OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

UNITED KINGDOM

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

FEBRUARY 1976

BASIC STATISTICS OF THE UNITED KINGDOM

THE LAND

Area ('000 sq. km)	244
Agricultural area ('000 sq. km)	190

Major cities (population in millions, 1974 mid-year estimates):	
Greater London	7.2
Birmingham	1.1
Glasgow	0.8
Liverpool	0.6
Manchester	0.5

THE PEOPLE

Population (mid-1974)	56 068 000
No. inhabitants per sq. km	230
Net increase in population, 1970-74, annual average	127 800
Percentage change at annual rates, 1974/1970	0.25

Total civilian employment, 1974	24 767 000
of which:	
Agriculture	704 000
Industry (incl. construction)	10 467 000
Other activities	13 596 000

THE GOVERNMENT

Public current expenditure 1974 (per cent of GNP)	20
Public sector current receipts 1974 (per cent of GNP)	41
National debt 31st March 1975 (ratio to General Government revenue)	136

Composition of House of Commons, November 1975 (No. of seats):	
Labour	318
Conservative	277
Liberal	13
Scottish Nationalist	11
Ulster Unionist	10
Other	6

Last general election: 10th Oct. 1974

FOREIGN TRADE

Exports:	
Exports of goods and services as a percentage of the GNP (1974)	27
Main exports (percentage of total exports in 1974):	
Machinery	26
Chemicals	13
Transport equipment	11
Textiles	5
Non-ferrous metals	4
Iron and steel	3

Imports:	
Imports of goods and services as a percentage of the GNP (1974)	33
Main imports (percentage of total imports in 1974):	
Petroleum and petroleum products	20
Machinery	13
Chemicals	7
Non-ferrous metals	4
Meat	3
Fruit and vegetables	3

THE CURRENCY

Monetary unit: Pound sterling

Currency unit per US $, average of daily figures:	
Year 1975	0.4519
January 1976	0.4930

NOTE An international comparison of certain basic statistics is given in an annex table.

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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INTRODUCTION

Demand and activity began to weaken late in 1974 and then declined sharply last year when real GDP fell by roughly $1\frac{3}{4}$ per cent. Final domestic demand, however, remained virtually unchanged between 1974 and 1975, a substantial stock adjustment more than accounting for the decline in output, which by the end of the year seems to have levelled off. Unemployment rose rapidly to reach a rate of 4.9 per cent in December, compared with 2.7 per cent in November 1974, while employment, especially in manufacturing industry, contracted markedly. Inflationary forces accelerated in the first half of the year, but abated thereafter. Wage and price increases, nevertheless, remained above the OECD average. Influenced by weak domestic demand, the rundown in stocks and an improvement in the terms of trade, the current external deficit was substantially reduced from \$8.7 billion in 1974 to about \$$3\frac{3}{4}$ billion last year.

Fiscal policy in 1975 was moderately restrictive, the main aim of the April budget being to reduce the large current external deficit and to facilitate a shift of resources into productive investment. A number of selective measures were taken through the year in order to limit the rise in unemployment and to stimulate investment. Monetary policy generally was also restrictive last year, the rate of growth of monetary expansion slowing down markedly, and was successful in limiting the inflationary effects of a large public sector borrowing requirement. The introduction of the £6 per week voluntary incomes policy in August helped to reduce inflationary pressures. Without policy changes, the Secretariat forecasts that real GDP may marginally rise between 1975 and 1976, with the recovery strengthening in the course of the year. Unemployment is likely to continue to rise, but at a substantially slower rate than in 1975. The outlook for inflation is for some further improvement until towards the end of 1976, thereafter pay and price developments will increasingly depend on the arrangements made to follow the present £6 per week agreement. The current external deficit may show a small reduction.

Recent developments in the economy are outlined in Part I of the Survey, with attention being focused on the course of inflation, the reasons for the decline in demand and activity and the improvement in the external account. Part II deals withe policy experience in 1975, while Part III discusses the prospects in 1976 on the basis of unchanged policies before considering the main policy options.

I RECENT DEVELOPMENTS

The course of inflation

In 1975 as a whole price inflation accelerated with retail prices rising by some 24 per cent compared with 16 per cent in 1974. But, after rising sharply in the first half of the year prices slowed down markedly in the second. Rapidly increasing unit wage costs in late 1974 were an important factor in the deteriorating price performance. A substantial rise in indirect taxes announced in the March budget also contributed. The Government's policy of phasing out subsidies to nationalised industries by April this year added to price rises, with nationalised industry prices in the six months to June 1975 increasing at an annual rate of over 60 per cent. Food subsidies, which helped considerably to hold back prices in 1974, were slightly cut back in 1975[1]: successive devaluations of the Green pound since mid-1974, and the fact that subsidies were no longer holding down new price increases, resulted in the food component rising slightly faster than the rest of the retail price index.

The sharp acceleration in retail prices to more than 40 per cent (annual rate) between the first and the second quarters of last year was partly due to budget measures with increased indirect taxes contributing about a quarter of the increase in the index. Thereafter, price performance improved substantially, the index rising at an annual rate of about 14 per cent during the second half of 1975, less than half the rate in the previous half year. An important factor in the deceleration was food prices which rose at around one-third the rate during the first half of the year. Although the moderation in import prices—despite the depreciation of Sterling—and particularly in industrial raw materials was a major influence in the slowdown, the course of domestic costs also contributed. Lower rates of pay settlements as a result of the successful implementation of the £6 a week pay agreement led to a slower growth of wage costs, which were quickly reflected in both wholesale and retail prices. The rise in prices in the second half of the year largely reflected the increase in wage costs before the introduction of the new policy, but there was also some impact from the depreciation of Sterling.

Table 1 **Pay and prices**
Percentage changes, annual rates

	1973	1974	1975	1974	1975			
				H2	H1	H2	Q3	Q4
GDP (factor cost) deflator, s.a.	9¼	14¼		25½	31½		24¼	
Unit labour cost, s.a.[1]	9½	20¼		30¼	37½		30¾	
Basic weekly wage rates[2]	13¾	19¾	29½	33¾	30½	24¼	22	18¾
Average earnings, s.a.[3]	14	17½	26¾	37¼	23	25	33¾	17
Gross trading profits of companies net of stock appreciation (£ billion, annual rate) s.a.	(6)	(4¾)		(6)	(5¼)		(5¼)	
Indirect taxes net of subsidies per unit of output, s.a.	¼	–2		–1¼	14¼		43½	
Consumers' expenditure deflator, s.a.	8¾	15¼		16¾	23¾		22¼	
Retail prices, total	9¼	16	24¼	16¼	28¾	23¼	18¾	14¼
food	15	18	25½	13¾	35½	19	11	14¾
non-food	7¼	15¼	23¾	17	26¾	24¼	21	14½
Wholesale prices,								
output[4]	7¼	23½	24	25	27½	17¾	16	12¼
input[5]	32¼	49	9¼	4½	5¼	22¾	26½	30
Import prices[6]	27¼	55½	13½	21¾	10¼	11¼	10½	23

1 The change in income from employment divided by the change in GDP at factor cost, compromise.
2 Manual workers only.
3 Industries and services covering about 7 million employees in production industries, transport and communication and certain miscellaneous services.
4 Home sales, all manufactured products.
5 Basic materials and fuels purchased by manufacturing industry.
6 Balance of payments basis not seasonally-adjusted.
Sources: Monthly Digest of Statistics; Economic Trends; Department of Employment Gazette.

1 In the course of 1974 food subsidies saved some 5 percentage points leaving an actual increase of 18.3 per cent in the food component of the retail price index (the figures for the total price index are 1.2 and 19.9 per cent respectively).

Table 2 **Contribution to consumer price increases**
Percentage changes, seasonally adjusted, annual rates

	1972	1973	1974	1974 H1	1974 H2	1975 H1
Wages and salaries per unit output	2.9	3.4	6.6	6.0	9.0	13.0
Other income per unit output[1]	3.6	4.6	3.5	4.2	—	4.3
Taxes less subsidies per unit output	0.2	0.1	–0.5	–1.5	–0.3	2.9
Price of imports of goods and services[2]	0.2	3.0	7.8	8.9	6.1	2.2
Residual	–0.2	–2.4	–2.2	–0.4	1.8	1.2
Consumer expenditure deflator[3]	6.7	8.7	15.2	17.2	16.6	23.6

1 Total domestic income less income from employment, thus including gross trading profits of companies, gross trading surpluses of public corporations and income from rent and self-employment.
2 Implicit deflator of imports of goods and services from national accounts.
3 Implicit deflator of consumers' expenditure from national accounts.

NOTE The weights used in calculating the contribution of the primary input costs to the consumer price deflator were taken from the summary 1971 input-output tables and the impact of wage costs and import prices was assumed to be lagged with an average lag of 0.8 quarters. The varying importance of the residual item may reflect in part variations in both the weights and lags.

Source: Economic Trends, CSO, HMSO.

The continued application of price controls probably made a small contribution to the slowdown in prices. The importance of firms' notifications of price adjustments to the Price Commission was comparatively small in terms of the retail price index. A considerable part of the price notifications reflected the effects of higher prices in the nationalised industries and of oil and applications for allowable relief arising from investment expenditures[2]. Increased competition induced by weak demand, coupled with a desire by companies to improve liquidity by running down stocks, seems to have resulted in many price rises being below the margins permitted under the price code. Consequently, with cost pressures still strong and turnover sluggish, both total profits and margins are likely to have remained squeezed last year[3].

Pay developments in 1975 were heavily influenced by the operation of the Social Contract guidelines, which had been unsuccessful in obtaining reasonable wage moderation, and their replacement in July by a new voluntary pay policy. In the first half of last year, mainly reflecting settlements under the Social Contract guidelines[4], basic weekly wage rates rose at an annual rate of over 30 per cent, a considerably higher rate than in 1974 when allowance is made for the effect of threshold payments until November in that year[5]. However, with a drop in overtime work, a marked rise in short-time work, and lower productivity and shift premium payments, negative cyclical wage drift occurred and average earnings decelerated markedly. As retail prices rose faster than earnings in the first half of 1975, real earnings fell for the first time for many years.

Concern about the substantial cost pressures developing under the Social Contract and rising unemployment resulted in an initiative by the Government and accepted by the trade unions for a new counter-inflation policy to run for one

2 See OECD Survey, March 1975, for details of the price code.
3 The quarterly Report of the Price Commission for the period 1st September to 30th November 1975, notes that there had been no significant recovery in profit margins up to that time. Gross trading profits after deducting stock appreciation and net of tax in the first three-quarters of 1975 were below the depressed 1974 levels.
4 For details see OECD Survey of the United Kingdom, March 1975.
5 Threshold clauses were an important feature of the Stage 3 Counter-Inflation Policy, which became effective from November 1973. Thresholds provided for pay increases up to 40 p. a week for every 1 per cent rise above a 7 per cent increase in the retail price index from the time of the application of Stage 3 agreements. The last Stage 3 threshold payment expired by late 1974.

year to August 1976. The policy is designed to reduce the annual rate of price increase to less than 10 per cent by the end of 1976, and requires increases in weekly pay to be kept within a maximum of £6 a week for those earning under £8 500 a year (with no increase for those above that figure). After taking into account the impact of legislation on equal pay and of certain transitional arrangements, the policy implies an increase in the total annual pay bill of about 12 per cent. The pay and price targets are much the same as those referred to in the last OECD Survey of the United Kingdom where it was pointed out that the change in real personal disposable incomes would be much the same if pay rose by 12 per cent and prices by 9 per cent, or if the Secretariat's forecast figures of 25 and 20 per cent respectively turned out to be correct. The Government, on its side, undertook to increase food and rent subsidies and extend controls on prices, dividends and insurance premiums until July 1976. Observance of the agreement was to be achieved by restricting grants to and borrowing by local authorities and nationalised industries to finance pay rises in excess of the limit. At the same time, firms and nationalised industries would be permitted to pass on in prices only those pay rises falling within the limit, the whole amount (not just the excess above the limit) of any pay increase in breach of the limit being disallowed for price rises.

The pay policy was fully observed in the second half of 1975, with settlements covering nearly 3 million people being reported. Following the introduction of the policy, the growth of average earnings seems to have moderated. While part of the slowdown probably reflects the sluggishness of activity, the policy appears to have been successful in building a strong base for making the transition to lower rates of inflation. Since the application of the policy, both wage rates and average earnings have risen at a slightly faster rate than retail prices, partially reversing the adverse effects on real earnings in the first half of 1975 resulting from budget changes and increases in nationalised industry prices.

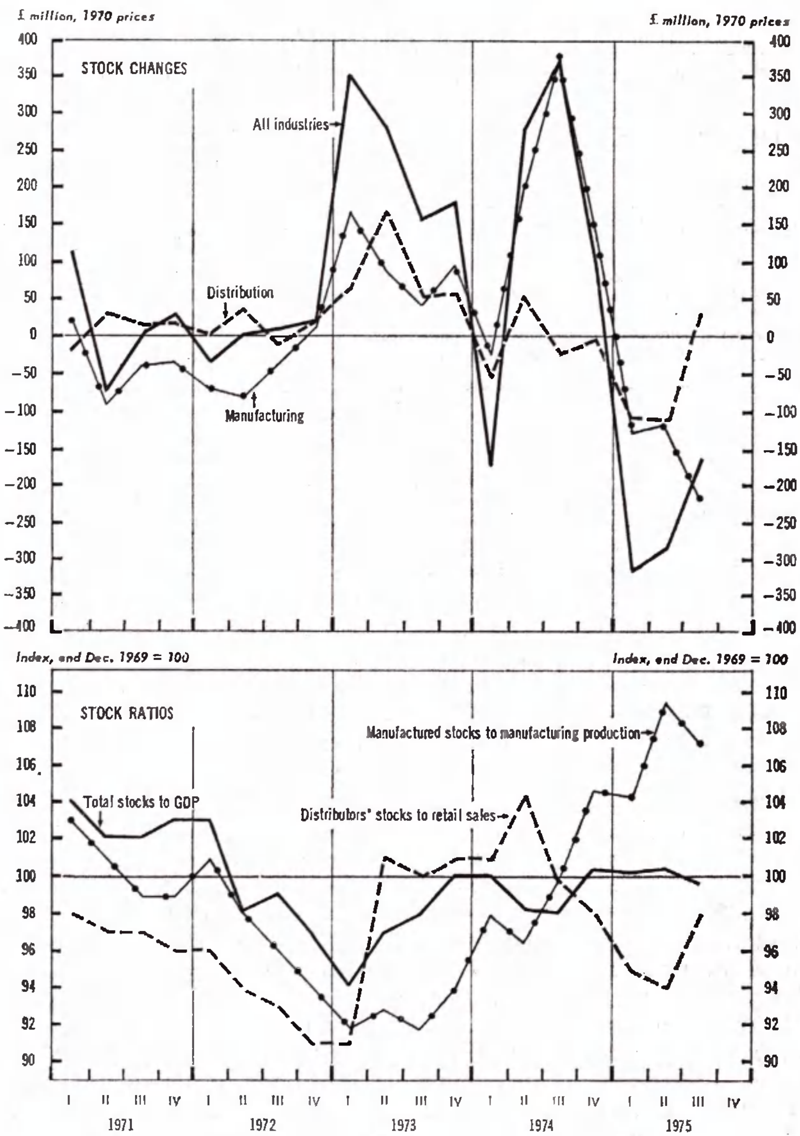
Demand and output

The weakening in demand and activity late in 1974 gathered pace in 1975, with real GDP falling by about 1¾ per cent. The downturn in aggregate demand was marked in the first half of the year—6¼ per cent at an annual rate—and was attributable to a large run-down in stocks. With stocks of finished goods and industrial raw materials at relatively high levels in relation to sales and output at the end of 1974, particularly in manufacturing industry, efforts were made to reduce the financing burden involved. At the same time, business surveys on the general economic position were highly pessimistic. While manufacturers reduced substantially their holdings of materials and fuels, destocking by distributors combined with weak sales, resulted in what seems to have been involuntary accumulation of finished goods by manufacturers. Total investment in stocks, however, fell sharply but because of a bigger drop in output, the ratio of stocks to output in manufacturing remained at historically high levels through the year.

A small improvement in the real foreign balance partly offset the negative effect of the stock adjustments on real GDP in the first half of 1975. These developments, of course, were related. The volume of merchandise imports dropped at an annual rate of about 15 per cent over the previous half year, imports of fuels and materials falling sharply. There was also a decline in imports of finished manufactures. Against this, the volume of merchandise exports, which fell at an annual rate of about 4½ per cent, held up reasonably well in view of the fall in world trade. To some extent, the working-off of a backlog of export orders seems to account for the relatively good performance. The substantial improvement on the real goods account was reduced, however, by a larger fall in the volume of services exported than imported.

On the domestic side, private consumption fell in the course of the first half of 1975, but its level was about unchanged from the previous half year. One of the aims of policy was to limit private consumption in order to make resources available for exports and investment, but it was weaker than had been expected. Higher social security and unemployment benefits partly offset the decline in real earnings with the result that real personal disposable income remained roughly unchanged. However, the personal savings ratio increased a little. It seems that

Diagram 1 **Stock Changes and Stock Ratios**



Note Stocks at end of quarter.
Source: C.S.O., *Economic Trends*, HMSO, London.

