OECD
ECONOMIC SURVEYS
1985/1986

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

UNITED KINGDOM

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1986

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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

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The Socialist Federal Republic of Yugoslavia takes part in certain work of the OECD (agreement of 28th October, 1961).

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BASIC STATISTICS OF THE UNITED KINGDOM

THE LAND

Area (1 000 sq. km)	241
Agricultural area (1 000 sq. km), 1983	183

Major cities (population in millions, 1983 mid-year estimates):	
Greater London	6.7
Birmingham	1.0
Glasgow	0.8
Leeds	0.7
Sheffield	0.5

THE PEOPLE

Population (30.6.1984)	56 488 000
No. inhabitants per sq. km	235
Net increase in population, 1979-1984, annual average	52 200
Percentage change at annual rate, 1979-1984	0.1

Total civilian employment, 1983	23 399 000
of which:	
Agriculture	630 000
Industry (incl. construction)	7 867 000
Other activities	14 903 000

THE GOVERNMENT

Public current expenditure on goods and services 1984 (per cent of GDP)	21
Public sector current receipts, 1984 (per cent of GDP)	43
National debt, 31st March 1984 (ratio to General Government revenue)	104

Composition of House of Commons, June 1983 (No. of seats):	
Conservative	397
Labour	209
Liberal	17
Northern Ireland Parties	17
Social Democratic Party	6
Scottish National Party	2
Plaid Cymru	2
	650

Last general election: 9.6.1983

FOREIGN TRADE

Exports:	
Exports of goods and services as a percentage of GDP (1984)	29
Main exports (percentage of total exports in 1984):	
Machinery	18
Petroleum and petroleum products	21
Chemicals	12
Transport equipment	8
Textiles	2
Non-ferrous metals	2
Iron and steel	2

Imports:	
Imports of goods and services as a percentage of GDP (1984)	29
Main imports (percentage of total imports in 1984):	
Machinery	21
Petroleum and petroleum products	10
Chemicals	8
Non-ferrous metals	3
Meat	2

THE CURRENCY

Monetary unit: Pound sterling

Currency unit per US $, average of daily figures:	
Year 1985	0.7793
December 1985	0.6912

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

This Survey is based on the Secretariat's study prepared for the annual review of the United Kingdom by the Economic and Development Review Committee on 5th December 1985.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 18th December 1985.

INTRODUCTION

The recovery, now in its fifth year, has continued at a rate of about 3 per cent, with the one-year long miners' strike having had little effect on the underlying growth of output. Nevertheless there are signs that the previous areas of strength, namely investment and exports, may be weakening. Output may continue to be sustained by stronger consumption growth as inflation falls. But with the appreciation of sterling and adverse unit labour cost developments leading to a deterioration in the real trade balance, the rate of growth of GDP may have weakened somewhat. Although inflation is on a downward path again and may fall to 4 per cent in 1986, earnings increases, at around 8 per cent, are still high and threaten employment prospects. Thus, although the growth of the labour force may now slow, unemployment seems likely to remain high.

It is almost ten years since policy switched towards the targetting of monetary growth and public sector borrowing and over five years since this new direction of policy was enshrined in a medium-term financial framework. The objective has been to bring down the rate of inflation and to create conditions for a sustainable recovery. According to the strategy spelt out in 1980, this required the progressive reduction in the growth of the money stock and accompanying fiscal policies which, by curbing government borrowing, would achieve this without excessive pressure on interest rates. In addition, the Government committed itself to policies to strengthen incentives through tax reforms and to improve the working of the market mechanism. This strategy has been broadly maintained since then although not without problems. The implementation of monetary policy proved less simple in operational terms than originally envisaged with interest rates remaining higher than desired and monetary growth exceeding targets. And fiscal retrenchment has proved more difficult than hoped; public borrowing has remained at around 3 per cent of GDP throughout the last four years, despite the recovery, and progress in containing borrowing has depended rather more on taxation and asset sales than on public expenditure reductions. Nevertheless, inflation has been reduced, although there has been little progress in this area since 1983, and recovery has occurred and so far proven durable. Yet unemployment has risen from about 1¼ million in 1979 to 3¼ million today with little prospect of any significant reduction.

The previous two Surveys of the United Kingdom have examined the development of the economic strategy over the last six years. The January 1984 Survey examined the origins and evolution of the Medium-term Financial Strategy and made a preliminary assessment of its progress. The following Survey in January 1985 looked again at financial developments but concentrated on the other arm of the strategy, namely the various policies and problems on the supply-side of the economy. The current Survey again reviews how the strategy has progressed (Part I) but the main focus is on the labour market and the problem of unemployment. Although the broad lines of the strategy remain at the centre of Government policy, it is clear that one of the most pressing concerns is the unemployment that has developed as a by-product of the disinflationary process and labour market rigidities. Part II of the Survey therefore examines various aspects of the labour market situation. The nature of the unemployment problem is examined and then various labour market issues are discussed including the problem of wage rigidity, the issue of real wages and employment, and institutional factors affecting the labour market. The Survey concludes with a review of recent economic developments and prospects (Part III) and a summary of the main policy issues which arise (Part IV).

I. THE POLICY FRAMEWORK

The overall strategy

The Government's overall economic strategy has remained largely unchanged since it first took office in 1979[1]. The objective has been to set policy within a medium-term framework so as to put downward pressure on inflation and, through this and other measures, to encourage a sustainable recovery. Within this framework, macroeconomic policy was designed to reduce inflation while microeconomic and other supply-side policies were to be used to promote the output-responsiveness of the economy. The inflation objective was to be achieved by the progressive reduction of the growth of the money stock. In order for this to occur without excessively high interest rates, there also needed to be a substantial reduction in the public sector borrowing requirement, so that the government's own demand for funds would not exert undue pressure on interest rate levels and crowd out the necessary private sector expenditures which would form the basis for sustained recovery (Table 1). Although the original emphasis was on the control of the money supply, various operational difficulties have led to more importance being attached to the growth of nominal income in the presentation of policy. On the microeconomic side, attention has been given to supply-side policies in order to improve the split of nominal income growth as between output and inflation.

Initially it was hoped that the strategy, which was set out quite specifically in a four-year plan in 1980 with illustrative profiles for public sector borrowing and the money stock, would influence expectations and engender a rapid adjustment towards a better output-inflation mix. It was admitted that the strategy might involve some temporary loss of output in the early years as the various necessary adjustments were made against the background of world recession. But the 1980-81 recession was unexpectedly deep in its effect on manufacturing output, as was the extent of the shake-out of jobs involved as companies attempted to correct their cash flow and profit position, under the joint influence of high wage rises, initial overmanning, reduced demand, lower output expectations, high interest rates and a high exchange rate. These factors were important elements in leading to the decline in inflation, which came down to 4 per cent by 1983. But an important side-effect was the sudden sharp decline in manufacturing output and, even more so, employment. Structural change was likely to happen to some extent anyway as oil production built up and the traditional tradeables sector inevitably suffered a relative decline, but the adjustment was much greater and faster than expected and was related to the failure of wages to adjust sufficiently to the lower growth of nominal demand implied by macroeconomic policy.

