16	+32	−23	−49	+95	+36
TOTAL OF MONETARY MOVEMENTS	+757	+237	+128	+241	+537	+389	+100	−81	+129	−98	−112

Source : United Kingdom Balance of Payments 1969; Economic Trends.

NOTE Assets: increase —, decrease +; Liabilities: increase +, decrease—.

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