Table 3 Expenditure and output
Seasonally adjusted percentage volume change, annual rate

	1972	1973	1974	1975[1]	1975 H1	1975 H2
Consumers' expenditure	6	4¾	–½	–¼	¼	–4¾
Government consumption	3¾	4¼	3¼	2½	1¾	6¼
Fixed investment	2¼	2½	–2	–¾	–2¼	–¾
Final domestic demand	4¾	4¼	–¼	¼	—	–2
Stockbuilding[2]	—	1¾	–¾	–2½	–6¼	1
Compromise adjustment[2 3]	½	—	–½	—	—	¼
Total domestic demand	5¼	6	–1½	–2¼	–6¼	–¾
Exports	2	11½	6¾	–3½	–6¼	–2½
Imports	11½	13½	¼	–5½	–12¼	4¾
Foreign balance	–2	–½	1½	½	1½	–1¾
GDP at market prices[4]	3¼	5½	—	–1¾	–4¾	–2¾
Agriculture	2	3	4½	–1	–3½	—
Industrial production	2	7½	–4½	–4½	–7¾	–3¾
Services	3¾	4½	1	1	½	–¾
GDP at factor cost, output	3	5½	–¾	–1¾	–3¼	–2½

1 1975 is provisional as it is based on published data for the first three-quarters and on OECD estimates for the last quarter.
2 Change as a percentage of GDP in the previous period.
3 The difference between expenditure based output and GDP compromise which is the weighted average of output, expenditure and income based GDP. The weights are respectively 40 per cent, 40 per cent and 20 per cent.
4 GDP compromise.

NOTE Because of rounding the individual items may not add exactly to total GDP.

Sources: Economic Trends, CSO and Press and Information Service Release, CSO, London.

rising unemployment and rapid inflation have led to increased savings for precautionary motives. The tendency to increase savings may have been compounded by the real wealth effect of inflation on liquid assets and equities and bonds. Consumer demand was probably dampened by the VAT increases in the March budget. Sales of consumer durables, in particular, were probably affected by these increases. Anticipatory buying ahead of the budget largely took the form of bringing forward buying intentions, and retail sales after rising sharply in April then declined markedly. In contrast to private consumption, public sector current consumption rose somewhat, but less than the outcome expected in the 1975 budget. Much of the growth seems to reflect a faster than planned growth of expenditures by local authorities.

Following a fall of 2 per cent in 1974, gross fixed capital formation declined at an annual rate of 2¼ per cent in the first half of 1975 over the previous half year. The most disturbing feature was the weak trend in manufacturing investment. Indeed, despite a number of policy measures designed to slow down the fall in manufacturing investment, it accelerated considerably to an annual rate of around 20 per cent in the first half of 1975 over the previous half. In addition to the weakness of domestic and external demand and continuing poor profitability, it seems probable that companies, in an effort to improve liquidity cut back further on investment as well as running down stocks. Much the same factors seem to have been responsible for a similarly sharp fall in investment in distribution and services. Expenditures on North Sea oil development helped to cushion the overall fall in private non-residential investment, while there was a strong recovery in private residential investment. A continuous improvement in the liquidity position of building societies enabled them to raise substantially mortgage loans, and inroads were made on the large stock of unsold houses

Table 4 **Public expenditure : estimates and outturns**
Volume percentage changes seasonally adjusted

	1st half 1973 / 1st half 1972	1st half 1974 / 1st half 1973	1st half 1975[1] / 1st half 1974		1972	1973	1974	1975
Budget estimates of:	Mar. 72	Mar. 73	Nov. 74	Apr. 75	Mar. 72	Mar. 73	Mar. 74	Apr. 75
Public expenditure on goods and services:								
Public authorities consumption:								
Budget	2.9	3.0	3.5	5.0	2.6	5.3	0.5	4.9
Outturn	4.5	3.7	1.3	1.3	3.7	4.2	3.2	
Public investment:								
Budget	1.3	3.2	–3.0	–2.5	5.1	6.4	–3.8	–1.2
Outturn	–2.3	—	5.9	5.9	–3.1	1.0	0.7	
Total public expenditure:								
Budget	2.4	3.1	1.5	2.5	3.4	5.7	–0.7	3.1
Outturn	2.5	2.7	2.6	2.6	1.6	3.3	2.5	
GDP at factor cost:								
Budget	5.9	4.5	4.0	2.5	4.7	6.5	–1.1	1.4
Outturn	7.1	–1.5	0.5	0.5	2.4	5.3	0.3	

1 All the budget forecasts are from spring budgets except the first forecast for the first half 1975 which is from the November 1974 budget as the March 1974 budget did not contain a forecast for the first half 1975.

Sources: Financial Statement and Budget Report, various issues, HMSO; Economic Trends, HMSO, London.

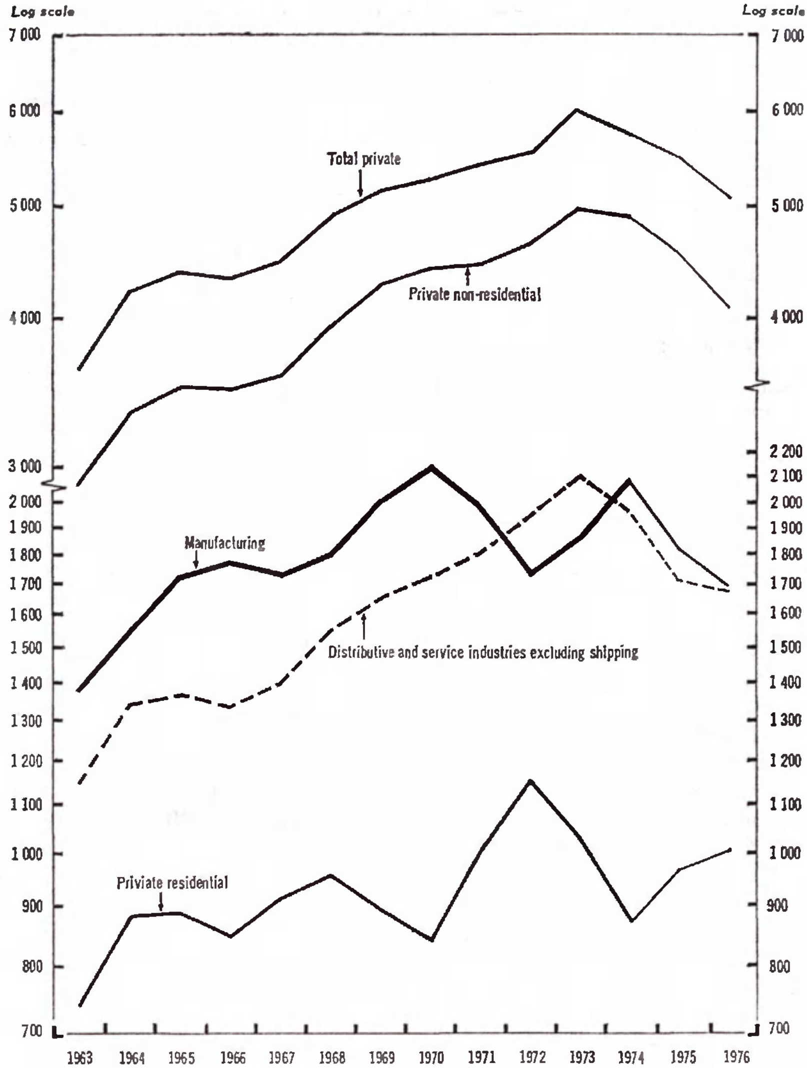
which existed at the end of 1974[6]. But despite the upturn, residential investment was well below the 1972 peak. Total investment by the public sector increased at an annual rate of 4¼ per cent which was substantially faster than expected at the time of the March budget.

The growth of total public expenditure largely accounted for a small rise in final domestic demand. However, final domestic demand started to decline in the second quarter. Private consumption fell substantially in the second half of the year. Although real personal disposable income probably fell moderately through the second half of the year, the personal savings ratio may have risen slightly. Data on public consumption in the third quarter and the budget estimates suggest that it will again be the main prop under the economy. A number of post-budget discretionary measures aimed at easing the employment problem could result in slightly faster growth in public consumption in the second half of the year compared with budget estimates. Public fixed investment, however, seems likely to slow down considerably, and may well decline a little. The most recent business surveys suggest that manufacturing fixed investment continued to fall, and at much the same rate as in the first half of the year. A further small decline may also have occurred in investment in the distribution and services sector. North Sea oil investment appears to have been buoyant, whereas the earlier recovery in residential investment slowed down.

The heavy destocking in the first half of 1975 continued in the third quarter with manufacturers again running substantially down their holdings of fuels and materials. Retail stocks, however, appear to have risen a little, which may have been partly involuntary. Given the continuing high ratio of stocks to output, stocks probably fell further in the fourth quarter. However, as the rate of destocking in the second half as a whole seems to have been at a somewhat

6 According to National Accounting practice residential investment shows the volume of houses sold, and not the actual housing output. If the latter measure were used private residential investment may have declined in 1975 on an annual basis.

Diagram 2 **Private Investment Trends**
£ million, 1970 prices



NOTE The 1975 figures are Secretariat estimates based on data for the first three quarters. The 1976 figures are Secretariat forecasts.

Sources: D.T.I., *Trade and Industry*, HMSO, London; C.S.O., *Economic Trends*, HMSO, London.

smaller rate than in the first half, the contribution of the stock adjustment to aggregate demand was positive. But, there was a turnaround in the real foreign balance, mainly because of a rise in the volume of merchandise imports. In the second half imports of food and oil recovered, but a large part of the volume increase of 6 per cent at an annual rate over the first half-year reflected oil platforms for the North Sea. The volume of merchandise exports recorded a slight fall in the second half of 1975 largely reflecting declines of transport equipment, and metals and metal manufactures.

Reflecting the weak trends in both domestic and external demand, industrial production fell sharply in the first half of 1975. The fall—some 3¾ per cent actual rate—was especially severe in the second quarter. Within the total, there was a large decline in manufacturing output which by the third quarter had reached a level about 9 per cent lower than a year earlier. The most substantial declines in output in the first half of 1975 were in the intermediate goods industries which were adversely affected by the large stock adjustment. Production of passenger cars also fell sharply. Output in the services industries, however, held up surprisingly well in view of the weakness in consumers' expenditure. The fall in industrial production decelerated sharply in the third quarter, and the index for October and November suggests that the trough has already been passed. However, output remains depressed. The October industrial trends survey showed that manufacturing industry thought that the bottom of the cycle was near. It also indicated that there had been a small reduction in the proportion of firms with excess capacity from the 75 per cent recorded in the preceding survey in April.

Weakness of fixed investment

The falls in fixed investment in 1974 and 1975—the first in the post-war period—aggravated an increasing weakness evident since about 1969 and which is likely to considerably affect medium-term growth and employment prospects. The average annual growth rate of total gross fixed investment fell from 5¾ per cent in the 1960s to roughly ¾ per cent in the 1970/755 period, a divergence which would widen if the forecast for 1976 is included. This dramatic slowing down has been widespread in non-residential investment. At one extreme the public utilities have seen falls at an average annual rate of 10 per cent since 1967, the peak year in their re-equipment programme. In the first half of 1975 total public sector investment was about 2¼ per cent below the record levels of 1967-68. On the other hand investment has accelerated since 1970 in agriculture, forestry and fishing and mining and quarrying, a response in part to the increasing relative prices of food and energy. However, investment in manufacturing industry, which accounts for about half of total private non-residential investment, has been on a downward trend since 1970 after growing at an average annual rate of 5½ per cent in the 1960s.

The recent protracted weakness of manufacturing investment probably implies that the level of capacity output in the medium-term has been adversely affected, as can be seen from the slowing-down of the growth of the capital stock in manufacturing. As the growth of the net capital stock has fallen below that of the gross capital stock[7] it seems likely that the average age of capital in use has risen[8]. Consequently, there may have been a concomitant slowdown in technical progress to the extent that it is embodied in new equipment. This, combined with a shift in the structure of production away from manufacturing, has probably tended to lower further the growth of productivity in the economy as a whole.

7 For definitions of these concepts see notes to Table 5.
8 Gross capital stock in manufacturing, analysis by age:

	1960	1965	1970	1974
5 years or less	23.4	23.7	23.4	21.4
6 to 10 years	17.8	19.3	19.3	19.4
11 years or more	58.7	57.0	57.3	59.1

Derived from the CSO perpetual inventory model, end year gross stock, 1970 prices.

Source: Direct communication from CSO.

Table 5 **Capital stock and investment in manufacturing industry**
1970 prices

	1955 to 1960	1960 to 1965	1965 to 1970	1970 to 1975[1]	1972	1973	1974	1975[1]
Annual rate percentage changes:								
Gross capital stock in manufacturing[2]	2.8	3.7	3.8	3.0	2.7	2.9	3.4	2.6
Net capital stock in manufacturing[3]	4.4	4.1	3.9	2.6	2.1	2.4	3.1	1.9
	1955 to 1959	1960 to 1964	1965 to 1969	1970 to 1975				
Average ratio, per cent:								
Gross capital formation to gross capital stock	4.9	5.1	5.0	4.4	4.0	4.2	4.6	3.8
Gross profit to output[4]	33.3	31.9	29.7	27.9	27.1	29.1	29.7	

1 1975 figures are Secretariat estimates.
2 Gross capital stock is equal to accumulated capital expenditure (revalued to a common price level) less retirements. Retirements in a given year are equal to the original cost of those assets which are deemed to have completed their service lives in that year and are assumed to be evenly distributed over a period from minus 20 per cent to plus 20 per cent of the mean expected life of the relevant asset group.
3 Net capital stock is accumulated capital expenditure less capital consumption, which is an estimate of the amount of fixed capital "used up" in current production. Capital consumption is calculated on a straight line depreciation basis.
4 Ratio of gross profits at current prices (or trading surplus for public corporations) before providing for depreciation and stock appreciation plus income from self-employment and other trading income to gross domestic product arising in manufacturing.

Sources: National Income and Expenditure 1964-74, HMSO, 1975 and direct communication from CSO.

The stagnation in manufacturing investment since 1970 can be attributed in part to the fact that apart from the short-lived 1973 boom the pressure of demand[9] was rather low in this period. Net profits have fallen to abnormally low levels; it seems that apart from the effects of low capacity utilisation in recent years, there has been a longer-term downward trend. The slower growth of the net capital stock since 1955 has been associated with a decline in the rate of return on capital[10] in manufacturing from about 13.5 per cent in the late 1950s to about 7.4 per cent in the 1970/74 period, as is shown in Diagram 3. It seems that, on average over the period, for every one per cent decline in the rate of return there has been a decline of almost one quarter per cent in the rate of growth of the net capital stock after allowing for cyclical movements[11].

The labour market

The number of unemployed, which rose gradually through 1974, increased rapidly in 1975, at a monthly average rate of 40 000. The rate of unemployment

9 The evidence from studies of investment behaviour supports a "flexible accelerator" formulation in which gross investment responds gradually to output changes in previous periods, representing possibly a partial adjustment to changing equilibrium capital stock levels.

10 Defined as the ratio of gross trading income *less* depreciation at replacement costs *less* stock appreciation to net trading assets at replacement costs for large listed companies in manufacturing. This definition of the "rate of return" is suited more to a net than gross capital stock measure.

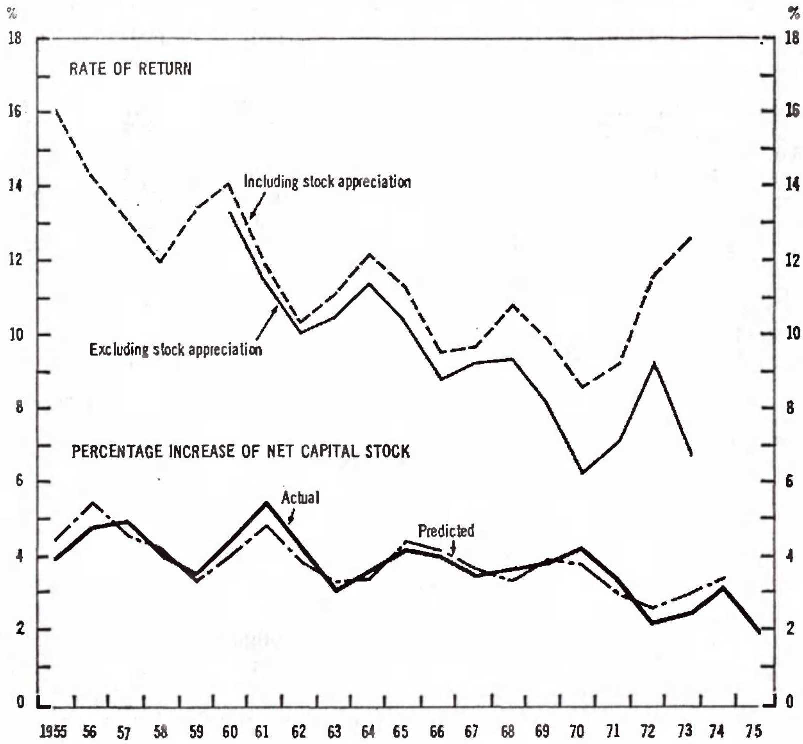
11 The following equation was estimated for annual data over the period 1955 to 1974:

$$K\% = \underset{[3.6]}{1.42} + \underset{[6.2]}{0.223}\,RR_{-1} + \underset{[4.3]}{0.163}\,Q\%_{-1} \qquad [\text{"t" ratio}]$$

$$\bar{R}^2 = 0.75, \text{ D.W.} = 1.43$$

in which K% is the percentage growth of the net capital stock in manufacturing, RR is the "rate of return" as defined in the previous footnote and Q% is the percentage deviation of manufacturing output from trend. The purpose of the latter variable was to capture cyclical effects while the "rate of return" could account for the longer-term trend.

Diagram 3 **Profitability and Net Capital Stock in Manufacturing**



NOTES The "rate of return" series are defined as the ratio of net trading income to net trading assets at replacement costs for large listed manufacturing companies before and after deducting stock appreciation.

The net capital stock series is for manufacturing as a whole and the "predicted" percentage increases are calculated from the equation in the text.