Table 1. **The Medium-term Financial Strategy; projections and outturns**[1]

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Money supply: sterling M3 (per cent change)										
June 1979[2]	*7-11*									
March 1980	–	*7-11*	6-10	5-9	4-8	–	–	–	–	–
March 1981	–	–	*6-10*	5-9	4-8	–	–	–	–	–
March 1982	–	–	–	*8-12*	7-11	6-10	–	–	–	–
March 1983	–	–	–	–	*7-11*	6-10	5-9	–	–	–
March 1984	–	–	–	–	–	*6-10*	5-9	4-8	3-7	2-6
March 1985	–	–	–	–	–	–	*5-9*[3]	4-8	3-7	2-6
Actual[4]	16.2	19.4	12.8	11.2	9.4	11.9	–	–	–	–
Public sector borrowing requirement (per cent of GDP)										
June 1979	*4½*									
March 1980	4¾	*3¾*	3	2¼	1½	–	–	–	–	–
March 1981	5	6	*4¼*	3¼	2	–	–	–	–	–
March 1982	–	5.7	4¼	*3½*	2¾	2	–	–	–	–
March 1983	–	–	3½	2¾	*2¾*	2½	2	–	–	–
March 1984	–	–	–	3.3	3¼	*2¼*	2	2	1¾	1¾
March 1985	–	–	–	–	3.2	3¼	*2*	2	1¾	1¾
Actual	4.8	5.6	3.4	3.2	3.2	3.1	–	–	–	–
Actual (£ billion)	10.0	12.7	8.6	8.9	9.7	10.2	–	–	–	–

1. Figures in italics are targets.
2. A target for the ten months to April 1980 was published in the June 1979 Budget.
3. The 5 to 9 per cent target for the growth of sterling M3 in 1985/86 was abandoned on 17th October 1985.
4. Seasonally adjusted annualised rates for relevant periods stated in the June 1979 Budget and in successive MTFS.

Sources: Financial Statement and Budget Reports, 1979-80 to 1985-86, and *Financial Statistics*.

That episode might be an unimportant part of British economic history were it not for the fact that the adjustment process resulted in high unemployment. Employment, which has still not recovered to its 1979 peak level, fell sharply by almost 2 million in 1980-82 and did not begin to recover until the middle of 1983. During this period there was a rapid rise in unemployment which increased from 1.2 million in 1979 to 2.9 million by mid-1983. Unemployment continued to rise thereafter, though at a reduced rate, with the further rise due not so much to inadequate output and employment growth as to an abnormally large rise in the labour force. Since early summer 1985 unemployment has stabilized. But the problem remains that the disinflationary path actually followed was accompanied by continuing substantial increases in real wages and this has involved a ratcheting-up of unemployment which is proving difficult to unwind. The number of unemployed is thus some 2 million higher as a result of the process. One beneficial effect of the shake-out of jobs that has occurred, apart from its effect on inflation, has been the rise in productivity and greater efficiency entailed in this process. There is plenty of evidence of improved working practices and generally better industrial relations. These changes have been a necessary part of improving competitiveness and supporting recovery. They have been encouraged by the Government's attempts to improve the supply-side performance of the economy, an aspect of policy which has been given increased emphasis in recent years.

Supply-side policies

An awareness of the generally poor performance of the economy during the post-war period has been one of the reasons why more emphasis has been placed on microeconomic policies. A review of this poor performance and of the various supply-side measures that have been adopted in recent years was given in the previous Survey in January 1985[2]. To summarise, since 1979 a large number of controls have been lifted, especially in the financial field; various personal and company tax changes have been introduced in order to increase incentives for the efficient use of labour and capital; competition policy has been strengthened; substantial areas of the public sector have been privatised; and changes have been made to industrial relations law to try to encourage greater labour market flexibility. Various measures affecting the labour market are discussed in more detail in Part II.

The changes made since 1979 now add up to quite a lot although progress has tended to be uneven. Most of the controls that have come to an end were abolished in the 1979-80 period. The main changes in the industrial relations law occurred in 1980, 1982 and 1984; although further changes are contemplated they are most likely to be left until after the next election. The 1985 Budget continued the policy of raising the real income tax threshold and there was a restructuring of national insurance contributions. But further reforms of personal taxation await a Green Paper on the different options. The possibility of a move to a system of fully transferable allowances between husband and wife will be considered. This would help to alleviate the poverty and unemployment traps but no major changes can be introduced before 1990 (by which time the system will be computerised). Decisions on the social security system are also awaited. A review of the system resulted in the publication in June 1985 of a Green Paper entitled "Reform of Social Security" (Cmnd 9517-9519). The objectives of reform will be to improve incentives to work and save, to simplify the system, to concentrate resources on those who need help most, to encourage greater personal provision and to put social security finance on a sound basis. The Government published a White Paper at the end of 1985 and intends to introduce legislation later this year. The 1985 Social Security Act improved the occupational pensions rights of "early leavers" so as to reduce the disincentives to labour mobility. The solicitors' near monopoly of conveyancing (house transfer) has been reduced while building societies are to be allowed to diversify and improve services to the housing market, both moves being designed to improve housing mobility. The privatisation programme has been much expanded. Planned transfers include British Airways, National Bus, the British Airports Authority, and, most importantly, British Gas (valued at between £5 and £10 billion). If carried out in full, over 40 per cent of what were State industries in 1979 will have been transferred to the private sector[3].

The cumulated effect of these various measures should eventually change attitudes and improve efficiency. But as pointed out in the last Survey, many rigidities remain, especially in the labour market area. Yet even there much has been done, as is pointed out in Part II, with the most recent change being the simplification and reduced coverage of the Wages Council system. But it is the labour market area which is crucial to the success of the strategy. Even if the macroeconomic policies proceed as planned, the strategy will not be regarded as successful unless unemployment is reduced substantially along with a significant and sustained growth of output.

Monetary policy

Monetary conditions have been difficult to interpret over the last year partly because of the continuing structural change and innovation in financial markets and institutions. This has distorted the monetary aggregates, making them less reliable as indicators of monetary conditions, and has led to a shift of emphasis away from sterling M3, which was growing above the target range during much of 1985, and towards other indicators, in particular the exchange rate. The ultimate target of monetary policy continues to be the maintenance of downward pressure on inflation, an objective which has been aided by the appreciation of sterling since March 1985. There is no target for sterling, but it has been apparent from the authorities' actions since January 1985 that the exchange rate has been a greater influence on policy than hitherto. There is a parallel with the 1979-81 period when sterling M3 was overrunning its target range, even though the appreciation of sterling from its temporary low level at the beginning of 1985, the level of interest rates, the price deceleration and the recession itself all suggested that monetary conditions were much tighter than indicated by the broad aggregates. On that occasion, as now, the overrun of sterling M3 was heavily discounted, its behaviour being ascribed to special circumstances which were likely to be temporary.