Sources: D.T.I., *Trade and Industry*, 24 October 1975, London; direct communication from the Central Statistical Office for the net capital stock.

increased from 2.7 per cent in November 1974[12] to 4.9 per cent in December 1975—a post-war high—and equal to 1.12 million persons. As would be expected in a period of deep recession, the number of unfilled vacancies fell sharply, from 270 000 in November 1974 to 113 000 at the end of last year. The rapid deterioration in the labour market, especially in the first half of 1975, was characterised by a marked rise in the number of hours lost due to short-time working[13]. In addition, overtime working fell substantially. A marked reduction in employment has been concentrated in the manufacturing sector. After remaining steady for about three quarters at a cyclical peak, employment in manufacturing started to fall in the fourth quarter of 1974, and by October 1975 was nearly 6 per cent lower than a year earlier. Outside manufacturing, employment overall held up relatively well, mainly as a result of increases in public administration and miscellaneous services. Reflecting the increased activity in energy-related fields, especially North Sea oil and coal, employment in mining and quarrying also rose.

12 Due to industrial action in the Employment Service Agency, no count of unemployment was taken in December 1974.

13 Hours lost due to short-time working in the sample week in May were about 3 million —equivalent to about 75 000 unemployed.

Table 6 **Labour**

	1971	1972	1973	1973 IV
Unemployed total, per cent	3.4	3.7	2.6	2.2
Unemployed total, thousand	776	855	580	494
of which:				
production industries	406	434	281	238
Notified redundancies, thousand[1]	84.1	46.8	20.4	18.6
Vacancies total, thousand[2]	129	145	304	361
Total employees in employment, million	21.58	21.71	22.22	22.28
Index of employment in production industries 1970 = 100	96.6	93.9	94.8	95.0
Index of employment in manufacturing industries, 1970 = 100	96.7	93.5	94.0	94.4
Average weekly hours worked per operative, manufacturing industries 1962 = 100	95.1	94.7	96.5	96.6

* All figures apart from notified redundancies are seasonally adjusted and refer to Great Britain only.
1 Quarterly averages.
2 Monthly averages.
Source: Department of Employment Gazette, HMSO, London.

It appears that the relationship between output and employment in the last two years has changed perceptibly, compared with experience in previous cycles, and especially the downturn of 1970 and 1971. The fall in manufacturing employment in the present downturn has been stronger than in previous cycles, as has the reduction in man-hours worked. Nevertheless, the deterioration in relation to output in the last year has not been as severe as previously. Consequently, productivity as measured by both output per head and per man-hour has fallen sharply, whereas it rose strongly during the previous recession[14]. To some extent, this development may reflect the lagged response between changes in output and employment. It may also be partly due to a reluctance by employers to make skilled workers redundant, preferring instead to incur the temporary costs associated with a productivity decline. In the last upswing, a shortage of skilled manpower was a major bottleneck on increasing production[15]. Also, the heavier cost of redundancy payments may have deterred a larger shake-out of labour[16]. With manufacturing output stabilising in the second half of last year, the decline in productivity probably reversed, reflecting the lags in the output—employment relationships.

14 *Percentage changes*

	1973 Q3 to 1975 Q3	1969 Q2 to 1971 Q4	1960 Q1 to 1963 Q1	1957 Q1 to 1958 Q3
Manufacturing:				
Output	–10.8	–1.0	–0.8	–1.4
Employment	–4.8	–5.4	0.4	–1.5
Man-hours	–7.2	–7.0	–1.0	–2.7
Output per head	–6.3	4.7	–1.2	0.1
Output per man-hour	–3.2	7.2	0.2	1.3

Sources: Department of Employment Gazette, various issues.

15 For one year around the peak in the third quarter of 1973 there was an excess of unfilled vacancies over unemployment in craft and similar occupations while in general vacancies were less than one half the unemployment figures.

16 The average cost per redundancy for employers rose by over 50 per cent to £265 in the year to the third quarter 1975, possibly reflecting both the statutorily increased benefits and the fact that longer serving employees comprise an increasing proportion of those made redundant as the recession deepens.

market indicators*

1974				1975			
I	II	III	IV	I	II	III	IV
2.4	2.4	2.6	2.7	3.1	3.5	4.2	4.7
546	552	592	610	701	813	967	1 080
270	268	290	305	366	421	492	538
28.3	22.8	28.0	48.5	72.1	65.2	56.4	
286	311	306	283	189	157	133	117
22.17	22.28	22.40	22.23	22.11	22.12	22.12	
94.8	94.6	94.6	94.0	93.0	91.6	90.3	
94.3	94.4	94.5	94.0	92.9	91.1	89.5	
90.0	95.7	95.1	94.8	93.9	93.0	93.2	

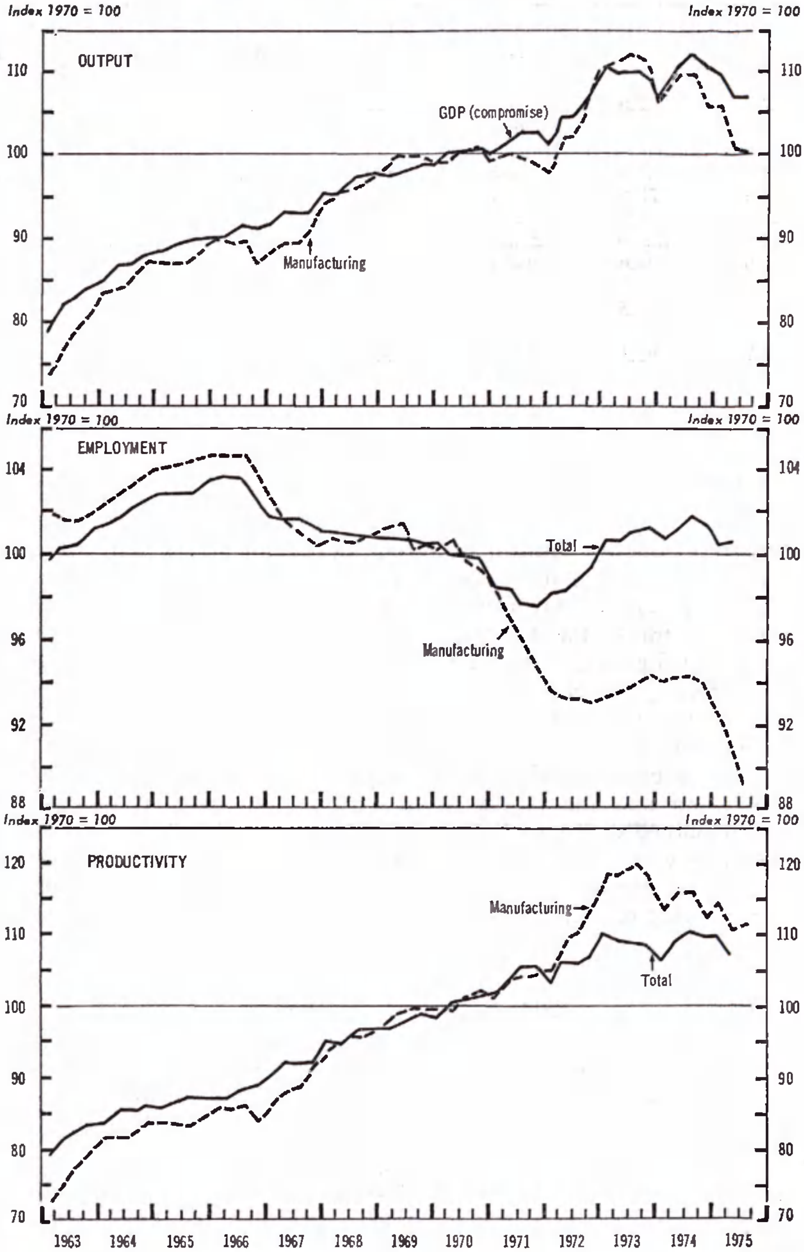
A further distinctive feature of recent developments in the labour market is the marked convergence of regional unemployment rates when compared with experience in the 1970/71 downturn. From the trough in unemployment towards the end of 1973 up to the third quarter of 1975, the seasonally adjusted unemployment rate for Great Britain increased from 2.2 per cent to 4.7 per cent. The rates of unemployment in regions of lower than average unemployment at the beginning of the period increased substantially more than the average and, of course, the reverse occurred in regions of high unemployment. The comparison with the previous cycle is striking as can be seen from Table 7. The improvement in Scotland and the North in relation to the average was particularly marked. Undoubtedly, the high level of activity associated with North Sea oil and coal-mining was an important factor. However, other regions of high unemployment have also not fared as badly as in the past. Although part of the explanation for this may lie in the distribution of industries between regions, the

Table 7 **Regional unemployment**
Ratio of regional to national rate
Index, Great Britain = 100, annual averages

	1970	1971	1972	1973	1974	1975
South East	64.3	61.2	59.0	58.1	61.1	69.0
East Anglia	83.7	94.2	77.6	73.3	75.7	87.6
South West	111.5	99.5	91.4	93.0	104.8	118.2
West Midlands	76.9	86.4	95.8	83.2	82.8	99.0
East Midlands	89.1	87.0	81.4	79.7	85.3	88.6
Yorkshire and Humberside	111.3	113.0	111.3	108.0	103.0	97.4
North West	106.3	115.6	129.1	136.2	133.7	129.8
North	181.4	167.3	165.1	175.7	176.3	145.3
Wales	152.5	131.3	129.2	133.0	144.2	137.9
Scotland	166.0	173.3	171.3	174.4	154.4	126.9
Great Britain rate	2.5	3.3	3.6	2.6	2.5	3.9

Source: Department of Employment Gazette, HMSO.

Diagram 4 **Output, Employment and Productivity**



NOTE GDP (compromise) is a weighted average of the expenditure, income and output-based estimates of GDP.

Sources: C.S.O., *Economic Trends,* HMSO, London.

pattern of convergence is still striking when such effects are allowed for. A comparison of actual changes in unemployment with what would be predicted from the industrial distribution of employment in the regions shows a consistent pattern of convergence during the current recession but a less consistent pattern of changes from an equivalent stage in the previous downturn[17].

Improvement in the external position

After deteriorating markedly in both 1973 and 1974, the external position improved significantly last year. But, although the current external deficit was reduced by about $5 billion, it remained sizeable at some $3¾ billion. There was an equivalent reduction in the trade deficit which, at about $7 billion (3¼ per cent of GDP) was almost entirely attributable to trade in petroleum and petroleum products, trade in other goods—accounting for one-third of the deficit in 1974—having moved into approximate balance. There was also an improvement in the balance on petroleum and petroleum products. The surplus on invisibles, however, seems to have fallen by about $100 million, partly reflecting higher interest payments abroad mainly as a result of increased public sector foreign borrowing.

A sharp turnaround in the terms of trade following the deterioration in 1974, and volume developments were about equally responsible for the reduction in the trade deficit, but the pattern of developments was dissimilar between the two halves of the year. Despite an increase in the effective depreciation in the exchange rate from 19.8 per cent from Smithsonian central rates in the fourth quarter of 1974 to 24.1 per cent in the second quarter of 1975, the terms of trade improved considerably. This was partly due to a fall in industrial material prices which helped to limit the rise in import unit values to about 4 per cent between the fourth quarter of 1974 and the second quarter of 1975. In the same period export unit values rose by some 10 per cent, mainly reflecting the strong domestic cost pressures. After taking account of volume developments discussed below, export values increased by about 7 per cent in the first half of last year, whereas import values fell by 4½ per cent. In the course of the second half of 1975, the improvement in the terms of trade was slightly reversed while export volumes fell a little and import volumes increased considerably. Although the rise in export unit values slowed marginally, there was a considerable acceleration

17 The calculations, to which the predictions below relate, take the percentage unemployment rates for 27 industry groupings in each region to be equal to that for Great Britain. The distribution of employment by industry in any region then gives a pattern of weights with which to derive the "predicted" average unemployment rate in the region. The definition of unemployment for Great Britain used in calculating the unemployment rates used in this table differs from the officially published unemployment rates as it excludes those unemployed who could not be classified by industry (8¾ per cent of total wholly unemployed in June 1971). The regional figures were reduced in proportion. The table shows broad tendencies which would probably not be strongly affected had the calculations used a finer disaggregation by industry:

	Unemployment rate, June 1971	Percentage change in unemployment			
		June 1971 to June 1974		June 1974 to June 1975	
		Predicted	Actual	Predicted	Actual
South East and E. Anglia	1.74	–27.5	–30.0	61.2	81.5
West Midlands	2.46	–33.6	–32.8	65.9	92.9
East Midlands	2.52	–32.4	–31.9	61.3	67.3
South West	2.54	–29.3	–24.8	62.2	91.0
Yorks and Humberside	3.28	–31.6	–37.8	60.1	52.0
North West	3.30	–30.8	–19.0	64.2	60.6
Wales	3.63	–31.0	–22.3	55.8	54.4
North	4.81	–28.7	–24.8	57.7	34.9
Scotland	5.00	–29.2	–36.5	61.3	32.9
Great Britain	2.8		–29.6		62.1

Source: Department of Employment Gazette, various issues.

Table 8 **Balance of payments**
$ billion, annual rate

	1973	1974	1975	1974 2H	1975 H1	1975 H2	1975 Q3	1975 Q4
Seasonally adjusted :								
Exports, fob	28.8	37.2	41.6	39.0	42.4	40.8	39.6	42.0
Imports, fob	34.4	49.4	48.8	51.4	49.7	47.8	47.8	47.8
Trade balance	-5.6	-12.2	-7.1	-12.4	-7.3	-7.0	-8.3	-5.8
Services, net	4.7	4.6		4.5	4.5		4.1	
Private transfers, net	-0.2	-0.2	3.4	-0.3	-0.2	3.1	-0.2	2.9
Official transfers, net	-1.0	-0.9		-0.9	-0.7		-0.6	
Current balance	-2.1	-8.7	-3.7	-9.1	-3.7	-3.9	-5.0	-2.8
Not seasonally adjusted :								
Current balance	-2.1	-8.7		-8.6	-4.7		-4.8	
Long-term capital, net	2.8	5.8		3.9	-2.8		1.3	
Private	0.5	1.8		-0.5	-5.7		1.5	
Official	2.3	4.0		4.4	2.9		-0.2	
Basic balance	0.6	-2.9		-4.7	-7.5		-3.5	
Non-monetary short-term capital, incl. errors and omissions	0.1	1.1		2.0	2.5		5.6	
Balance on non-monetary transactions	0.7	-1.8		-2.6	-4.9		2.1	
Private monetary, short-term capital	-0.3	-1.0		-1.3	3.9		-0.3	
Balance on official settlements	0.4	-2.8		-3.9	-1.0		1.8	
Sterling liabilities	0.2	3.1		4.1	-0.2		-3.2	
Other	—	—		—	—		—	
Change in reserves	0.6	0.3	-1.4	0.2	-1.2	-1.6	-1.3	-1.7
Memorandum item:								
Oil imports, net, s.a., annual rate	-3.1	-8.0	-6.9	-8.4	-6.9	-6.9	-6.7	-7.2
Crude oil imports, million tons, s.a., annual rate	111.5	109.1	86.4	104.6	86.4	86.4	89.6	83.2

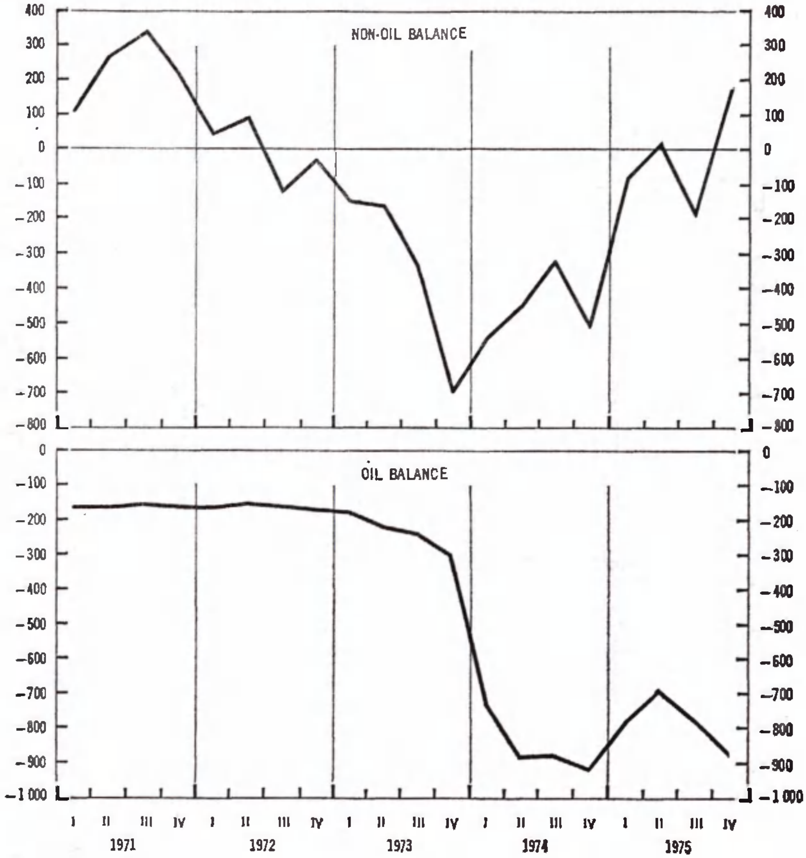
Sources: Central Statistical Office and Department of Trade, Press Notice; the conversion into dollars is made by the Secretariat.

in import unit values. The effects on import unit values of exchange rate movements were substantially smaller than in the first half of the year, but prices of some major categories of imports, particularly fuels and machinery, rose rapidly.

The development programme for North Sea oil last year seems to have had a considerable effect on imports, especially in the second half of the year. Approximately one-half of North Sea investment is believed to be imported and, given the high costs of such items as platforms, the arrival of a small number within a short period can distort the trend in total imports. This occured in the second half when imports for the North Sea almost doubled, increasing import values by roughly 4 to 5 per cent in the third quarter and by about 2½ per cent in the half year as a whole. While the volume of crude oil imports declined sharply from 109 million tons in 1974 to 86 million tons in 1975, this owed little to North Sea oil production. Rather, it reflected mild weather, the weakness in industrial activity and the related run down in stocks. Commencing in the second half of the year, North Sea oil production is tentatively estimated to have been 1 to 2 million tons, with an approximate value of only $200 million or less.

On the side of exports, the fall in volumes in 1975 was about half that of the 5 per cent contraction in markets, thus resulting in a substantial gain in market shares. But, as noted above, the relatively good export performance was largely concentrated in the first half of the year, and represented partly the

Diagram 5 **Trade Balances, Oil and Non-oil**
£ million, seasonally adjusted

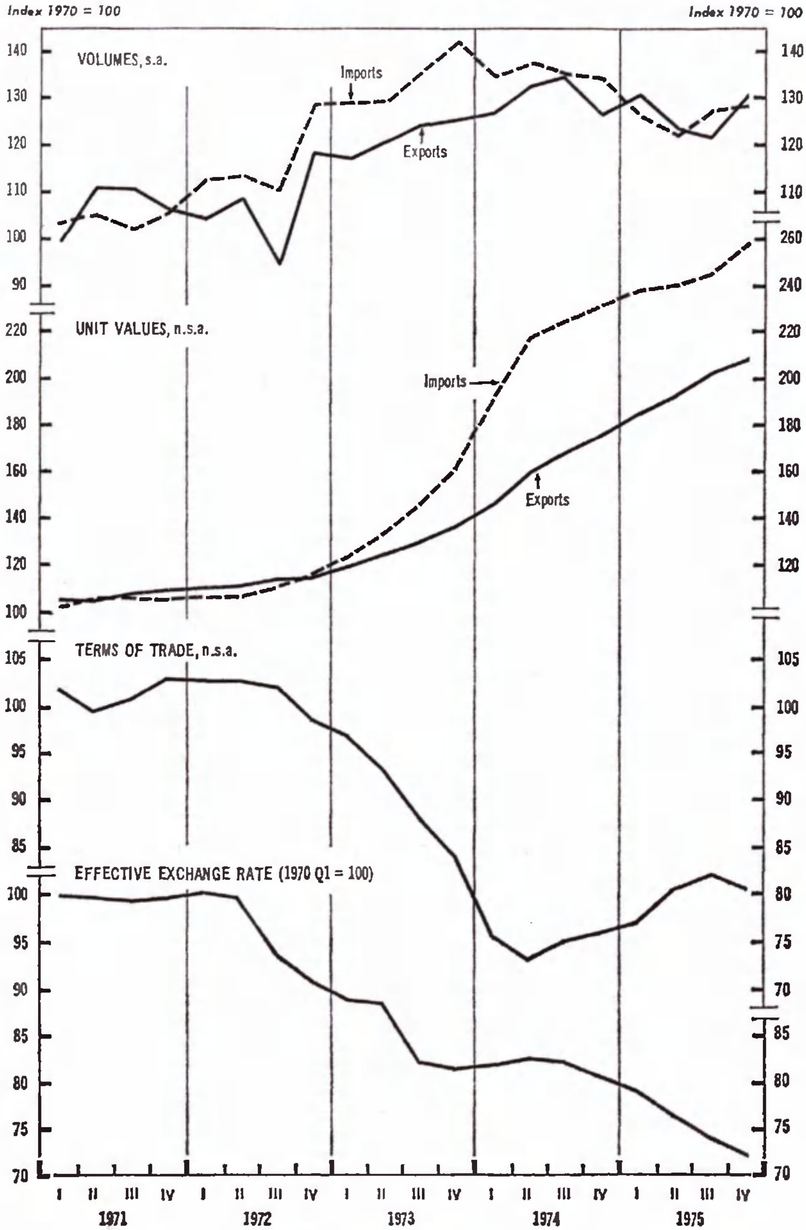


Sources: Monthly Digest of Statistics, HMSO, London; direct communication to the OECD.

working-off of a backlog of export orders. It also seems that United Kingdom exports were still benefiting from the lagged effects of the competitive price advantage derived from the sizeable effective depreciation of Sterling between mid-1972 and end-1974. The further depreciation of Sterling in 1975, helped to reduce the loss of competitiveness implied by the rapid rate of domestic inflation. Exports also held up reasonably well because of the rapid expansion of markets in the oil producing countries, the value of exports to this group of countries approximately doubling between 1974 and 1975. There was also a large increase in exports to eastern European countries, but as their share in total exports is fairly small the impact on total exports was negligible. Within the total, the volume of machinery exports rose substantially as did that of transport equipment, but most other categories of exports declined somewhat.

In an attempt to help reduce the difficulties caused by inflation—including the effects of exchange rate depreciation—for exporters of capital goods, a temporary cost escalation scheme was introduced in February 1975. The scheme, under the Export Credits Guarantee Department, applied to major capital goods contracts requiring manufacturing over two years and having an individual value of more than £2 million. Of the increase in costs, exporters were responsible

Diagram 6 **External Trade**



Sources: Monthly Digest of Statistics, HMSO, London and direct communication to OECD except for the effective exchange rate which is a Secretariat estimate.

for the first 10 per cent, the Government covering 85 per cent of the next 10 per cent. For cash contracts, the figures were 90 per cent and 15 per cent respectively. Basically, the scheme related to raw material, components and labour costs. Despite the scheme, the combination of the effects of exchange rate depreciation and domestic cost increases was regarded by exporters as an important barrier to obtaining longer-term export contracts. Following a simplification of the cost escalation cover in August, the scheme was widened considerably in December. At the same time, the provision of finance to exporters prior to shipment of goods was improved to cover an extended range of export contracts. These export financing arrangements were principally designed to assist exporters in order to complement the overall objective of demand-management of switching resources into the external sector, thus reducing the constraint on policy of the large external deficit. The restrictions announced in December on a fraction of imports[18] on the other hand, were mainly introduced for sectoral employment problems rather than for balance of payments reasons.

Financing a sizeable, but substantially smaller current external deficit than in 1974 seems to have been achieved without major difficulties. In the first three quarters of 1975 over half of the deficit of $3 billion was covered by public sector borrowing, while other net capital inflows and a rundown of reserves of $1 billion accounted about equally for the rest. In this period, compared with 1974, it seems that there was a considerably smaller inflow of private long-term capital, together with a much larger outflow of long-term capital abroad. Sterling holdings by oil-exporting countries fell by about £95 million in the first nine months of 1975, but the net result reflected a large increase in the first quarter and appreciable reductions in subsequent quarters. To some extent, the change in Sterling holdings by oil exporting countries since the first quarter of last year probably reflects their increasing expenditure on imports. Official reserves continued to be drawn on in the final quarter and at end-December they stood at $5.4 billion compared with $6.8 billion at end-1974. To help ensure financing arrangements, the authorities in November 1975 approached the International Monetary Fund about negotiations for SDR 1 billion under the 1975 oil facility and the first credit tranche of SDR 700 million. The facilities were approved at the turn of the year.

II ECONOMIC POLICY

Declining output and employment, strong inflation, and the large current external deficit posed major policy dilemmas in 1975. Priority was appropriately given to reducing the rate of inflation and the current external deficit; demand-management was restrictive overall, but action to encourage investment and selective labour market measures to limit the rise in unemployment were taken. At the beginning of 1975, the failure of the Social Contract to achieve pay restraint was damaging to the anti-inflation strategy, and the Budget decisions increased inflationary pressures, but the overall policy stance and mix by the time the £6 a week pay policy was agreed seemed to be conducive to reducing inflation and the current external deficit.

Budgetary policy

The budget for fiscal 1975/1976[19] was officially estimated to be slightly contractionary, the total impact on demand being about ¼ per cent. While both

18 On 17th December, 1975 quotas were placed on the import of spun yarn from Spain and spun yarn and man-made fibres from Portugal. At the same time, arrangements on the voluntary restraint on imports of certain textiles and footwear from a number of eastern European countries were to be negotiated. Imports of television tubes and sets were to become subject to surveillance licensing.

19 The fiscal year is from 1st April to 30th March.

Table 9

£

	1972/73	1973/74 Outturn	1974/75	1975/76 Budget estimate
Current receipts, s.a.	25.1	28.5	35.9	43.8
Current expenditure, s.a.	22.1	26.0	34.0	42.6
Current balance, s.a.	3.0	2.5	1.9	1.2
Current balance, n.s.a.	3.0	2.5	1.9	1.2
Total capital expenditure, n.s.a.	4.9	6.1	8.0	8.6
Gross fixed investment	4.8	6.0	7.3	8.2
Stockbuilding	0.2	0.1	0.7	0.2
Capital transfers, net	—	—	—	0.2
Net deficit, n.s.a.	2.0	3.6	6.1	7.4
Net lending and other financial transactions, n.s.a.	0.5	0.8	1.8	1.7
Total borrowing requirement, n.s.a.	2.5	4.5	7.9	9.1
Total borrowing requirement, s.a.	2.5	4.5	7.9	9.1

NOTE The individual items may not always add to total because of rounding.
Source: Financial Statistics, CSO, London.

public consumption and investment were planned to rise at a faster rate in volume than in the previous fiscal year, the effect on demand was to be more than offset by discretionary revenue changes. As a result of the latter, tax receipts were estimated to rise by £1.3 billion, some 3 per cent of total current receipts. Among the principal measures were increases in indirect taxes[20]: VAT was raised from 8 to 25 per cent on a wide range of less essential goods[21] and estimated to yield £220 million, while higher excise on alcoholic drinks and tobacco and vehicle duties were estimated to increase revenue by £560 million and £250 million respectively. Personal income tax rates were increased by 2 percentage points[22] but the main personal allowances were also increased. It was also announced that price restraint subsidies to nationalised industries would be completely eliminated by April 1976, and additional funds were allocated for industrial training and the selective investment programme. Incorporating the budget changes, the public sector borrowing requirement[23] was officially estimated to be £9.1 billion, the equivalent of just under 10 per cent of GDP, and much the same proportion as in fiscal 1974/75. Without the discretionary revenue measures, the borrowing requirement was put at £10.3 billion. Recent indicators, however, suggest that the borrowing requirement in fiscal 1975/76 will be in excess of the budget estimate, possibly by as much as £3 billion.

In response to the increasing sluggishness of demand and the rise in unemployment, the Government introduced a series of measures between August and December 1975 with the principal aim of alleviating unemployment, especially among young people and in the assisted areas. Steps were also taken to encourage productive investment[24]. Measures announced in September and November last year included subsidies to employers in order to maintain or create new jobs and provision for increased public sector spending. The total

20 See Annex for details of the budget.

21 Comprising most domestic electrical goods (other than cookers and heaters), recreational boats, aircraft, caravans, binoculars, cameras, furs and jewellery.

22 The top rate was not increased since it was already 98 per cent—on income liable to the investment income surcharge.

23 The borrowing requirement in the United Kingdom relates to total public sector, including the borrowing of local authorities and nationalised industries.

24 See Annex for full details of the measures.

Public finances
billion

1974				1975		
I	II	III	IV	I	II	III
7.3	8.2	8.9	9.4	9.8	10.5	11.0
7.2	7.3	8.3	8.8	9.6	10.0	10.8
0.2	0.9	0.6	0.6	0.2	0.5	0.3
1.1	0.7	0.2	0.2	0.8	0.3	—
1.8	1.6	1.9	2.1	2.5	2.1	2.4
1.9	1.4	1.7	2.0	2.3	1.9	2.2
—	0.2	0.1	0.1	0.2	0.2	0.2
—	—	0.1	—	–0.1	—	0.1
0.7	0.9	1.7	1.9	1.7	1.7	2.4
–0.7	1.0	–0.1	1.1	–0.2	1.3	0.1
–0.1	1.9	1.6	3.0	1.5	3.1	2.5
0.9	1.5	1.7	2.2	2.4	2.8	2.8

cost of the packages was estimated to be about £230 million, three-quarters of which is to be spent by the end of this year. The net cost, however, is considerably less, due to savings on unemployment payments and an increase in tax revenues. While the net outlay is relatively small, the authorities estimate that some 100 000 jobs will result, substantially more than if the equivalent sum had been injected into the economy through normal fiscal policy measures. The main benefits to employment will be felt in 1976, as will the extension of the employment creating schemes announced in December. The impact on the public sector borrowing requirement is also likely to be small. Despite the post-budget measures, the stance of fiscal policy at the end of 1975 was still probably slightly restrictive.

The substantial increases in the public sector borrowing requirement in recent years partly reflects discretionary measures designed to boost domestic activity.

Table 10 Public sector borrowing requirement
£ billion

	1961-1971	1972-1973	1973-1974	1974-1975	1974 III	1974 IV	1975 I	1975 II	1975 III
Total borrowing requirement[1] s.a.	0.8	2.5	4.5	7.9	1.7	2.2	2.4	2.8	2.8
Central government		–0.2	0.7	2.6	0.5	1.1	0.9	1.3	1.8
Local authorities		1.6	2.6	3.3	0.8	0.9	0.7	1.0	0.5
Public corporations		1.1	1.1	2.0	0.3	0.2	0.8	0.5	0.5
Financed by:									
External transactions		1.2	0.1	1.6	0.3	0.8	0.2	0.6	–0.3
Notes and coins with the public		0.4	0.4	0.8	0.3	0.3	0.2	0.1	0.2
Bank borrowing		0.1	0.6	0.9	0.1	0.9	0.6	1.1	1.7
Other domestic transactions[2]		0.9	3.5	4.5	1.1	0.2	1.4	0.9	1.2
Total borrowing requirement as a percentage of GDP	2¼	3¾	6¼	9¼	8	9½	10¾	11½	11½

1 The sums borrowed by the central government and lent to local authorities and public corporation have been deducted from central government borrowing and have been added to local authorities and public corporations respectively.
2 Mainly domestic borrowing from non-bank sources.
Sources: CSO, Financial Statistics and Economic Trends, HMSO, London; Bank of England Quarterly Bulletin.

The borrowing requirement rose in 1972/73 mainly as a result of reduced income taxes, and to a lesser extent in the 1973/74 budget and the November 1974 measures. The 1975/76 budget also provided for substantial increases in public sector expenditure on goods and services, especially current expenditure. At the same time, pensions and other related benefits have risen in real terms since mid-1974. Anti-inflationary measures have also contributed through increased subsidies on food, local rates and to nationalised industries for price-restraint reasons, although the latter has decreased in importance in 1975 in line with the Government's programme to phase them out. The effects of the recession in 1975 have been particularly important. The growth of revenues from income taxation decelerated appreciably, reflecting the rise in unemployment and the reduced significance of bonuses, premiums and overtime pay which together were mainly responsible for offsetting roughly fiscal drag with the result that the elasticity of tax revenue with respect to income tended to decline last year. Coincidentally, unemployment benefit and other related payments rose pari-passu with unemployment, contributing to the 42 per cent increase in public sector grants to the personal sector between the second quarters of 1974 and 1975. While it is difficult to evaluate the impact of the recession, both autonomous and discretionary, on the public sector borrowing requirement, Secretariat estimates indicate that it may have accounted for more than a third of the total of around £12 billion.

The greater reduction in demand and activity than was officially forecast partly explains the larger than estimated borrowing requirement. Accelerating inflation was another factor. But the development of the borrowing requirement since 1971 suggests that there is a fundamental structural problem in public sector financing. Experience in the last upswing indicates that without major public sector policy changes, the borrowing requirement as a percentage of GDP may not be much reduced as activity recovers. Indeed, during the last boom the borrowing requirement rose from 3¾ per cent of GDP in 1972 to about 6 per cent in 1973. To some extent, this may have been due to a delay in implementing earlier expansionary policy, but other factors would seem to have been more important. Principal among these are probably the constant price basis used to control public expenditure and the difficulties of conversion in periods of high inflation between current and constant prices. Another would seem to be inadequate control of local authority expenditures, which have in recent years exceeded budget estimates by a substantial margin. The rising trend of the public sector borrowing requirement in relation to GDP since 1971/72 has been mainly due to current consumption and transfer payments rising faster than revenue, thus reducing the surplus on current account. Consequently, an increasing share of public fixed investment has had to be financed by borrowing.

Monetary conditions

In sharp contrast to 1973, monetary expansion in the course of 1974 and 1975 was relatively moderate, the growth rate of M3 falling from about 13 per cent to 8 per cent respectively. Narrowly-defined money supply, however, increased at a faster rate than in 1974, but decelerated through the year. On both definitions, money supply increased less than nominal GDP, in line with the Government's stated aim at the time of the budget. The slowdown in monetary expansion was largely due to sluggish demand for bank credit by the private sector[25]. Policy was directed towards providing finance for exports, import saving

25 The weak demand for money early in 1975 resulted in the increase in interest-bearing liabilities being about one-third what was permitted under the supplementary deposit scheme which was suspended in February last year. Under the scheme, the allowable rate of increase of interest-bearing liabilities was fixed at a little under 1 per cent per month above the reference level of the average during the three months to December 1973 in the first half of 1974 and 1½ per cent thereafter.

and industrial investment, and banks were requested to restrain lending to the personal sector and finance and property companies. In addition, the request by the authorities to the banks not to pay more than 9½ per cent on deposits under £10 000 was withdrawn. In December, hire purchase and credit restrictions on a limited number of consumer durables were removed in an attempt to provide a limited boost to demand. For much of 1975, monetary policy is probably best described as slightly contractionary.