In his Mansion House Speech in October 1985, the Chancellor said that there would be no attempt to bring sterling M3 back within its target range in the remainder of the financial year, but that he would be considering what target to set for 1986/87 in the 1986 Budget. There has been a target for the growth of broad money for almost ten years. A one-year ahead money target was instituted in 1976 and retained in succeeding years. Then, in the initial Medium-term Financial Strategy (MTFS) launched in the 1980 Budget, a target for the growth of sterling M3 was set out for a period of four years ahead, with a four percentage point band for each year (a band which has been retained in each successive version) (Table 1). The wayward behaviour of sterling M3 led to a search for more reliable monetary indicators and to the introduction of announced targets for other monetary aggregates (M1 and PSL2 from 1982 to 1984 and MO since 1984) and the monitoring of other financial indicators. The 1981 MTFS stated that the high exchange rate and high real interest rates had ensured that, despite a serious overrun on the monetary target, monetary conditions had remained tight. The 1982 MTFS stated more explicitly that the behaviour of the exchange rate would be taken into account in interpreting monetary conditions, a fact that has been evident and has been restated ever since. Thus the 1985 MTFS mentioned that "it will be necessary to judge the appropriate combination of monetary growth *and the exchange rate* to keep financial policy on track" (emphasis added).

The catalyst for the recent change in the orientation of monetary policy came in January 1985. The authorities reacted to the sharp fall in the exchange rate, at that time against European currencies as well as the dollar, by signalling the need for a rise in short-term interest rates, even reintroducing the Minimum Lending Rate for one day as an earnest of their intentions. Clearing bank base rates were raised in several steps by a total of 4½ percentage points, moving from 9½ per cent to 14 per cent by the end of January. These crisis rates did turn round the movement in sterling, which had reached a low point against the dollar in early March at about $1.05 to the £, and it recovered strongly through the rest of the first half of 1985 even though interest rates dropped back by about half of the January rise by mid-year. The main concern of the authorities at this time seems to have been the risk of higher inflation entailed by the precipitous fall of sterling, although there may also have been some resistance to the psychological damage that might have occurred if the pound had fallen below par against the dollar.

The January action had been taken largely with the exchange rate in mind, but the deterioration of the latter was related to a variety of concerns including a feeling in the markets that monetary growth in the final months of 1984 (which was difficult to interpret because of events such as the British Telecom flotation) had been excessive. Soon after the interest rate rises the Chancellor declared that policy would still aim to bring money supply growth "well within" the target range. And at one stage it did look as if the growth of sterling M3 in the 14-month target period to April 1985 might come out within the top of the 6 to 10 per cent range set out in the 1984 Budget. In the event a substantial surge in April (of 3 per cent during the month, attributed partly to lending for investment before the end of the financial year) led to an outturn of 12 per cent at an annual rate, some 2 per cent above the top of the target range. This overshoot occurred despite substantial overfunding for the second successive year and reflected a large increase in sterling lending to the private sector (Table 2). The overfunding, which was directed at holding down the growth of sterling M3, had tended to hold up long-term interest rates and to hold down rates at the short end (involving the potential for "round-tripping"[4]). But this has probably exacerbated the distortions in the market for corporate finance with companies borrowing short-term from the banks rather than issuing long-term bonds. From about mid-summer onwards the authorities apparently recognised that the attainment of the target for sterling M3 would continue to require overfunding and involve substantial further additions to the "bill mountain"[5]. With bank lending remaining strong, the easing off of funding resulted in some large monthly rises in the broader aggregates in the early months of the 1985/86 financial year. The apparent change in funding policy implied that the authorities were now less concerned about the above-target growth of sterling M3, a shift in the operation of monetary policy which was confirmed by the continued low funding through the summer. Meanwhile the behaviour of the narrow money measure, MO, has been less wayward, generally growing towards the bottom end of its 3 to 7 per cent target range (Diagram 1).

The authorities were able to pursue this downgrading of the sterling M3 aggregate without serious damage to the credibility of their monetary policy because the strengthening of sterling and high real interest rates suggested that monetary policy was exercising downward pressure on inflation, the ultimate target of the MTFS. The new orientation of

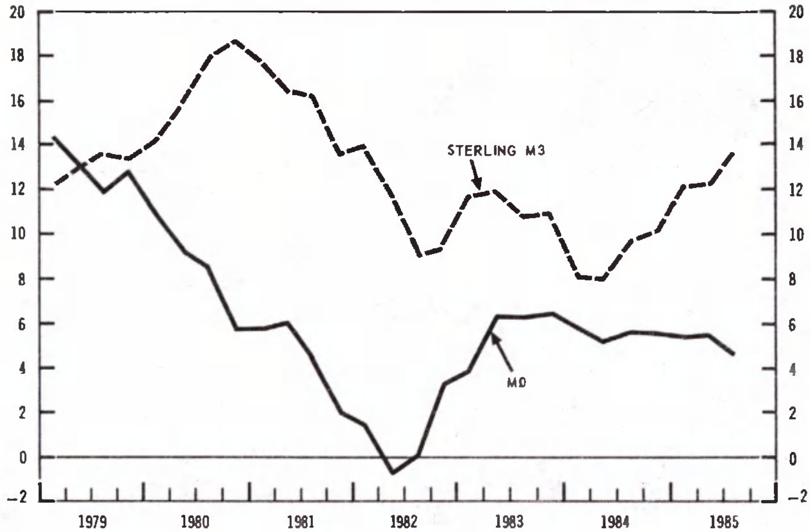
Table 2. **Formation of the money supply**

(£ billion)

	Unadjusted				Seasonally adjusted						
					1984				1985		
	1981/82	1982/83	1983/84	1984/85	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Public sector borrowing requirement	8.6	8.9	9.7	10.1	2.2	3.5	2.6	1.8	2.2	1.4	2.9
Less: Purchases of public sector debt by non-bank private sector	11.4	8.4	12.6	12.4	3.1	2.3	2.9	2.8	4.4	1.5	0.8
Plus: Lending in sterling	14.9	14.4	15.4	18.6	4.7	3.0	3.8	5.2	6.7	4.7	4.4
Domestic counterparts	12.2	14.8	12.6	16.3	3.8	4.1	3.4	4.3	4.5	4.6	6.4
Less: External finance	1.1	3.1	2.7	1.9	1.0	1.8	0.4	0.3	–0.7	1.0	0.3
Net non-deposit liabilities	1.5	1.9	2.3	2.6	0.8	0.1	0.0	1.3	1.0	1.4	0.6
Sterling M3	9.7	9.8	7.6	11.9	2.0	2.2	3.0	2.7	4.2	2.1	5.5

Source: Bank of England Quarterly Bulletin.