Financing the large public sector borrowing requirement was the most important source of monetary expansion (M3) in 1975. The impact, however, was relatively small, as well over half of the increase in central government debt was sold directly to the non-bank public, mainly to financial institutions but also to industrial and commercial companies. Other public sector debt seems to have been largely sold to banks. In contrast to earlier years, appreciable quantities of Treasury Bills were sold outside the banking system. To a considerable degree, the success of the authorities in selling Treasury Bills was due to a marginally higher yield than offered by some other forms of financial assets. As in 1974, external items had a considerable restraining effect on the growth of M3 in the first half of 1975, the reduction in the current external deficit being mostly offset by a smaller inflow of private capital from abroad. In the third quarter of last year, a sharp increase in private capital inflow from abroad added

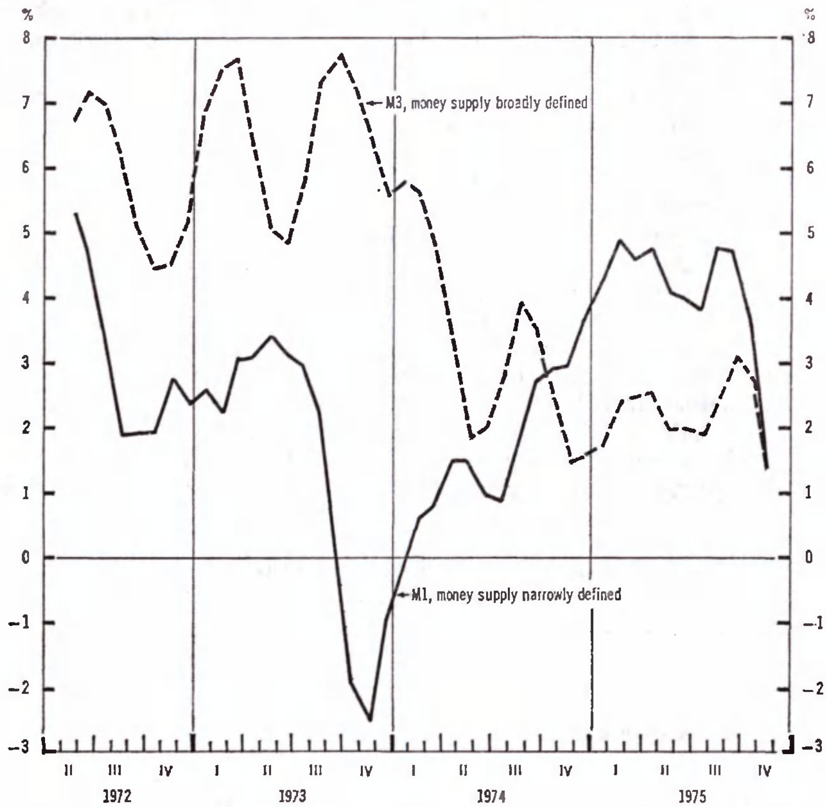
Table 11 Monetary developments
Annual rates

	1972	1973	1974	1974			1975			
				II	III	IV	I	II	III	IV
Money supply, percentage change, s.a.										
M1 narrowly defined[1]	15	9	5½	8¾	18¾	33	8¾	8	26½	
M3 broadly defined[1]	21	27	18¾	10¼	14½	15¼	3¾	7	18	
Velocity of circulation[2]	2.8	2.5	2.3	2.3	2.4	2.4	2.5	2.7	2.7	
Net bank advances to domestic sectors, £b., s.a. total	4.4	6.1	8.9	5.6	6.5	4.9	2.1			
of which: manufacturing	0.9	1.1	2.5	2.7	3.5	2.4	1.2			
financial sector	1.3	1.9	2.2	—	1.4	0.3	-0.3			
personal sector	0.9	1.1	0.8	-0.2	0.2	-0.2	-0.1			
Building societies, £b., s.a.										
Net increase in share and deposits	2.2	2.2	2.0	1.8	2.5	2.7	4.4	4.4	4.2	4.0
Mortgage advances	3.6	3.5	2.9	2.2	2.9	4.0	4.1	5.0	5.1	5.6
Components of monetary expansion, s.a., change in period £b.										
M3	5.3	7.2	4.2	3.3	4.7	5.1	1.3	2.6	6.5	
Public sector borrowing requirement	2.1	4.2	6.3	5.7	6.7	8.6	9.5	10.9	6.5	
Purchases of public sector debt by private sector	1.0	-2.3	-3.1	-5.2	-3.9	-0.6	-6.8	-2.7		
Lending to private sector	6.4	7.1	4.4	4.7	5.8	1.3	1.7	-0.2	-0.3	
External finance (increase: —)										
Public sector	-1.6	0.1	-1.5	-0.8	-1.4	-3.1	-0.8	-2.6	1.4	
Banking sector	—	-1.4	-1.2	-1.1	-0.2	-2.7	-1.0	-3.6	—	
Other	-0.7	-0.5	-0.7	—	-2.4	+1.6	-1.2	0.7	-1.0	
Domestic credit expansion £b. s.a. changes in period	6.9	8.6	7.6	4.9	8.8	10.1	4.0	8.3	5.8	

1 The annual figures relate to the average amounts outstanding over the years, whereas the quarterly figures relate to the amounts outstanding at the end of the period.
2 Ratio of GNP at current market prices, seasonally-adjusted at an annual rate to the centred quarterly average of M3, seasonally-adjusted.

Sources: Financial Statistics, HMSO; Economic Trends, HMSO, London; Bank of England Quarterly Bulletin.

Diagram 7 **Money Supply**



NOTE The series are on a three-month moving average base and show percentage changes over previous three months.

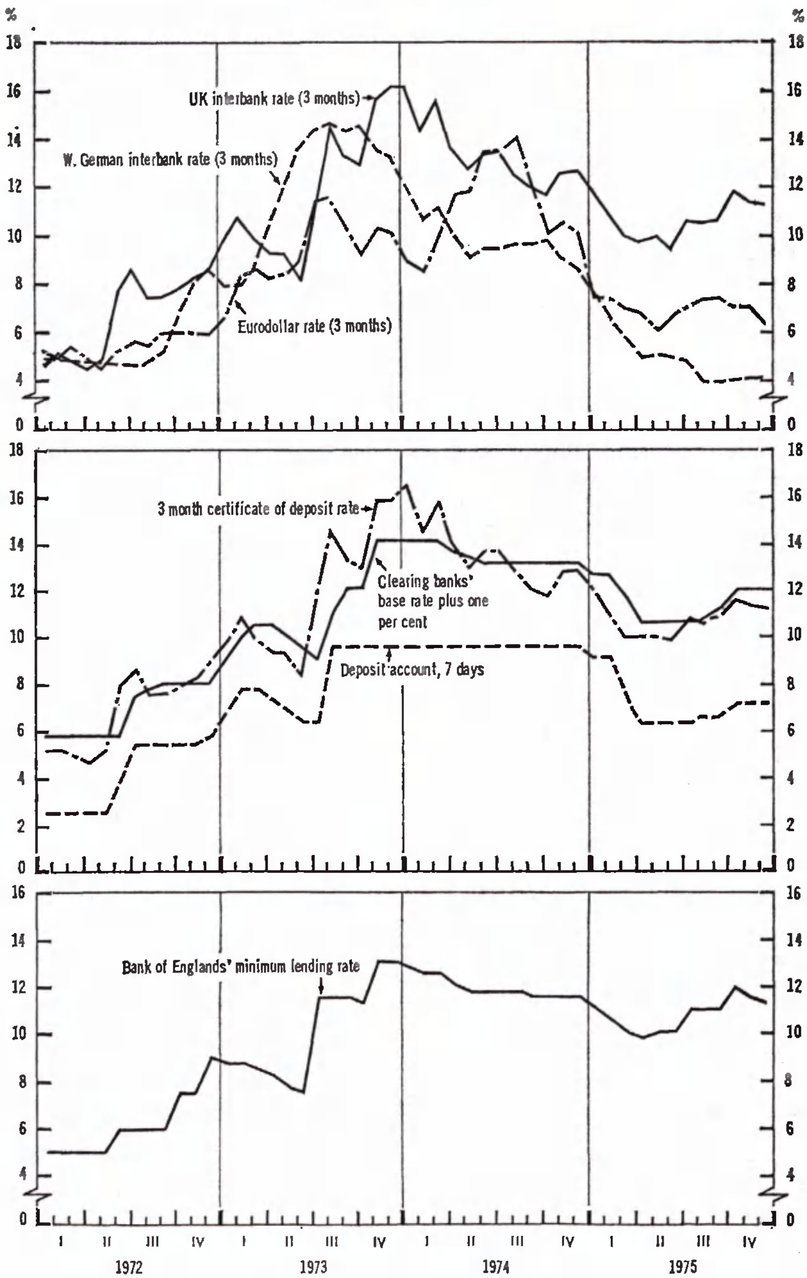
Source: C.S.O., *Financial Statistics*, HMSO, London.

substantially to the growth of M3 but this seems to have been reversed in the fourth quarter. The growth of M3 was roughly the same in the two halves of the year, about 9 per cent, annual rate.

Reflecting the recession, private sector demand for money was particularly weak in 1975. Bank lending to industry, notably to manufacturing and construction, rose slightly as these sectors attempted to improve their liquidity by reducing investment and running down stocks. Also, during most of 1975, the net indebtedness of the personal sector was reduced, probably because of the continued reduction in expenditure on consumer durables. During the last two years, the durable goods cycle contributed considerably to the marked rise in the personal savings ratio. After many years of continuous growth, bank lending to property companies—an important factor in the excessive monetary expansion in 1973—was appreciably reduced. Largely as a result of changes in interest rate differentials, personal deposits shifted in favour of building societies. This together with the rise in personal savings generally, permitted building societies to increase mortgage loans to £5 billion in 1975 compared with £3 billion in the whole of 1974, and at the same time to raise their liquidity ratio to over 20 per cent at the end of 1975 as against 18½ per cent a year earlier.

Interest rate developments in 1975 were largely influenced by balance of payments and exchange rate considerations. Partly in line with Government policy, but mainly because of reduced short-term interest rates in the United States and Europe, short-term rates declined slowly in the first four months of the year. The Bank of England's minimum lending rate was reduced in four

Diagram 8 **Interest Rates**



Source: C.S.O., *Financial Statistics*, HMSO, London.

successive steps from 11½ per cent in December 1974 to 9¾ per cent in April last year. Longer-term rates followed a similar pattern, but fell more appreciably. But as rates abroad began to move up in July and the exchange rate came under pressure, the authorities were forced to raise the minimum lending rate in two steps from 10 to 12 per cent and other rates also moved up. Between mid-year and November the tendency was for rates at the short end to rise in order to ease the pressure on Sterling and to maintain the attractiveness of Government debt outside the banking system. The minimum lending rate was reduced in seven small steps between November and January 1976 to 10 per cent. The clearing bank base rate was 10 per cent and the deposit rate 6 per cent, a wide margin of 4 per cent indicating the weak demand for bank loans, the relatively liquid position of the banks and a general lack of competition by banks for funds.

Price and income policies

In the first half of 1975, prices and incomes policies relied mainly on the price code and the Social Contract[26]. However, the failure of the social contract to achieve a slowdown in wages combined with the sharp rise in unemployment led to agreement between trade unions and Government in July last year on a new counter-inflation policy including the voluntary £6 a week pay limit. The main details of the policy were outlined in Part I of the Survey. In marked contrast to the incomes policies in the previous two years which had provided for some growth in real pay, the latest policy implies a fall. The decline in real pay largely reflects the lag between changes in costs and prices and is concentrated in the first eight months of the twelve-month agreement. As noted earlier, there has been a substantial deceleration in pay settlements since the introduction of the policy, and all notified settlements have been within the limit.

After the relaxation in the price code in November 1974, made in order to help companies reconstitute profits, few changes to further ease the price surveillance apparatus were made last year. The freeze on business rents was ended in February. Mainly to encourage investment, the Government announced in April that companies could pass on in prices and to profit margins, 20 per cent instead of the previously allowed 17½ per cent of firmly budgeted expenditure on most forms of capital investment (including that for export purposes which is outside price control). However, due to increasing competition as a result of the recession, it seems that many wholesale and retail prices have risen less than permitted under the price code. At the same time as the pay agreement became effective in July, provision was made for the duration of the price control powers to be extended up to 31st July 1976. The Government also announced that it would work out a programme in co-operation with the Confederation of British Industry and the Retail Consortium, to stabilise the prices of certain items which are particularly important in family budgets. Moreover, the scheme of price display and unit pricing was to be accelerated.

Industrial policy

The Government's overall medium-term strategy involves a switch of resources into exports and productive investment. This requires a shift in the balance of priorities towards industry, and as has been announced, holding the level of real public expenditure (excluding debt interest) constant between 1976/77 and 1978/79. To bring about this shift the Government intends to make use

26 See OECD Survey of the United Kingdom, March 1975, for details of the price code and the Social Contract.

to a growing extent of the operations of the National Enterprise Board and the development of planning agreements with key sectors of industry. In addition, the Government has initiated a series of broader consultations with both sides of industry. It is made clear that the main criterion for its involvement in an industry should be "viability" judged foremost on a sector's or firm's profitability and rate of return on capital. In using instruments such as the 1972 Industry Act and selective measures such as the accelerated capital projects scheme, export potential and longer term employment considerations are taken into account.

The National Enterprise Board is a statutory public corporation empowered to spend £1 billion on improving the performance in key sectors of industry. As regards planning agreements, companies are to discuss their corporate plans with Government and unions. In return the going rates of regional development grants and other industrial incentives will be guaranteed. While the aim and nature of the agreements will vary from firm to firm and sector to sector, their success and contribution to switching resources can only be judged over a period of time.

In November 1975 the Government launched an initiative which has led to some 30 groups being set up under the aegis of the National Economic Development Office to discuss the constraints on improved performance in 30 sectors of industry covering some 50 per cent of manufacturing output. This involves the unions and firms more intimately in sectoral development. These groups will work closely with the Manpower Services Commission and the industrial policy groups within the Civil Service. Apart from the funds available to the National Enterprise Board, selective assistance totalling £290 million has been allocated under Section B of the 1972 Industry Act to special industry schemes in the textile, ferrous foundry and machine tools industry among others and to encourage firms to bring forward investment projects which would otherwise have been deferred. Other important developments in industrial policy in 1975 were the taking into public ownership of a major vehicle manufacturing firm and the first steps towards nationalising the aircraft and ship-building industries.

III PROSPECTS AND POLICY CONCLUSIONS

The outlook in 1976

The development of the economy through 1976—as in 1975—will largely depend on the course of prices and wages. With most of the important trade unions now committed to accepting the £6 a week policy, a continued slowdown in the growth of average earnings up to the expiration of the agreement in July this year seems assured. But much will depend on the formula which replaces the present agreement. On the assumption that there are no changes in the agreement, and that the policy is not breached to any major extent, average earnings can be expected to be rising at an annual rate of about 10 per cent by the end of the year. The comparable figure before the introduction of the £6 per week was over 30 per cent. With some recovery in output and a further fall in employment, the rise in unit wage costs should become considerably more moderate. But, because of appreciable wage costs still in the pipeline at the end of 1975, consumer prices are likely to rise at a slightly faster rate than average earnings in the first half of this year. Thereafter real average earnings should improve a little. Other domestic costs are expected by the Secretariat to rise somewhat less than wage costs, but as recovery gets underway their relative importance in the rise in prices may well increase. Depending partly on the movement of exchange rates, import prices could continue to reduce price

Table 12 Demand and output in 1976
Percentage volume change, annual rate

	1975[1]	1976[2]	1976 H1	1976 H2
Consumer's expenditure	–¼	–1½	–1	½
Government consumption	2½	2	¾	¾
Fixed investment	–¾	–4	–7¾	½
Final domestic demand	¼	–1¼	–1¾	½
Stockbuilding[3]	–2½	1¼	1¼	1
Compromise adjustment[3 4]	—	½	¾	—
Total domestic demand	–2¼	¼	¼	1½
Exports	–3½	2¾	4½	4¾
Imports	–5½	3¼	2	3½
Foreign balance[3]	½	—	½	¼
GDP market prices[5]	–1¾	¼	¾	2
Memorandum items:				
Consumer deflator	21¼	15	14¼	10½
Current balance of payments, $ billion, annual rate	–3¾	–3¼	–3¼	–3¼

1 1975 is provisional as it is based on published data for the first three quarters and on OECD estimates for the last quarter.
2 OECD forecasts. Half yearly data are seasonally adjusted (except for the consumer deflator).
3 Change as a percentage of GDP in the previous period.
4 The difference between expenditure based output and GDP compromise which is a weighted average of output, expenditure and income based GDP.
5 Compromise GDP.

NOTE Because of rounding the individual items may not add exactly to total GDP.

Sources: Press and Information Service Release, CSO, London and OECD estimates.

pressures for much of 1976. In total, the rise in consumer prices in 1976 may be about 15 per cent, but the annual rate of increase in the final quarter of the year is forecast by the Secretariat to be around 9 per cent. The other components of incomes are likely to improve in real terms, and especially current transfers. However, after allowing for considerable fiscal drag, real personal disposable income is forecast by the Secretariat to decline through most of this year, falling by about 2½ per cent in the year as a whole.