Diagram 1. **Money supply**
Per cent growth on same quarter a year earlier



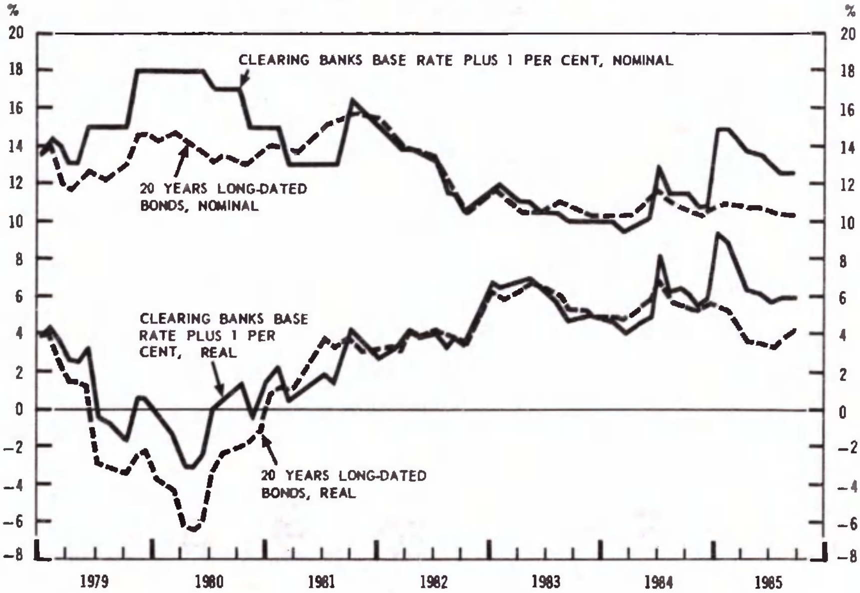
Source: Bank of England Quarterly Bulletin.

policy has required a delicate assessment of the financial markets. Too rapid a downward adjustment of interest rates would risk a weakening of sterling and threaten the inflation deceleration, especially with sterling sensitive to any deterioration in oil prices. Interest rates had been raised by over four percentage points in January in order to support sterling but subsequently moved downwards during the year. The London clearing banks' base rates stayed at 14 per cent until mid-March and then fell in several successive half-point stages to 11½ per cent by August, with most of the change coming in March and July (Diagram 2). A feature of this gradual fall was the careful way in which the authorities monitored financial conditions and signalled to the markets the appropriate timing of the falls. Amongst the indicators monitored, movements in the exchange rate were clearly given greater weight than had hitherto been the case. But a wide range of economic indicators appears to have been covered, including movements in inflation and expected inflation.

The changed emphasis of monetary policy was confirmed by the Chancellor in the Mansion House Speech on 17th October. He admitted that the liberalisation of the financial markets had made the process of monetary control more complex. The overshooting of sterling M3 reflected a desire to hold savings in more liquid form which had been persistently underestimated. Although the Government would continue to monitor the movements of sterling M3 during the rest of the financial year, they would not attempt to try to bring it within the 5 to 9 per cent target range since that would imply a tightening of policy which other evidence showed was not warranted.

The Speech was an acknowledgement of the difficulties in interpreting the movement of monetary aggregates during a period of substantial structural changes in the financial markets, a problem that has occurred in several countries in recent years. These difficulties have arisen not only from the increasing international integration of financial markets, but also from the associated liberalisation of domestic financial markets as governments have put

Diagram 2. **Nominal and real interest rates**[1]



1. Interest rates divided by the retail price index.
Sources: Financial Statistics and OECD estimates

more emphasis on their more flexible operation. The competitive pressures resulting from deregulation have led to an increase in the pace of innovation and a change in the pattern of financial transactions. In the United Kingdom the growth of interest-bearing current accounts has led to some switching of savings from building societies to the banks. And, partly as a result of high real interest rates, people are now more willing to hold money (as deposits) as a form of investment. Since this does not mean that the money is going to be spent it poses less threat to inflation than a pure transactions balance. The income tax treatment of interest paid by banks and building societies has also been aligned so that the banks pay a composite rate similar to that of the building societies. The latter have themselves been switching part of their reserves from gilt-edged securities to bank deposits. Tax changes in the 1984 Budget made it less attractive for building societies to hold gilts. All of these factors would help to explain the downward velocity of broad money in recent years but they do not indicate whether this process is a continuing one or whether it is a once-off stock adjustment. The Chancellor will nevertheless have to make a judgement on this issue in framing his 1986 Budget if, as he suggested, he will be once more setting a sterling M3 target for the forthcoming financial year.

Another aspect of the Mansion House Speech was the Chancellor's declaration that systematic overfunding would no longer be used to control the growth of sterling M3. The Government's broad aim will be to offset the whole public sector borrowing requirement over the year as a whole by sales of public debt to the non-bank private sector and through external finance of the public sector. On the other hand, the Chancellor reaffirmed the Government's determination to continue to put downward pressure on inflation and suggested that this would involve the use of short-term interest rates when necessary. Nevertheless, there is some uncertainty in financial markets about the operation of monetary policy given the various changes that have occurred. The suspension of the sterling M3 target, the aggregate which has always received the most attention in the financial markets, reflects the evolution of the way in which judgement over monetary conditions has been exercised, in contrast to a simple and mechanistic monetary framework.

Fiscal policy

One of the difficulties of monetary policy alluded to above and one of the reasons for the high level of interest rates in the United Kingdom in recent years has been the level of public sector borrowing, which has run at 3 to 3¼ per cent of GDP throughout the last four years (Table 1). There would have been some reduction in 1984/85, as planned, had it not been for the miners' strike. The outturn for the public sector borrowing requirement (PSBR) in 1984/85 was £10.2 billion (3.1 per cent of GDP), about £3 billion (about 1 per cent of GDP) higher than had been set out in the March 1984 Budget. The main reason for the slippage was the cost of the miners' strike, which was estimated to have added £2¾ billion to total borrowing. Expenditure overruns also occurred on local authority spending and on debt interest payments, the latter due partly to the effect of higher interest rates; these were only partly offset by higher asset sales and additional revenues from the North Sea arising from both higher production and the higher sterling price of oil (Table 3). This was the second consecutive year when the PSBR turned out higher than projected at Budget time.