Reflecting the forecast decline in real personal disposable income, private consumption is likely to fall to a greater extent this year than last on the basis of present policies, although much will depend on the behaviour of personal savings, one of the most difficult items to forecast. On balance, it seems unlikely that the personal savings ratio will be greatly reduced, as the main factors—rising unemployment, uncertainty about the future and the real wealth effects of inflation—which seem to have largely been responsible for the marked rise over the last couple of years, will continue to operate to the same extent. On the other hand, the expected slowdown in inflation could result in some reduction of savings. The forecast assumes a fall in the savings ratio of 1 percentage point. The selective relaxation of hire purchase and credit terms may contribute to some recovery in sales of consumer durables, but not sufficiently to prevent private consumption falling by about 1½ per cent. The forecast shows a reduction in the first half of the year and a little growth thereafter.

The growth of public consumption in line with government policy is assumed to be a little slower than in 1975. The authorities' objective of reducing the public sector borrowing requirement in 1976/1977 by £3 billion from what it would otherwise have been is likely to have a considerable effect on public fixed investment, which was particularly buoyant in 1975, but may now only rise by about 1 per cent. The downward trend in private fixed investment is expected to accelerate in the first half of this year, but then level off. While profitability in manufacturing industry may improve somewhat, the overall financial position of this sector will remain comparatively tight. This, combined with a very high degree of excess capacity and the weak outlook for growth, may serve to discourage investment. For much the same reasons, investment in distribution and services is expected to be lower this year than last, but the decline may well come to an end sooner than in manufacturing. Investment in North Sea oil development is likely again to represent a sizeable part of total productive investment, but the total may be less than last year. Despite the forecast squeeze on real incomes, private residential investment is expected by the Secretariat to continue to rise somewhat, perhaps by about 3¼ per cent, largely because of the ready availability of mortgage finance from the building societies. In total, fixed investment in 1976 may fall by around 4 per cent.

Although the liquidation of stocks was substantial in 1975, the stock/output ratio remains at a relatively high level, suggesting that the destocking process will probably continue into the first half of 1976. Weak demand prospects and the need by companies to improve their financial position are likely to work in the same direction, although the influence of the latter could be partly offset by the provision of government finance to assist restocking of raw materials. Taking account of these factors, the forecast shows continued destocking in the first half of the year, but at a slower rate than in the second half of 1975, thus making a positive contribution to the growth of real GDP and largely offsetting the fall in final domestic demand. A possible small recovery in stocks in the second half of the year is expected to impart a further boost to GDP. In the year as a whole, total domestic demand is forecast by the Secretariat to rise hardly at all, but the course of stockbuilding is highly uncertain.

With sluggish domestic demand, the growth of real GDP this year will heavily rely on the strength of external demand. The forecast incorporates the assumption of an unchanged effective exchange rate from end-1975. On this basis, there would probably be a further loss of competitive price advantage, which could act to limit the recovery of British exports. The relatively weak growth expected in Europe and reduced imports by the non-oil developing countries, together accounting for about half of total British exports, may be more important. In both halves of this year, the volume of exports is expected to rise at annual rates of about 4½ per cent but, with exports depressed considerably in the second half of 1975, the implied year-on-year rise is around 2¾ per cent, less than the Secretariat's estimated growth of export markets. Mainly reflecting weak final domestic demand and the forecast movement of stocks, import volumes are likely to rise more slowly than exports in the first half of 1976, perhaps at an annual rate of about 2 per cent. If stocks are rebuilt and private consumption begins to recover after mid-year, the annual growth rate of import volumes could rise to 3½ per cent, taking the average rise in 1976 to about 3¼ per cent. Thus the real foreign balance is forecast to fall a little.

The development of export and import volumes along the lines outlined above, together with a moderate improvement in the terms of trade, would result in a small reduction in the trade deficit. With net invisible receipts forecast to change little, the current external deficit is expected to decline to $3¼ billion in 1976. The arrangements with the International Monetary Fund to draw, as necessary, SDRs 1.7 billion under the oil facility and the first credit tranche, are equivalent to more than half the forecast current deficit.

In sum, real GDP is forecast by the Secretariat to show little change between 1975 and 1976 on the basis of present policies. However, in the course of the year, some rise should be experienced, perhaps at an annual rate of 2 per cent in the second half. With output growing considerably less than the estimated rate of growth of productive potential of near 3 per cent, unemployment is expected by the Secretariat to continue rising during the year, but more slowly than in 1975. The improvement in the financial position of the company sector should reduce pressures to shed labour. If wage increases continue to decelerate after the present £6 per week policy expires in July, the ensuing marked improvement in the prospects for inflation could also help to strengthen the labour market. Nonetheless, unemployment may well reach 1.5 million (6¾ per cent of all employees) by the end of 1976. A faster rate of expansion than forecast by the Secretariat, would, of course, imply a lower level of unemployment by the end of the year.

Policy considerations and conclusions

Since the last OECD Survey of the British economy in March 1975, the very high rate of inflation and large current external deficit have both been reduced, but unemployment has risen to a record post-war level. The bottom of the recession seems now to have been reached. But what is imperative, in the period immediately ahead, is that economic policy should concentrate on establishing the conditions that are essential to a growth-path which will be sustainable over the medium-term, and avoid measures which, at best, would provide only a short-lived stimulus. Until the recent achievements of economic policy have been consolidated, any sizeable boost to demand would risk a new resurgence of inflationary pressures and jeopardise the improvement in the current external account. In the interests of a stronger British economy in 1977 and beyond, priority must again be given to reducing the rate of inflation and the current external deficit. A further period of rather strict restraint of domestic demand and an extension of agreed policies to slow down the rise of money incomes is therefore desirable. But within this framework, further selective labour market measures similar to those already taken would be appropriate.

The present pay policy, which as noted above, has already had a considerable impact on inflationary pressures, is now approaching its second stage—the stage which, in the experience of many countries, is critical to the success or failure of bold policy initiatives of this type. It is the second stage that tends to determine whether the rate of inflation can progressively be reduced, or whether such policies only provide temporary relief with a snap-back to higher inflation rates thereafter. The adoption of the £6 per week pay policy last July could mark a turning point in the behaviour of the British economy. The Secretariat estimates that, following its extensive acceptance, wages and prices by mid-1976 may be rising at annual rates of 12½ and 12 per cent respectively, compared with 34 and over 40 per cent in the second quarter of last year. The course of inflation thereafter is likely to depend, to a very important extent, on the arrangements which follow the present policy when it expires in July. The Secretariat, in its forecasts, assumes that the present policy will be maintained. This would already lead to some further slowing-down of the inflation rate. However, it has to be recognized that while a £6 limit on pay increases is a substantial improvement on the 38 per cent annual rate prevailing immediately before the agreement, its continuation in the second half of this year would imply that pay was still rising by 9-10 per cent, considerably more than in certain important competitor countries, particularly in view of the slower productivity growth in the United Kingdom. Hence the desirablility of a second-stage agreement that would bring the growth of money incomes down substantially further.

In view of the external position, the scope for higher private consumption this year is limited, as is also likely to be the case in 1977. As a matter of common sense, it would therefore be desirable to limit the rise in money incomes and thus inflation as low as possible. But some increase will be required in order to prevent price rises in the pipeline and the likely movement in import prices causing greater pressure on real incomes than would be warranted by the limited real resources available for domestic use. Increases in excess of this would be self-defeating as prices would also rise faster and taxes might have to be raised. Moreover, the higher the rate of inflation, the greater the adverse effects—through deteriorating export competititveness and worsening industrial confidence—on the level of employment and the balance of payments. A reasonable objective might be a rise in money earnings in the period August 1976-July 1977 somewhat below the 9 to 10 per cent implied by the continuation of the present policy. Largely because the present pay policy was begun at the start of a pay round, existing anomalies are relatively small. To try to take account of all these could introduce too much flexibility, thus putting at risk the whole policy and its achievements to date. Consideration might be given to combining a small percentage rise and a flat money increase.

A more marked slowdown of domestic costs along these lines in 1976 could materially speed up the subsequent return to reasonable employment levels. To the extent that inflation is reduced this year, the scope for less restrictive demand management in the medium-term will be increased and hence reducing unemployment. Moreover, the effect of lower inflation on the competitive position would help the export industries and those competing for domestic sales against imports. And it would hasten a return by the corporate sector to a more viable financial position, thereby removing an important constraint on productive investment. In this context, the outlook for manufacturing investment remains a matter for concern. Unless the growth of domestic costs is reduced substantially further, and the competitive position sustained with a reasonably stable effective exchange rate, business confidence is likely to remain low and investment weak. As shown in the main body of the Survey, the growth of productive investment has fallen considerably since 1969, and every effort needs to be made to reverse this unsatisfactory situation. The authorities have already taken a number of measures to improve the investment climate, but an essential condition would seem to be greater progress on the anti-inflationary front, without which medium-term demand prospects are unlikely to appear sufficiently strong to justify a strengthening of capital expenditure.

The external payments position strongly reinforces the immediate need for economic policy to concentrate on the progressive elimination of inflation and to continue to keep domestic demand reined in. Although considerably reduced, the size of the current external deficit is still a matter of concern. Even on the basis of present policies, the deficit is forecast to fall relatively little in 1976 and the possibility of a new increase cannot be ruled out, especially in 1977 if recovery gets firmly under way. More buoyant demand conditions than at present forecast in the United Kingdom's main export markets would help to strengthen the balance, but much will depend on the speed with which resources are moved into the export sector rather than absorbed by domestic consumption. Moreover, so long as inflation is higher than in some major competing countries, there will be some risk that the effective exchange rate will have to be allowed to depreciate further, and this, in turn, will feed back on inflation. Until the inflation rate has been substantailly reduced further, interest rate policy may also have a major role to play in the maintenance of a stable exchange rate. The seven reductions in the minimum lending rate between November and January reduced, but did not eliminate, the previously large differential between British and external rates. Any further reductions will need to weigh external and domestic objectives carefully, and in present circumstances it would seem that external factors should have priority: interest rate changes are currently more likely to influence foreign exchange movements than domestic investment decisions.

The current external deficits incurred by the United Kingdom over the last three years already total around \$15 billion, with probably another \$3¼ billion or so to come this year. Foreign borrowing equivalent to this year's probable accretion has already largely been arranged. The debt burden does not yet seem to be a major problem. But interest and capital payments are nevertheless sizeable, representing about 2½ per cent of export receipts at the 1975 rate and rising to around 3½ per cent in 1976. The increasing benefits from North Sea oil should help to ease the debt problem, especially after 1978, but for this to be so it will be important not to allow other elements in the external account to deteriorate.

The value though not the volume of public sector expenditure in 1975/76 probably exceeded the estimates by a considerable margin. As a consequence, the public sector borrowing requirement (including nationalised industry financing equivalent to about 2 per cent of GDP) rose substantially, to the equivalent of about 12 per cent of GDP. This compared with over 9 per cent in fiscal year 1974/75. Despite the fact that a considerable part of the borrowing requirement reflects the effects of the recession, experience in the past upswing suggests that, without major policy changes, the borrowing requirement is likely to remain comparatively high, even after recovery has got under way. During the 1960s, the borrowing requirement averaged about 2¼ per cent of GDP, the current account of the budget yielding a substantial surplus which largely covered the deficit on capital account. In the 1970s, however, the structure of the budget has been changing, the surplus on the current account declining sharply in relation to the capital account deficit. While some steps have been announced in the form of future public expenditure cuts and the introduction of cash limits, there would seem to be need for a continuing thorough-going examination and reform of the method of estimating and controlling public expenditure. Indeed, such an examination could include the desirability of reducing the public sector's share of total resources in the medium term, thus ensuring sufficient room for the growth of productive investment and the switch of resources to the external sector.

The need to limit the rise of unemployment and rebuild corporate liquidity may preclude any appreciable cut in the borrowing requirement in fiscal 1976/1977, over and above the existing decision to reduce public expenditure by £3 billion from what it would otherwise have been. But in the meantime the impact of the borrowing requirement on the money supply will require careful management. In 1975 the authorities were able to sell a large part of the public debt outside the banking system, but this was facilitated by the fact that the private sector's demand for funds was severely depressed. As the economy starts to recover there may be stronger competition for credit from the private sector, thus making more difficult the task of limiting the effects on inflation of public sector operations.

Annex

CALENDAR OF MAIN ECONOMIC EVENTS

1974

5th December

Rate Support Grant Settlement for 1975/76 limits growth of local authority spending to 4 per cent.

12th December

Price Commission approved average 12 per cent increase in domestic gas prices from 1st January.

19th December

Freeze on business rents to end from 1st February 1975.

20th December

The price of petrol increased by 10p a gallon and maximum price control was ended.

1975

3rd January

Post Office announced plans for £650 million p.a. increase in postal and telecommunication charges.

6th January

School teachers in England and Wales accept 27 per cent pay increase backdated to May 1974.

8th January

£30 million deal for 41 000 gas industry manual workers agreed.

17th January

Bank of England cut minimum lending rate by ¼ per cent to 11¼ per cent.

24th January

Minimum lending rate cut by ¼ per cent to 11 per cent.

27th January

Government's plans to aid private housing sector announced.

28th January

Two index-linked savings schemes, for people over pensionable age and small savers, announced.

7th February

Bank of England lowered minimum lending rate by ¼ per cent to 10¾ per cent.

13th February

Minister of Agriculture gained EEC approval for continuing deficiency payment support system for UK beef producers over coming year.

14th February

Bank of England's minimum lending rate cut ¼ per cent to 10½ per cent.

17th February

Price rises announced for bread, milk and coal.

25th February

Single rate 45 per cent Petroleum Revenue Tax on North Sea oil announced, with exemption for 10 million tons per field and concessions on capital depreciation.

26th February

White Paper on referendum on membership of EEC published.

28th February

Bank of England dropped supplementary special deposits scheme introduced in 1973 and also put limit of 9½ per cent on rate paid by banks on small deposits.

7th March

Minimum lending rate reduced from 10½ to 10¼ per cent.

19th March

White Paper published detailing £4.8 billion defence cuts implying loss of about 70 000 jobs.

21st March

Bank of England reduced minimum lending rate from 10¼ to 10 per cent.

1st April

Electricity prices rose by an average 28½ per cent for domestic users and 7½ per cent for industry, and coal prices increased by £3 a ton.

2nd April

30 per cent pay rise awarded to miners to be boosted by £3 across-the-board payments for production of each 100 000 tons of coal over the target figure.

3rd April

Electricity supply manual workers agreed a pay offer increasing earnings by 31 per cent over levels a year ago.

9th April

Bill published setting up British National Oil Corporation by the Autumn 1975, which would have powers to borrow up to a limit of £600 million.

14th April

Pay awards for 500 000 civil servants announced, giving 32 per cent rise over 15 months.

15th April

Budget for 1975/76 presented to Parliament. The measures were expected to have a deflationary impact of about £330 million on demand in 1975, perhaps contributing an additional 20 000 to the unemployed by the end of the year, and to have a direct impact on retail prices of about 2¾ per cent over the next three months. The principal instruments were tax increases and cuts in public expenditure in 1976/77.

Principal tax changes. All rates of income tax, apart from the highest, were increased by 2 per cent, thus the rate on the first band of taxable income up to £4 500 p.a. increased from 33 per cent to 35 per cent. Offsetting this on lower incomes, personal tax allowances were increased — by £50 to £675 for the single person's allowance and by £90 to £955 for the married allowance. The additional allowance for single parent families was raised by £100 to £280. It was estimated that some 9 million tax payers would pay less income tax than before. The net revenue effect of these changes in a full year would be + £234 million.

VAT was raised from 8 per cent to 25 per cent on a range of " less essential " goods and services, comprising most domestic electrical goods other than cookers and heaters, recreational boats, aircraft and caravans, cameras, binoculars, furs and jewellery. Revenue effect in a full year + £355 million. Revenue duties on alcoholic drinks and tobacco were increased (e.g. 2p on a pint of beer and average 7p on a packet of cigarettes), with estimated revenue effect + £607 million in a full year. Vehicle excise duties were raised by 60 per cent to £40 for private cars and by one-third for commercial vehicles, with estimated revenue effect in a full year: + £270 million.

Public expenditure. In 1976/77 there would be cuts of over £900 million, at 1974 Survey prices, with reductions of some 3 per cent in the defence budget and, for civil programmes, of 1½ per cent in current expenditure and of 10 per cent in capital expenditure. There would be no reduction in social security provisions.

There would be substantial reductions in subsidies on food prices, housing and to nationalised industries.

In 1975/76 an extra £100 million was allocated to selective investment programmes to improve the balance of payments and for modernisation, and an extra £20 million was to be spent on retraining. Enabling powers to produce a temporary employment subsidy would be introduced.

Prices The Price Code was to be relaxed to give more relief to investment and to help exports by raising the rate of investment relief from 17½ to 20 per cent for "qualifying investment", which would include investment for export as well as home sales.

Deficit. The measures were considered to reduce the public sector borrowing requirement by £1¼ billion, compared to pre-budget estimates, to £9.1 billion in 1975/76.

17th April

White Paper aiming at reduction of food imports of £530 million a year was published.

18th April

Rail fares to go up by an average 15 per cent in May.

Minimum lending rate reduced from 10 to 9¾ per cent.

23rd April

Building societies announced that interest rate on deposits would be lowered from 7½ to 7 per cent from June 1st but mortgage interest rate will remain at 11 per cent.

British Steel announced plans for over 20 000 redundancies over next few months.

Dealings in British Leyland shares suspended on the Stock Exchange.

24th April

Ryder report on British Leyland was published proposing £700 million injection of public money over three years.

1st May

Aircraft and Shipbuilding Industries Bill published, providing for the nationalisation of those industries.

2nd May

Minimum lending rate raised from 9¾ to 10 per cent.

7th May

Permanent committee under the auspices of NEDO and the Bank of England to be set up to keep the problems of finance for industrial investment under review.

22nd May

105 000 manual workers in electricity supply industry accepted 31 per cent wage increase effective from March 17th.