The 1985 Budget put the Medium-term Financial Strategy (MTFS) back on its original track, though with higher levels of both spending and taxation than earlier intended. The 1985 MTFS gave PSBR projections of £7 to £7½ billion for the four years to 1988/89, representing a reduction to 1¾ per cent of GDP by the final year (Table 1). The projected PSBR of £7 billion for the 1985/86 financial year was substantially lower than the £10.2 billion outcome for 1984/85, representing a fall from 3.2 per cent to 2 per cent in terms of GDP. The Autumn Statement in November 1985 gave a revised estimate for the PSBR in 1985/86 of £8 billion or about 2¼ per cent of GDP. The principal features of the 1985 Budget were as follows:

- The public expenditure planning total was increased by £2 billion, in the form of a higher Reserve, which was set at £5 billion in 1985/86 and £6 billion in 1986/87;
- Personal income tax allowances were raised by twice as much as the projected rate of inflation, at an estimated cost of £910 million in a full year compared with an indexed base;
- The Youth Training Scheme (YTS) was extended by one more year to two years and the Community Programme strengthened, at an estimated cost of £400 million in a full year;
- The lower and upper weekly earnings limits for national insurance contributions were raised to £35.50 and £265 respectively, with main contribution rates for both employers and employees unchanged at 10.45 and 9 per cent respectively. But from 6th October 1985, a graduated structure of rates was introduced, with lower employers' and employees' contributions for weekly earnings up to £130 and £90 respectively and with no cut-off for employers' contributions at the previous ceiling of £265 per week. These changes were estimated to cost £450 million in a full year;
- Other tax measures included some capital gains tax reform, an extension of VAT, and an increase in excise duties; these were projected to raise revenue by £450 million in a full year from an indexed base. Fuller details of the Budget are given in Annex II.

Table 3. **Budgetary developments**
(£ billion)

	1984/85		1985/86
	Budget forecast	Outturn	Budget forecast
Receipts			
Taxes on income	47.8	48.2	52.9
Taxes on expenditure	52.5	53.2	55.8
National insurance	23.0	23.0	24.6
Gross trading surplus	9.3	7.6	7.6
Rent and oil royalties	5.6	6.2	6.2
Interest and dividends	3.2	3.5	4.7
Other items[1]	4.5	4.3	4.6
Total	*146.1*	*145.5*	*156.5*
Expenditure			
Final consumption[2]	70.3	71.3	73.9
Subsidies	6.3	7.3	5.5
Current grants	45.2	46.2	48.4
Debt interest	16.0	16.8	18.5
Investment	13.1	13.3	11.8
Other capital items[3]	3.7	3.5	3.2
Unallocated items[4]	–	–	5.0
Total	*154.6*	*158.3*	*166.3*
Financial deficit[5]	*8.5*	*12.7*	*9.8*
Lending to private sector and abroad	–0.6	–0.1	–0.1
Cash expenditure on company securities, net	1.9	2.1	2.6
Pension transactions	–0.1	0.4	0.2
Accruals adjustments	0.6	0.5	0.3
Miscellaneous financial transactions	–0.5	–0.3	–0.1
Borrowing requirement (PSBR)	*7.2*	*10.2*	*7.1*
of which[6]:			
Central government	5.3	6.6	5.8
Local authorities	1.3	2.4	1.5
Public corporations	0.6	1.1	–0.2

1. Imputed charge for non-trading capital consumption, taxes on capital and capital transfers from private sector.
2. Includes non-trading capital consumption.
3. Increase in stocks plus capital grants to private sector.
4. Refers for 1985/86 to projected contingency reserve.
5. The balance of current and capital accounts, financed by net borrowing as indicated in succeeding lines.
6. Adjusted for lending within public sector.

Sources: Financial Statement and Budget Report 1984-85 and 1985-86, and *Financial Statistics*, June 1985.

The Budget stressed again the reduction of inflation as the main objective of policy, while, subject to that constraint, the emphasis was put on positive action to promote employment. The most significant supply-side measure in that respect was the restructuring of the National Insurance contributions from October 1985, which is expected to lower employers' labour costs on workers earning less than £130 per week by an average of about 3½ per cent, and to reduce employees' contributions by an average of about 2 per cent for such workers. Taken together with the rise in tax thresholds (5 per cent above the inflation adjustment), this represents a reduction in the tax and national insurance payments for these workers of about 3 per cent. The first effects of these measures, given their timing, may not be felt until 1986, but they are expected to encourage employers to hire lower-paid workers, while increasing the costs of employing highly-paid workers. This could be important in improving the employment prospects of young and unskilled workers who are suffering disproportionately from unemployment. Major personal tax reforms have been postponed until the publication of a Green Paper later this year.

The revised forecast of the 1985/86 PSBR in the Autumn Statement acknowledged the pressures on public borrowing. The fall in the oil price and the rise in sterling relative to the Budget assumptions mean that North Sea oil revenues are likely to be about £2 billion less than expected. Some of this may be offset by rather greater revenues elsewhere. On the expenditure side, overruns could occur for the following reasons:

- Higher inflation has meant a 7 per cent increase in social security benefits against the 4¾ per cent increase assumed in the Budget, at an extra cost of about £0.8 billion on a full-year basis;
- There will be some overspending by local authorities;
- Unemployment may turn out to be somewhat higher than assumed, implying a greater number of benefit recipients. It is estimated that an extra 100 000 recipients cost £0.2 billion a year.

On the other hand, the Reserve of £5 billion was established for just such purposes. The Autumn Statement, details of which are given in Annex II, indicated that the Reserve would be fully allocated and showed how individual programmes had changed compared with earlier plans. The most important changes were additions to expenditure on social security (£1.2 billion), energy (£1.1 billion), the environment (£0.9 billion), education (£0.8 billion) and agricultural support (£0.45 billion).

The various pressures on the 1985/86 Budget discussed above will be carried through to 1986/87 when it seems unlikely, on present information and projections, that there will be room for the £3½ billion implied fiscal adjustment built into the 1985 Budget. In the Autumn Statement on 12th November, the Chancellor did not give revised estimates of the fiscal adjustment but provided some additional information about spending totals in 1986/87 and beyond. Although the totals for public spending in 1986/87 and 1987/88 remain unchanged from previous plans at £139 billion and £144 billion respectively, there are some important changes within the totals. The most important are the planned increases in special sales of assets from the previously projected £2¼ billion to £4¾ billion for each of the next three years. With the Reserve for 1986/87 being reduced by £1½ billion, individual spending programmes have been increased by about £4 billion compared with previous proposals. Although the Government is able to claim that it is controlling public expenditure in total, increases in departmental programmes have been offset by higher receipts from the privatisation programme. Even so, planned expenditure is still projected to decline as a percentage of GDP and to remain broadly constant in real terms at its 1984/85 level, even when privatisation proceeds are excluded.

In the last year, there has been a renewed debate about the relevance of the PSBR as an indicator of fiscal policy[6]. There are various reasons why it is sometimes said to be a misleading:

i) The PSBR may not provide an adequate measure of fiscal stance since it fails to distinguish between changes in government borrowing caused by changes in policy and those caused by variations in economic activity and other factors. For instance, the projected reduction in the PSBR by 1 per cent of GDP in 1985/86 would superficially represent a significant tightening of policy, but several factors complicate this assessment. First, the reduction follows the inflation of the 1984/85 PSBR by roughly the same amount due to the miners' strike. Secondly, activity has recently been relatively strong anyway, causing the budget deficit to narrow automatically. Thirdly, North Sea oil revenues are very high but, since they do not represent a permanent revenue stream, they also overstate the tightness of policy[7];

ii) Public sector asset sales are conventionally defined as negative expenditure, and have thus been reducing the PSBR. If they are instead regarded as a means of financing borrowing, then public sector borrowing has been higher than indicated by the PSBR. Such sales have recently become quite important, amounting to £1 billion in 1983/84, £2 billion in 1984/85 and £2½ billion in 1985/86, with projections of sales of £4¾ billion in each of the following three years;

iii) The PSBR does not distinguish between current and capital expenditure and does not give a good indication about overall changes in public sector balance sheets. It therefore does not allow a measure of the change in the net worth of the public sector to be deduced. According to calculations by the Central Statistical Office and the Institute of Fiscal Studies[8], the public sector's net worth has fallen since 1980, reversing the long-term rising trend in net worth which had started in the mid-1950s. The decline since 1980 contrasts with a fall in the PSBR over the same period;

iv) The PSBR says little about public sector claims on private saving although that is often thought to be an important determinant of real interest rates and indicates whether public sector activity is likely to crowd out private sector activity.