2nd June

The first index-linked National Savings bonds, for retirement pensioners, became available.

5th June

The referendum on continued UK membership of the EEC was held.

6th June

Result of EEC referendum announced showing 67.2 per cent of voters in favour of continued membership.

11th June

First flows of offshore oil from the North Sea.

16th June

50 000 white collar electricity supply workers to get 33 per cent pay rise.

1st July

Index-linked Save As You Earn bonds on sale for first time.

9th July

TUC General Council adopted a document "The Development of the Social Contract" embodying a £6 per week flat pay proposal.

The Post Office proposed a new scale of postal charges to avoid a £300 million loss in the current financial year.

9th July

Industry Secretary announced £25 million long-term state finance for machine tool group Alfred Herbert in return for a majority shareholding to be held by the National Enterprise Board.

11th July

A White Paper, "The Attack on Inflation", was published, incorporating:

(*i*) A maximum £6 per week pay rise limit with no increases for incomes above £8 500 a year with proposals to guarantee adherence to the norm within the public sector.

(*ii*) Reserve powers to make it illegal for an employer to exceed the pay limit.

(*iii*) Continuation of the Price Code beyond March 1976 and a price limitation programme for selected products of special importance in family expenditure.

(*iv*) Increased subsidies on food and council housing.

(*v*) A commitment to introduce the temporary employment subsidy, announced in the Budget, as soon as possible.

(*vi*) Extensive use of cash limits to control government expenditure at central and local level.

22nd July

The "Green Pound" (the exchange rate, for agricultural purposes, between Sterling and the EEC's unit of account) was devalued by 5 per cent, which would have the effect of raising the retail food price index by one per cent over a year.

Government to inject further £ 8½ million into state job-training scheme mainly to help school leavers.

24th July

The unadjusted unemployment total, for Great Britain, including adult students and school leavers, rose above one million for the first time since 1940.

25th July

Bank of England's minimum lending rate raised from 10 to 11 per cent.

30th July

Royal Commission on the Distribution of Income and Wealth published its first two reports, one on the current distribution of personal income and wealth and the other on income from companies.

1st August

£6 per week pay rise limit became effective.

5th August

The Employment Secretary gave details of the temporary employment subsidy—companies would receive £10 per week for each prospective redundant worker kept in full employment in the assisted areas, payable for three months, with possibility of a further three months' extension, to operate from August 18th.

7th August

A White Paper on Development Land Tax was published.

13th August

TUC Economic Committee agreed to attempt detailed monitoring of wage settlements under the new pay policy, based on voluntary supply of information from affiliated unions.

20th August

Publicity campaign for the Government's counter-inflation policy began.

1st September

Chrysler put 26 000 workers on short-time until at least the end of October.

3rd September

TUC Annual Congress approved the £6 per week pay policy by a 2-1 majority.

4th September

The Sandilands Committee's "Report on Inflation Accounting" was published, proposing the development of "Current Cost Accounting" to show up the importance of inflation on company profits.

24th September

Measures to alleviate unemployment were announced, involving expenditure of £175 million to create 100 000 jobs over the next 18 months, and included a recruitment subsidy for school leavers, the extension of the temporary employment subsidy to cover the whole country, and more public money for training and industrial investment.

3rd October

Bank of England's minimum lending rate was raised from 11 to 12 per cent.

14th October

The "Green Pound" was devalued by 5.8 per cent.

16th October

The Prime Minister announced a Royal Commission to study the operation and financing of the National Health Service.

23rd October

New scales of National Insurance contributions to take effect in April 1976 were announced. Rates are increased by ¼ per cent to 5¾ per cent for employees and 8¾ per cent for employers.

29th October

Chrysler Corporation in US announced it was considering closing down Chrysler UK's operations, affecting at least 27 000 jobs.

1st November

State aid of £32 million for the construction industry announced, to be spent on public works projects to alleviate unemployment in the industry.

5th November

The Government published its proposals on "industrial strategy" and an extra £20 million, in addition to £70 million already allocated, was to be made available for investment projects shelved because of the recession.

6th November

The Prices Secretary issued a consultative document to the CBI and the Retail Consortium proposing a 5 per cent limit on price rises of key items of household expenditure.

7th November

Announcement of Government's intention to apply to IMF for loans of £975 million in 1976, of which £575 million would be from the Fund's oil facility.

13th November

The British National Oil Corporation was formally established.

14th November

Bank of England's minimum lending rate was reduced ¼ per cent to 11¾ per cent.

20th November

The National Enterprise Board was formally established.

A review of housing policy including the Rent Acts and home improvement grants was announced.

Revised NHS charges for dental treatment and spectacles were announced, to increase revenue by £16 million to pay for increased pensions and social security benefits.

21st November

The Rate Support Grant for 1976/77 was cut by 1 per cent to 65.5 per cent, a cut of £100 million, and cash limits would apply to any additional grants in 1976/77 to allow for increases in pay and prices.

28th November

Minimum lending rate was reduced ¼ per cent to 11½ per cent.

2nd December

Price rises on petrol and domestic heating oil of 5 per cent and 28 per cent respectively were announced.

16th December

The Industry Secretary announced an agreement with Chrysler Corporation to save Chrysler UK by a state subsidy of £72.5 million for expected losses up to 1979 together with state loans and guarantees taking the total potential government commitment to £162.5 million in return for a financial commitment by the Chrysler Corporation of up to £133.5 million.

The Government's Central Policy Review Staff's report on the UK motor industry was published outlining "serious competitive weaknesses" and recommending a large reduction in production capacity.

17th December

The Chancellor of the Exchequer announced a set of measures to alleviate unemployment:

- More money was made available to schemes that create or preserve jobs including £10 million to the Manpower Services Commission for labour-intensive projects, particularly for young people, in areas of high unemployment; £3 million for a relaxation in the conditions for firms to qualify for the Temporary Employment Subsidy; and £1.5 million to the Community Industry Scheme.
- Hire purchase controls were abolished on a range of household fittings and equipment, prefabricated buildings, caravans and boats; for other industries excluding cars the minimum down payment was reduced from 1/3 to 1/5 and the repayment period extended by six months to 30 months. Restrictions on Bank lending for theses purposes were to be relaxed in line.
- Additional financing possibilities were given to the British Steel Corporation to build up stocks counter-cyclically at a cost of £70 million of which 55 per cent would be in the form of Public Dividend Capital and the balance a short-term loan.
- Import quotas were placed on cotton yarn from Spain and cotton yarn and woven man-made fibre fabrics from Portugal. Surveillance licensing was introduced for colour television sets and tubes and portable monochrome sets.

18th December

The Secretary for Trade announced certain measures to aid exporters through the Export Credit Guarantee Department including improvements in the cost escalation scheme and the general availability of pre-shipment finance, which was first announced in August.

24th December

The Bank of England's minimum lending rate was reduced ¼ per cent to 11¼ per cent.

1976

2nd January

Minimum lending rate was reduced ¼ per cent to 11 per cent.

8th January

The Secretary for the Environment announced a 7 per cent cut in local authority funds for expenditure on the existing housing stock, falling mainly on local council mortgages.

9th January

The Department of Prices and Consumer Protection announced proposed changes to the Price Code which would enable a proposed scheme of selective price restraint with cross-subsidization to take effect.

13th January

Text of an official letter of application for a loan from the International Monetary Fund was published with an estimate of £12 billion for the current fiscal years' public sector borrowing requirement and an intention to freeze public expenditure in fiscal years 1977-78 and 1978-79.

14th January

A further £30 million in addition to the £90 million allocated in the Budget for the Government's loan scheme for accelerating industrial investment projects was announced.

15th January

The Bank of England announced that it was temporarily releasing about £325 million of special deposits to the banking system.

16th January

Minimum lending rate was reduced ¼ per cent to 10¾ per cent.

21st January

Government and Building Societies agreed a planned 20 per cent increase in mortgage lending in 1976 over 1975.

23rd January

Minimum lending rate was reduced ¼ per cent to 10½ per cent.

30th January

Bank of England cut minimum lending rate by ½ per cent to 10 per cent.

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STATISTICAL ANNEX

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Table A Expenditure on GDP

£ million

	GDP at factor cost*	Final expenditure at market prices**	Consumers' expenditure	Public current expenditure	Fixed investment	Change in stocks	Exports of goods and services	Imports of goods and services	Indirect taxes less subsidies
	1	2	3	4	5	6	7	8	9
At current prices:									
1972	54 679	76 213	39 635	11 776	11 546	17	13 239	13 426	8 108
1973	62 925	90 081	45 141	13 340	13 815	967[1]	16 818	18 598	8 558[1]
1974	72 625	107 845	51 670	16 641	16 247	1 082	22 205	26 813	8 407
At 1970 prices...									
1969	42 452	60 062	30 715	8 960	9 191	456	10 740	10 358	7 252
1970	43 252	61 672	31 472	9 095	9 380	450	11 275	10 887	7 533
1971	44 216	63 445	32 397	9 369	9 544	70	12 065	11 412	7 817
1972	44 954	66 103	34 318	9 716	9 754	–5	12 320	12 729	8 420
1973	47 334	70 778	35 962	10 121	10 008	960	13 727	14 461	8 983
1974	47 796	71 202	35 741	10 449	9 805	553	14 654	14 500	8 906
... and seasonally adjusted:									
1974 1	11 580	17 429	8 880	2 612	2 532	–174	3 579	3 598	2 251
2	11 971	17 789	8 841	2 601	2 339	274	3 734	3 679	2 139
3	12 239	18 100	8 963	2 618	2 418	359	3 742	3 634	2 227
4	12 006	17 884	9 057	2 618	2 516	94	3 599	3 589	2 289
1975 1	11 939	17 640	9 100	2 614	2 472	–171	3 625	3 439	2 262
2	11 709	17 210	8 941	2 666	2 408	–288	3 483	3 332	2 169
3	11 680	17 289	8 814	2 709	2 517	–157	3 406	3 453	2 156

* 1 = 2 - 8 - 9.
** 2 = 3 + 4 + 5 + 6 + 7.

1 Including a fall in the book value of stocks of £ 280 million in the second quarter of 1973 reflecting tax rebated on the introduction of VAT; the rebate is also included as a deduction from taxes on expenditure and the estimate of gross domestic product at factor cost is thus not affected.

Source: Monthly Digest of Statistics.

Table B Consumption and Investment

	Consumer demand				Investment					
	Total retail sales (volume)	Non-food retail sales (volume)	New car registrations	Changes in hire purchase debt total	Capital expenditure of: Manufacturing industry	Capital expenditure of: Distribution and services industries	Engineering net new home orders	Housing: new starts: Private	Housing: new starts: Public	Investment in stocks (manufacturing)
	1971 = 100		*Thousands, monthly averages*	*£ million, end of period*	*£ million at 1970 prices*		*1970 = 100*	*Thousands*		*£ million at 1970 prices*
1972 1	102.1	103.9	124	+84	459	463	106	52.4	35.4	–72
2	104.8	107.4	147	+112	429	491	104	57.6	28.5	–81
3	107.3	111.4	140	+118	423	491	108	57.6	28.4	–35
4	109.2	113.5	144	+110	428	510	114	59.8	30.7	13
1973 1	111.8	119.8	152	+171	458	526	133	63.5	31.2	166
2	108.3	113.8	136	+87	443	515	134	55.6	26.9	88
3	110.6	117.3	143	+103	488	528	145	52.8	27.2	46
4	112.0	119.8	119	+77	476	545	131	43.0	27.5	96
1974 1	109.8	116.8	103	–68	519	511	109	34.1	35.7	–31
2	107.3	112.2	104	–43	513	487	112	26.1	38.9	191
3	111.0	116.7	109	–15	516	485	106	22.5	36.7	368
4	111.6	118.0	96	–29	539	476	94	22.3	35.5	138
1975 1	111.5	119.5	106	–12	497	434	89	34.4	44.4	–4
2	108.7	116.0	91	+13	461	433	92	36.3	36.9	–112
3	105.3	110.2	104	—	437	433	86	37.8	45.0	–211
4			85							
% change latest quarter:										
on previous quarter	–3.1	–5.0	–18.3		–5.2	0.0	–6.5	+4.1	+22.0	
on a year earlier	–5.1	–5.6	–11.5		–15.3	–10.7	–18.9	+68.0	+22.6	

Sources: Economic Trends; Monthly Digest of Statistics.

Table C Production and Manpower

	GDP average estimate[1]	GDP per person employed[2]	Index of industrial production	Index of manufacturing production	Unemployed	Unfilled vacancies for adults[3]	Employment in production industries	Employment in manufacturing industries	Hours of overtime worked in manufacturing industries
	1970 = 100				*Thousands*		*1970 = 100*		*Million per week*
1972 1	100.8	102.9	97.6	97.9	869	124	94.0	93.9	11.33
2	104.2	106.1	103.0	101.9	838	133	93.9	93.5	12.35
3	104.4	106.0	103.9	103.2	803	147	93.7	93.3	12.82
4	106.5	107.2	106.0	106.4	754	176	93.9	93.2	13.48
1973 1	110.0	109.8	110.5	110.6	669	229	94.4	93.6	14.86
2	109.3	108.9	110.0	110.5	605	290	94.7	93.9	15.20
3	109.6	109.4	110.8	111.6	555	334	94.9	94.0	15.42
4	109.3	109.1	110.0	111.1	494	361	95.0	94.4	16.08
1974 1	106.1	106.4	104.4	106.5	545	286	94.8	94.3	11.90
2	110.0	108.5	107.9	109.4	552	311	94.6	94.4	14.73
3	112.1	109.1	108.3	109.6	592	306	94.6	94.5	17.25[4]
4	111.1	108.0	104.8	105.7	610	283	94.0	94.0	16.24
1975 1	109.6	109.2	104.8	106.1	701	189	93.0	92.9	15.48
2	107.3	106.3	100.2	100.4	813	157	91.6	91.1	13.23
3	106 8		100.0	100.1	967	133	90.3	89.5	12.77
4					1 080	117			
% change latest quarter:									
on previous quarter	-0.5		-0.2	-0.3			-1.4	-1.8	-3.5
on a year earlier	-4.7		-7.7	-8.7			-4.5	-5.3	-26.0

1 Average of expenditure, income and output data.
2 Based on output estimate of GDP.
3 Break in the series from April 1974.
4 From the third quarter 1974 there has been a change in the method of calculating overtime hours with the effect that overtime in ship-building and ship-repairing and overtime by maintenance workers and overtime worked in small establishments are included—these items accounted for 2.8 million hours in the sample week in June 1974.

Sources: Economic Trends; Department of Employment Gazette.

Table D Domestic Finance

	Domestic credit expansion	Change in money supply	Central Government borrowing requirement*	Change in loans[1] (banking sector)	Net increase in building society shares and deposits	Building society commitments to mortgages	Government securities-calculated redemption yields*[2] Short-dated	Medium-dated	Long-dated	Local authority deposits 3 months rates*	Covered comparison between local authority and Euro-dollar 3 months rates*[3]
	£ million				£ million per month		% per annum			% per annum at end of period	
1972 1	1 223	940	–834	1 373	201	316	6.02	6.96	7.89	4.94	–0.73
2	2 110	2 060	416	1 584	199	343	6.82	7.63	8.53	7.56	–1.35
3	1 385	980	706	1 001	155	303	8.79	9.08	9.38	7.50	–1.08
4	2 147	1 680	1 324	1 553	175	305	8.97	9.17	9.51	8.75	–0.72
1973 1	1 793	1 460	–439	1 128	159	330	9.34	9.58	9.83	10.13	–1.30
2	1 207	1 430	1 157	987	268	253	9.20	9.76	10.03	8.13	–2.80
3	2 912	2 230	663	1 863	170	272	11.05	11.06	11.16	13.44	–1.50
4	2 868	2 260	1 002	1 736	123	229	12.14	11.95	11.87	16.00	–0.82
1974 1	1 698	890	–600	971	73	178	12.72	13.30	13.32	16.00	–3.44
2	1 218	830	990	1 287	152	199	12.26	13.63	14.10	13.25	–3.18
3	2 188	1 190	874	1 367	211	310	12.29	14.28	15.03	11.94	–3.46
4	2 536	1 300	2 280	109	228	351	12.68	15.50	16.47	13.00	–5.15
1975 1	996	340	980	199	365	372	11.53	13.80	14.91	10.50	–1.58
2	2 087	640	2 347	–35	366	439	10.95	12.86	14.31	9.50	–1.28
3	1 447	1 620	2 298	–347	350	456	11.59	12.76	13.87	10.88	–0.47
4					331	500					
% change latest quarter:											
on previous quarter					–5.4	+9.6					
on a year earlier					+45.2	+42.5					

* Not seasonally adjusted.

1 Private sector.

2 Average of Wednesday yields throughout the period.

3 Difference between the local authority rate net of the cost of forward cover and the Euro-dollar ate. A plus indicates that the net local authority rate is above in the Euro-dollar and a minus that it is below.

Sources: Bank of England Quarterly Bulletin; Financial Statistics.