These are among the factors that need to be taken into account when setting the PSBR path at the time of the Budget.

II. THE LABOUR MARKET

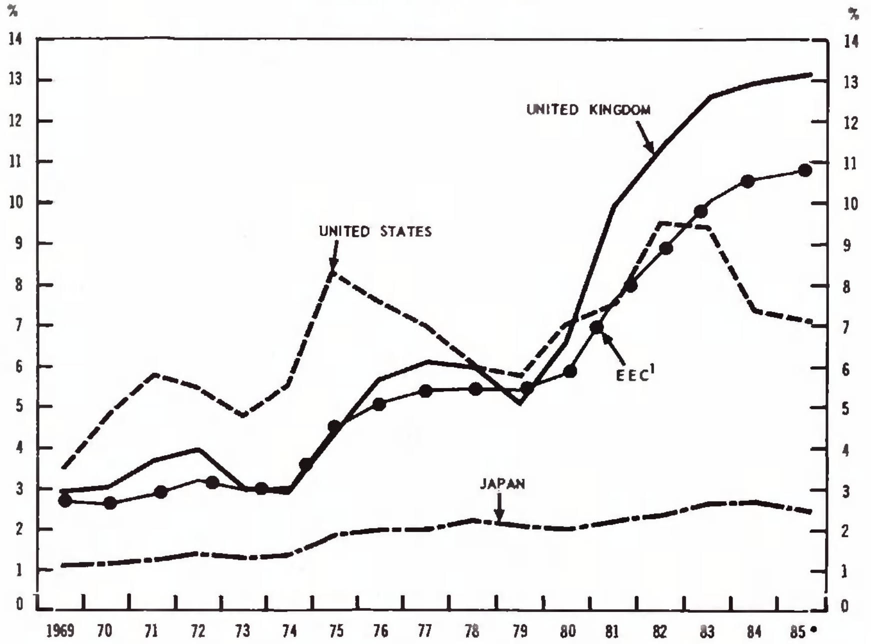
The unemployment problem

The present level of unemployment, about 3.2 million or 13 per cent of the labour force on the official count[9], represents a greater degree of unused labour resources than at any other time in the post-war period. It is almost equivalent to the degree of unemployment witnessed in the 1930s, although the problem today appears to be more persistent and deep-rooted. The deterioration in the unemployment situation in recent years is not confined to the United Kingdom, but there are indications that the situation has been rather worse than in the United States, Japan or most other European countries (Diagram 3). The standardized unemployment rate[10] for the United Kingdom has risen from 5.6 per cent in 1979 to 13.2 per cent in 1984, both the increase and the new level being substantially higher than in France (a rise from 6.0 to 9.7 per cent), Germany (3.2 to 8.6 per cent) or Italy (7.5 to 10.2 per cent); among the smaller countries Belgium, the Netherlands and Spain had higher unemployment rates in 1984. As in the other European countries, the rise in unemployment has occurred with a suddenness that was surprising. As recently as the end of 1973, the numbers unemployed were below half a million or 2 per cent of the labour force. In the 1970s the number of unemployed which caused acute political embarrassment was one million, a number which was passed in 1975. The acceleration to two million occurred by the start of 1981 and to three million by early 1984. The unemployment rate had for many years tended to ratchet up, being higher at each cyclical peak, but the rapid acceleration in the period 1980 to 1982 is unprecedented.

The sharp rise in unemployment can be examined in relation to developments in employment and the labour force. Diagram 4 shows the breakdown of the annual change in the number of unemployed since the 1970s into the change in the labour force and the change in total employment. There are cyclical elements in each of these with both the participation rate and employment changing as economic conditions vary. Employment fell from a peak of 25½ million in December 1979 to 23½ million in March 1983, a more rapid loss of jobs than any hitherto. This took the employment level back to that at which it had been as long ago as 1959. The number of part-time workers has increased strongly during this period, as it did during the period of strong employment growth between 1976 and 1979, so that, even though employment has recovered strongly since 1983, employment in terms of full-time equivalents is effectively lower than in the 1950s. The shake-out of jobs was beneficial for productivity but, at least in the short term, detrimental to unemployment. The largest post-war fall in employment also coincided with a strong rise in the population of working age, reflecting a surge in births in the early 1960s.

Diagram 3. **Standardised unemployment rates**

Per cent of total labour force

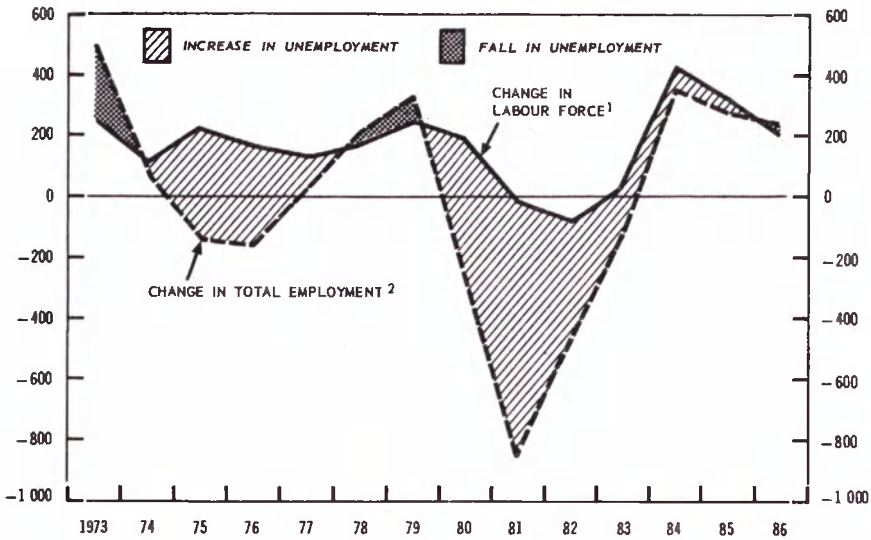


1. EEC average refers to Belgium, France, Germany, Italy, the Netherlands and the United Kingdom.
* Average of the first three quarters.

Source: OECD estimates.

Diagram 4. **Labour market changes**

Thousands



1. Defined here as the sum of total employment and the unemployed including school-leavers in the United Kingdom.
2. Employees in employment plus HM Forces and the self-employed in the United Kingdom.

Source: Employment Gazette, OECD estimates for 1985 and projections for 1986.

Demographic factors have meant that in recent years an above-average number of jobs needed to be created just to stabilize unemployment. The latter rose most rapidly in the 1980-82 period when employment was falling. Since 1983, employment has started to rise again, and at a fairly rapid pace, but the demographic factors have remained adverse. Indeed in 1984 the labour force rose by over 500 000, a rate of increase – about 2 per cent – which was unprecedented[11]. The increase was predominantly concentrated in additional female participants (385 000 or nearly 4 per cent growth) with a very large rise in female participation rates (from 47.0 per cent to 48.4 per cent in the one year). Two related factors seem to be important in explaining this sharp rise. The first is the fall in the participation rate from 1980 to 1983, a period when the recession and poor job prospects may have discouraged women from entering the labour force. From 1983 onwards, the pick-up in labour demand may have encouraged more women to seek employment. The second factor is the nature of the increased labour demand; this was particularly concentrated in the service sector and was conducive to the hiring of women part-time.

The increase in the labour force in 1984 is illustrated in Table 4, which decomposes changes in the civilian labour force into a population and an activity rate effect. The population effect has been becoming increasingly important since the early 1970s, with 1984, for purely demographic reasons, as the year of peak increase. From now on the population effect is likely to be of decreasing importance; by about 1990 the population of working age will have stabilized or even be falling. The activity rate effect is far less predictable, but it is

Table 4. **Changes in the civilian labour force**
Great Britain, annual averages in thousands

	Total			Male			Female		
	Population effect[1]	Activity rate effect[2]	Change in the labour force	Population effect[1]	Activity rate effect[2]	Change in the labour force	Population effect[1]	Activity rate effect[2]	Change in the labour force
1971-77	49	119	168	41	–39	2	8	158	166
1977-81	146	–64	82	81	–65	16	65	0	66
1981-83	177	–341	–164	104	–250	–147	73	–91	–18
1983-84	218	294	512	145	–18	127	73	311	385
1984-89	88	61	149	58	1	59	30	61	90
1989-91	6	36	42	14	–3	10	–7	39	32

1. The change in the labour force that would have occurred had the activity rate in each age group remained over the period at its value in the initial year.
2. The residual change – the total change less the population effect.
Source: *Employment Gazette*, July 1985.

noticeable that through the latter part of the 1970s and up to 1983 declining activity rates were tending to reduce the labour force, this effect being most pronounced for the older age groups, particularly for men aged sixty and over. Official projections are that the male activity rate will stabilize from now on but that the overall activity rate will increase, although much less rapidly than in 1984, as female participation rates continue to rise. Thus, over the period from 1984 to 1989 the civilian labour force will continue to increase but probably at a declining rate averaging about 150 000 a year, substantially less than the 500 000 increase in 1984.

The increase in the level of unemployment has taken the form not so much of an increased flow into unemployment but more of a reduced outflow. This has meant that the duration of unemployment has increased. The number of men who have been unemployed for more than a year has risen from an average of about 50 000 in the mid-1960s, to around 250 000 by the late 1970s and was over 1 million by mid-1985 (with women increasing that number by about a third). Over 400 000 men have now been unemployed for more than three years. On the other hand, and reflecting the improving employment prospects in recent years, the number of men unemployed for six months or less, which had increased from half a million in 1979 to a million in 1981, has fallen back in each year since (to 845 000 by 1984). Thus "short-term" unemployment has already been falling for four years and the increases in the total stock of unemployment have reflected an increasing number of long-duration unemployed.

Issues related to high unemployment

i) *Wage rigidity, the NAIRU and unemployment*

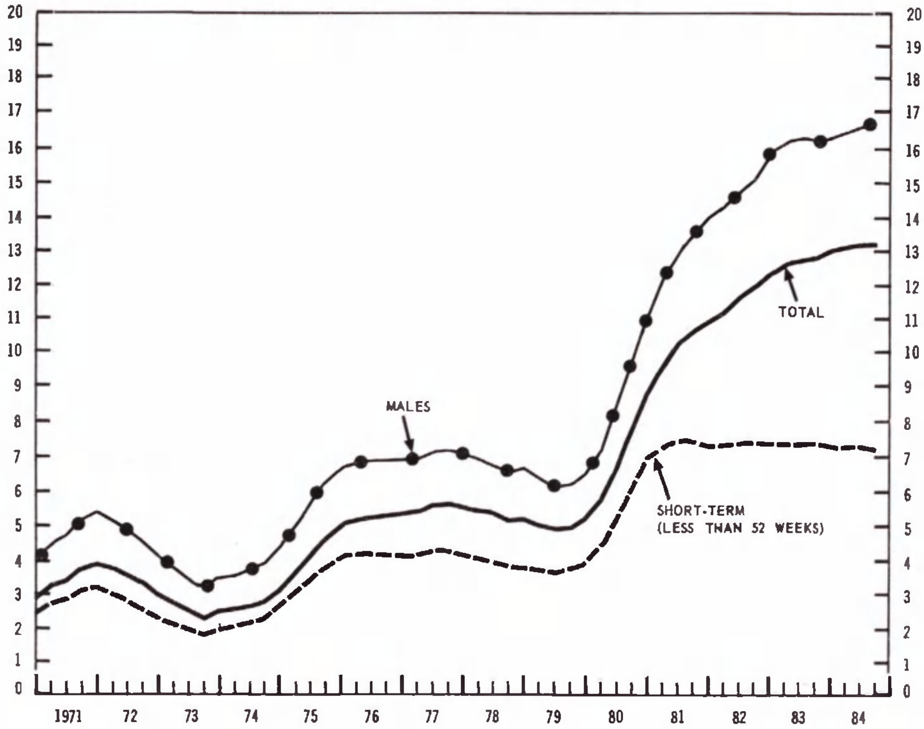
The adjustment of labour demand and supply in the United Kingdom has not been of the instantaneous market-clearing type. Indeed, the puzzle in the case of the United Kingdom is that high and rising rates of unemployment have, at least till now, failed to reduce the rate of growth of nominal and real wages in the way that might have been expected. In such circumstances one of the most important conditions for market-clearing, the adjustment of wages, is proceeding at best rather slowly.

Wage equations for a number of OECD countries indicate that the effect of the unemployment rate on money wages is weaker for the United Kingdom than for most of the other countries studied[12]. This implies greater nominal wage rigidity for the United Kingdom and may be one reason for the rather larger increase in unemployment than elsewhere[13]. Alternative specifications of United Kingdom wage equations show that changes in the rate of unemployment, perhaps spread out over a number of years, may be as important as the actual level of the unemployment rate. This suggests that much of the wage-restraining influence of unemployment may eventually disappear as the unemployment rate stabilizes, even if unemployment is very high.