Table E Wages, Prices and External Position

	Weekly wage rates*	Average earnings	Wholesale prices, manufacturing output for home market*[1]	Retail price index*	Export unit values*	Import unit values*[2]	Exports[3] (fob)	Imports[4] (fob)	Visible balance	Current balance	Total currency flow*
	31st July 1972 = 100	*Jan. 1970 = 100*	*1970 = 100*	*1970 = 100*	*1970 = 100*		*£ million per month*			*£ million*	
1972 1	96.0	126.4	113.8	113.9	110.2	107.2	726	770	–44	90	57
2	98.1	130.5	115.6	116.0	110.7	107.7	763	784	–21	138	–1 045
3	103.4	135.0	117.7	118.0	114.0[5]	111.5[5]	687[5]	780[5]	–93[5]	–89	–79
4	107.9	141.8	120.4	120.8	115.1	116.6	871	942	–71	–11	–198
1973 1	108.7	144.0	121.4	123.0	119.3	123.4	890	999	–110	–125	69
2	113.4	149.6	123.5	126.9	123.8	133.1	944	1 073	–129	–63	377
3	118.1	154.7	127.3	128.8	129.1	146.7	1 024	1 218	–194	–217	–258
4	120.6	159.8	132.1	133.2	136.1	162.0	1 066	1 398	–332	–430	22
1974 1	124.3	159.1	142.3	138.8	147.2	194.5	1 163	1 587	–424	–845	–39
2	131.7	170.1	153.4	147.0	159.9	218.4	1 332	1 777	–445	–948	111
3	143.2	185.5	162.0	150.7	168.1	224.2	1 410	1 810	–400	–823	183
4	152.7	200.3	170.9	157.5	175.8	231.3	1 390	1 865	–476	–1 052	–820
1975 1	162.7	209.6	182.8	167.0	184.9	239.7	1 511	1 800	–289	–425	–287
2	175.3	218.1	192.1	182.7	193.4	240.6	1 487	1 715	–228	–337	–419
3	184.2	234.5	199.1	190.7	202.4	246.7	1 546	1 870	–324	–577	–167
4	192.4			197.3	209.9	259.8	1 714	1 950	–236	–348	
% change latest quarter:											
on previous quarter	+4.5	+7.5	+3.6	+3.5	+3.7	+5.3					
on a year earlier	+26.0	+26.4	+22.9	+25.3	+19.4	+12.3					

* Not seasonally adjusted.
1 Excluding food, drink, tobacco.
2 Excluding United States military aircraft.
3 Including balance of payments adjustments and allowance for factors affecting recording.
4 Includes payments for United States military aircraft and other balance of payments adjustments.
5 Affected by the dock strike.

Sources: Economic Trends; Monthly Digest of Statistics.

Table F Analysis of Total Currency Flow and Official Financing[1]

Not seasonally adjusted

£ million

		1973	1974	1974				1975		
				Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3
1	CURRENT BALANCE	–835	–3 668	–983	–903	–880	–902	–658	–337	–568
	Investment and other capital flows									
2	Official long-term capital	–252	–275	–53	–42	–15	–165	–62	–39	–9
3	Overseas investment in UK public sector[2]	+345	+764	+61	+280	+166	+257	+118	+178	–13
4	Overseas investment in UK private sector	+1 594	+2 165	+901	+412	+529	+323	+274	+38	+458
5	UK private investment overseas	–1 861	–1 128	–348	–130	–164	–486	–543	–707	–242
6	Foreign currency borrowing (net) by UK banks to finance UK investment overseas	+595	+220	+180	+110	+10	–80	–25	+60	+75
7	Other foreign currency borrowing or lending (net) by UK banks	+764	+75	+35	+209	–303	+134	–80	+759	–65
	Exchange reserves in sterling[3]									
8	British government stocks	+74	–124	+68	–190	–67	+65	+6	+29	–67
9	Banking and money market liabilities	+87	+1 534	+164	+421	+622	+327	+222	–296	–313
10	Other external banking and money market liabilities in sterling	–7	+148	–53	+155	+61	–15	+19	+286	+1
11	Import credit[4]	+201	+81	–14	+51	–38	+82	–50	–24	+42
12	Export credit[4]	–436	–453	–97	–201	–62	–93	–195	–75	–120
13	Other short-term flows	–195	–229	–63	+135	–85	–216	+159	–134	+207
14	Total investment and other capital flows	+909	+2 778	+781	+1 210	+654	+133	–157	+75	–46
15	Capital transfers	–59	–75	—	–29	–40	–6	—	—	—
16	Balancing item	+195	+400	+163	–167	+449	–45	+528	–157	+447
17	TOTAL CURRENCY FLOW	+210	–565	–39	+111	+183	–820	–287	–419	–167
18	Allocation of Special Drawing Rights	—	—	—	—	—	—		—	—
19	Gold subscription to IMF	—	—	—	—	—	—		—	—
20	TOTAL-ROWS 17 to 19	+210	–565	–39	+111	+183	–820	–287	–419	–167
	Official financing									
	Net transactions with overseas monetary authorities									
21	IMF	—	—	—	—	—	—	—	—	—
22	Other monetary authorities	—	—	—	—	—	—	—	—	—
23	Foreign currency borrowing by HM Government	—	+644	—	—	—	+644	+423	—	—
24	Drawings on (+) additions to (–) official reserves[5]	–210	–79	+39	–111	–183	+176	–136	+419	+167
25	TOTAL OFFICIAL FINANCING	–210	+565	+39	–111	–183	+820	+287	+419	+167

1 The sum of items 1-5 equals the total formerly known as the "basic balance"; the remainder (except for item 16) makes up the total formerly known as "monetary movements".

2 Excluding investment in British government stocks by central monetary institutions and international organisations (item 8).

3 Sterling reserves of overseas countries and international organisations (other than IMF) as reported by banks, etc. in the United Kingdom. Exclude other official funds such as trust, pension and other earmarked funds, holdings of equities and funds held locally with commercial banks, movements in which are included in items 3, 4 and 10.

4 Excluding trade credit between "related" firms (part of items 4 and 5). After deducting advance and progress payments to suppliers.

5 From 23rd August, 1971, valued in sterling at transactions rates of exchange.

Source: Bank of England Quarterly Bulletin.

INTERNATIONAL COMPARISONS

BASIC STATISTICS : INTERNATIONAL COMPARISONS

			Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
Population	Mid-1973	Thousands	13 132	7 521	9 742	22 125	5 027	4 643 [2]	52 177	61 967	8 972	212	3 051
Net average annual increase	1963 to 1973	%	1.87	0.48	0.48	1.55	0.71	0.26	0.88	0.77	0.57	1.37	0.68
Employment Total civilian	1973	Thousands	5 640	3 039	3 818	8 759	2 385	2 153	20 953	26 202	(3 320)	(88)	1 042
Agriculture		% of total	7.2	16.1	3.9	6.5	9.5	17.1	12.2	7.5	(34.1)	(15.9)	25.1
Industry [6]		% of total	35.5	40.1	43.3	31.3	33.8	35.7	39.3	49.5	(25.7)	(37.5)	30.7
Other		% of total	57.3	43.8	52.8	62.2	56.7	47.1	48.5	43.0	(40.2)	(46.6)	44.2
Production GDP [7] per head	1973	$ [8]	4 900	3 550	4 650	5 410	5 460	3 720	4 900	5 610	1 790	4 870	2 130 [13]
GDP by sector: Agriculture	1973	% of total	7.1 [9 10 11]	5.8	3.9	5.2 [11]	8.2 [11]	12.0	6.3	2.9	20.4 [11]	..	18.0 [11 13]
Industry		% of total	41.4 [9 10 11]	50.1	40.1	36.2 [11]	39.9 [11]	44.2	93.7	52.1	32.4 [11]	..	33.8 [11 13]
Other		% of total	51.5 [9 10 11]	44.1	56.1	58.6 [11]	51.9 [11]	43.8		45.0	47.2 [11]	..	48.2 [11 13]
GDP [7 14] annual volume growth	1973	%	5.6	5.5	5.4	6.8	3.9	6.0	6.0	5.3	9.4	6.2	7.2
	1968 to 1973	%	5.1	6.4	5.5	5.2	4.7	6.8	6.0	5.1	8.9	6.3	4.6
Indicators of living standards													
Private consumption per head	1973	$	2 850	1 870	2 810	3 080	3 050	1 910	2 913	3 000	1 200	2 990	1 370
Public expenditure on education	1970	% of GNP	4.3	4.7	5.4 [15]	8.6	7.0	6.3	4.7	4.0	2.2	4.3	4.8 [15]
Passenger cars, per 1 000 inhabitants	1971	Number	314	177	212	321	231	163	260	239	30	222	140
Television sets, per 1 000 inhabitants	1972	Number	227	226	236	349 [10]	282	256	237	293	31 [10]	220	173
Telephones, per 1 000 inhabitants	1972	Number	340	226	240	499	377	295	199	268	160	370	114
Doctors, per 1 000 inhabitants	1971	Number	1.25	1.87	1.60	1.50	1.41 [12]	1.11	1.38	1.71 [12]	1.67	1.44	1.09 [15]
Gross fixed investment [14] Total	1968-72 average	% of GDP [7]	25.8 [9]	29.0	20.8	21.4 [18]	23.6	24.1	26.3	25.9	25.7 [19]	28.7	24.2
Machinery and equipment		% of GDP [7]	10.9	12.5	8.8	7.9	12.1	8.9	12.0	12.4	8.2	8.6	12.2
Residential construction		% of GDP [7]	5.2	16.5 [24]	4.7	4.4	4.6	5.8	6.5	5.2	8.0	5.3	4.3
Other construction		% of GDP [7]	9.7	— [24]	7.3	9.1	6.9	9.4	7.8	8.3 [25]	9.5	14.8	7.7
Wages/Prices Hourly earnings [26]	Annual increase 1967 to 1972	%	7.6 [27 28]	9.3 [29]	10.2	8.2 [27]	12.4 [30]	11.8	11.3 [31]	9.3 [27]	8.3 [27]	18.3 [32]	13.5 [27]
Consumer prices		%	4.2	4.3	4.0	3.9	6.2	5.5	5.6	3.8	2.6	13.3	7.6
GDP [7] deflator		%	5.8	4.4	4.6	4.0	6.4	6.5	5.5	5.2	2.9	17.2	9.3
Foreign trade Imports [42]	1972	$ million [8]	6 180	6 290	14 570	23 130	6 080	3 680	32 070	51 150	2 530	300	2 240
		% of GDP [7]	13.2	30.9	40.9	21.8	28.6	27.4	16.4	19.9	20.7	39.5	40.6
Exports [42]		$ million [8]	7 500	6 220	15 430	23 750	6 240	3 700	33 760	55 730	1 470	290	1 930
		% of GDP [7]	16.0	30.5	43.4	22.4	29.4	27.5	17.2	21.6	12.0	38.2	35.0
Balance of payments Current balance	1968-72 average	% of GNP	–2.1 [9]	–0.4	2.5 [44]	0.0	–2.1	–1.2	–0.2	0.8	–3.6	–4.2	–3.3
Official reserves [43], end-1973: per cent of imports of goods in 1973		%	88.3	42.4	23.3 [44]	24.7	17.2	14.8	22.8	60.8	30.1	28.1	36.7
Change	Nov. 1974 - Nov. 1975	Mill. SDR's	– 182	906	445 [44]	–179	61	–155	2 986	–487	46	–1	121

	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia [1]
Population	54 888 [3]	108 350 [4]	350	13 438	2 932	3 961	8 564	34 730	8 138	6 431	37 930	56 026	210 404	20 960
Net average annual increase	0.70	1.22	0.77	1.17	1.46	0.77	–0.46	1.06	0.68	1.09	2.49	0.43	1.07	0.95
Employment Total civilian	18 310	52 330	154	4 564	1 137	1 654	(3 109)	12 844	3 879	3 097	13 810	24 553	84 409	8 009 [5 10]
Agriculture	17.4	13.4	9.0	6.8	12.1	11.4	(28.8)	26.5	7.1	(7.3)	63.4	3.0	4.1	49.5
Industry [6]	44.0	37.2	48.6	36.2	34.7	33.9	(33.8)	38.0	36.8	(46.2)	15.1	42.3	31.7	50.5
Other	38.6	49.4	42.4	57.1	53.2	54.7	(37.4)	35.5	56.1	(46.5)	21.5	54.7	64.2	
Production GDP [7] per head	2 510	3 760	5 200	4 410 [13]	4 080 [17]	4 780	1 250	1 750	6 140	6 190	540	3 100	6 170	792 [13]
GDP by sector: Agriculture	8.8	5.9	4.4 [11 12]	5.3 [11 13]	18.8 [12]	5.6	16.3 [11]	12.7 [11]	3.8	..	26.1	3.0 [11]	4.4	16.6 [11 13]
Industry	41.2	48.3	57.5 [11 12]	44.9 [11 13]	28.0 [12]	33.4	43.2 [11]	35.5 [11]	36.6	..	28.8	42.4 [11]	33.9	46.6 [11 13]
Other	50.0	45.9	38.1 [11 12]	49.8 [11 13]	53.2 [12]	61.0	40.6 [11]	51.8 [11]	59.6	..	45.1	54.6 [11]	61.7	36.8 [11 13]
GDP [7 14] annual volume growth, 1973	6.4	11.0	7.5	4.2	4.8 [17]	3.7	7.6	7.4	3.3	3.5	4.6	5.3	5.9	..
1968 to 1973	4.3	9.5	5.2	5.3	3.1 [17]	4.5	6.4	7.0	3.2	4.6	6.2	2.8	3.6	..
Indicators of living standards														
Private consumption per head	1 620	1 910	2 780	2 430	2 410 [17]	2 530	900	1 170	3 240	3 640	320	1 960	3 840	425 [13]
Public expenditure on education	4.3	4.1	4.4	7.3 [15]	4.4 [15]	5.9	2.0	2.4	7.8	4.2	2.9	5.5 [15]	5.4 [16]	4.3 [16]
Passenger cars, per 1 000 inhabitants	209	100	296	211	324	206	72	81	290	233	4 [12]	219	443	42
Television sets, per 1 000 inhabitants	202	225	220 [10]	243 [10]	250	241	63	145	333	239	4	305	474	113
Telephones, per 1 000 inhabitants	206	315	361	299	458	320	99	164	576	535	19	314	628	44
Doctors, per 1 000 inhabitants	1.83	1.15	1.07	1.31	1.16	1.45	0.98	1.39	1.36 [12]	1.67	0.45	1.29	1.57 [12]	1.06
Gross fixed investment [14] Total	19.8	38.7	23.6	25.3	..	..	19.0	24.2	23.1	27.8 [20]	16.9 [21]	19.6	17.0 [22]	..
Machinery and equipment	8.4	32.1 [23]	..	10.5	..	..	8.8	12.8	8.6	9.5	5.8	9.5	7.0 [22]	..
Residential construction	5.9	6.6	..	5.7	..	..	2.7	3.7	5.0	7.1	3.3	3.5	3.5	..
Other construction	5.5	— [23]	..	9.1	..	..	7.5	7.7	9.5	11.2	7.8	6.6	6.5	..
Wages/Prices Hourly earnings [26]	11.2 [33]	15.6 [34]	..	10.4 [35]	10.3 [27]	10.0 [30]	10.2 [36]	12.6 [37]	9.9 [38]	6.5 [39]	12.8 [37]	9.6 [40]	6.0 [41]	16.1 [36 37]
Consumer prices	3.9	5.8	3.9	6.2	6.5	6.1	8.6	5.8	5.0	4.3	10.5	6.6	4.6	11.3
GDP [7] deflator	5.0	4.8	5.9	6.6	6.9 [17]	..	4.3	6.0	5.2	6.0	10.5	6.6	4.4	..
Foreign trade Imports [42], $ million [8]	23 600	24 910	1 050	20 100	1 980	5 810	2 630	7 250	9 590	9 710	1 400 [10]	33 620	74 830	3 820
% of GDP [7]	20.1	8.5	77.8	43.4	23.1	38.3	32.2	16.2	23.2	32.6	10.9	21.8	6.3	23.2
Exports [42], $ million [8]	24 040	31 800	1 100	21 320	2 320	6 060	2 220	7 190	10 110	9 720	900 [10]	33 350	62 690	3 480
% of GDP [7]	20.4	10.8	81.5	46.1	27.1	39.9	27.1	16.1	24.4	32.7	7.0	21.6	5.3	21.2
Balance of payments Current balance	2.1	1.7	—	0.3	1.4	–1.0	3.3	0.5	–0.1	1.3	–0.5	0.8	–0.2	..
Official reserves [43], end-1973: per cent of imports of goods in 1973	23.1	32.0	—	26.9	119.8	25.3	99.1	70.3	23.9	69.5	102.8	16.7	20.8	32.9
Change	–847	–317	—	96	202	169	–661 [45]	4 [45]	1 128	806	–619	–1 752	751	–220

[2] 20 1 76

1 National source.
2 Does not include total net migration between Finland and the other Nordic countries.
3 Total resident population.
4 From 1972, including Okinawa prefecture.
5 Private and socialised sector.
6 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
7 GDP at current prices.
8 At current prices and exchange rates.
9 Fiscal year-Beginning July 1st.
10 1971.
11 GDP at factor cost.
12 1970.
13 1972.
14 At constant (1970) prices.
15 1969.
16 1968.
17 Fiscal year-Beginning April 1st.
18 Excluding transfer costs of land and existing assets.
19 Excluding ships operating overseas.
20 1965-1969.
21 1967-1971.
22 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
23 " Other construction " included under " machinery and equipment ". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
24 " Other construction " included in " residential construction "
25 Including transfer costs of land.
26 Industry.
27 Manufacturing.
28 Males.
29 Monthly, wage earners.
30 Mining and manufacturing, males.
31 Hourly rates in manufacturing.
32 Hourly wages rates, unskilled workers.
33 Hourly rates in manufacturing, excluding family allowances.
34 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
35 Hourly rates in industry, males.
36 Monthly.
37 Manufacturing, including salaried employees.
38 Mining and manufacturing.
39 Hourly rates.
40 Hourly rates in manufacturing, males.
41 Manufacturing, gross earnings per production worker.
42 Goods and services, excluding factor income.
43 Including reserve position in the IMF and special drawing rights.
44 Including Luxembourg.
45 October 1974 - October 1975.

NOTE Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries, except Yugoslavia (for special national sources see above): OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Balance of Payments, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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