In the late 1970s, when economists attempted to make estimates of a non-accelerating inflation rate of unemployment (NAIRU) for the United Kingdom, they came up with numbers of around 4 to 5 per cent. With the large increase in unemployment during the recession these estimates have risen substantially. In some recent work, Layard and Nickell have estimated a NAIRU for male unemployment as being around 11 per cent in the period 1980-83[14]. The actual male unemployment rate has been substantially above this rate. In these circumstances the theory would suggest that the rate of wage increase should fall. In the period 1980-83 it did indeed fall. But since then the underlying trend in earnings growth has

Diagram 5. **Unemployment rates**

Per cent of the labour force



Source: Employment Gazette.

been flat or even upwards. Furthermore, earnings in manufacturing, a sector which has been particularly depressed and where employment is 25 per cent lower than at its 1979 peak, have been growing more rapidly than elsewhere with, in addition, an apparent tendency to accelerate in the last year to a rate of over 9 per cent.

One argument that has been put forward for this apparently paradoxical behaviour of wages is that the labour market is segmented so that the total unemployment figures may not give an adequate indication of the effect of unemployment on wage pressure. Layard and Nickell *(op. cit.)* have suggested that the long-term unemployed are less actively looking for work and therefore exert less downward pressure on wages than the short-term unemployed. Some evidence is provided by a cohort study of the unemployed which indicates that the long-term unemployed have a reduced job search intensity and make fewer job applications than the short-term unemployed[15]. This is confirmed by the Labour Force Survey which indicates that the number of claimants who are not seeking work has risen substantially since 1981, as both unemployment and the proportion who are long-term unemployed have increased. The absolute number of the short-term unemployed has hardly changed since about 1981 and has even started to fall (Diagram 5). In these circumstances, the arguments above about pressure on wages being due more to the short-term unemployed than the total numbers unemployed would help to explain why there has not been greater wage moderation during the recent period when total unemployment has remained very high and has even risen a little[16].

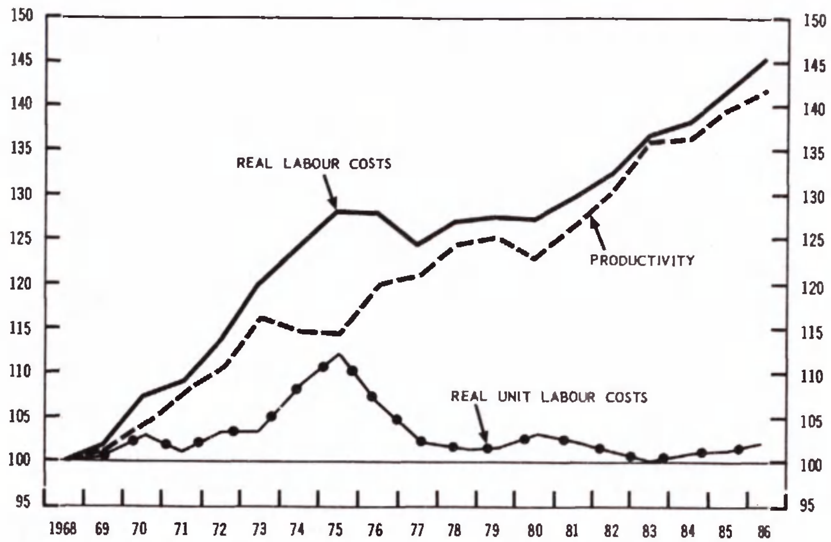
The Government appears to have in part accepted this view about the long-term unemployed. The Community Programme is specifically geared to providing temporary employment for the long-term unemployed (adults out of work for longer than 12 months and youths out of work for longer than 6 months). But the Government's main explanation as to why there is such high unemployment is that the labour market is not adjusting rapidly enough with wages, in particular, being too inflexible.

ii) *Real wages and employment*

The theoretical proposition that the real wage, as the price of labour, affects the demand and supply of labour is not contentious. It is not so easy to establish whether real wages are too high or too low in relation to some warranted level, although the current excess supply of labour is *prima facie* evidence of a real wage level that is excessive. Looking over a long period, a "real labour cost gap", as measured by the difference between the growth of real labour costs and the growth of productivity, did open up in the 1970s, compared with a fairly stable level in the 1960s (Diagram 6). The main damage was done in 1974-75 when compensation increased by 56 per cent compared with an increase of only 46 per cent in output prices at a time when productivity was actually falling. The gap narrowed in succeeding years, opened up again in 1980, but has closed up once more since then, largely because of renewed productivity growth. But the problem is that once an excess wage cost margin has emerged, then the subsequent closing of the gap through the shedding of unprofitable labour or the substitution of capital for labour, does not lead to an adjustment of real wages *per se,* so that their level may still be damaging to employment. For although the gap may close, the cost of labour relative both to capital and to labour in other countries may remain too high.

There has been much debate in the United Kingdom about the effect of real wages on employment. There is now considerable evidence for the proposition that there is a negative relationship between the two, although the precise empirical estimates depend on the theoretical framework being used, the sector being considered and the time-period covered[17]. The majority of the studies of labour demand functions suggest a significant negative relation

Diagram 6. **Real labour costs and productivity**
Indices, 1968 = 100



Source: OECD estimates and projections.

between labour demand and changes in real wages, with a real wage elasticity in the range of -½ to -1 for the economy as a whole. Results for manufacturing alone suggest a slightly larger elasticity. These single equation results can be supplemented by model simulations where all variables in the model are allowed to vary so that other influences on employment, such as relative factor prices and aggregate demand, are taken into account. Appropriately defined models can give an indication of the factor substitution that may take place as the price of labour is reduced relative to capital and energy and they can also indicate the effect on employment of changes in output coming via a variety of channels including increased international competitiveness. Treasury model estimates are presented in the study already cited. The simulation performed is a reduction in nominal wages which is designed to produce a 2 per cent reduction in real wages relative to baseline. Because of the effect of nominal wages on prices, this necessitates a reduction in nominal wages which is greater than 2 per cent. With an unchanged nominal framework (defined as an unchanged money supply growth and unchanged PSBR/GDP ratio), employment rises by 1.4 per cent after 3 to 4 years, implying an elasticity of employment with respect to the real wage of -0.7[18]. The major part of this effect comes from a rise in output, which is associated with an improvement in international competitiveness, more expenditure by companies and, after a temporary decline, a rise in consumption because of wealth effects and higher employment. Only around one quarter of the effect comes through factor substitution. The various effects are fairly muted in the first year but build up strongly from the second year onwards.

As with all simulations of this sort, these results are model dependent and should therefore be treated with some care. The importance of the policy regime assumed is clear, although here it is interesting that the nominal framework assumed in the Treasury analysis, which gives the larger employment response, is in the spirit of the Chancellor's 1985 Budget statement that the MTFS was a guarantee against inadequate money demand as well as excessive money demand. The simulations bear out the implied message that the Chancellor gave about the effect of lower real wages on jobs. But, given this nominal framework, the result is not surprising; in effect lower inflation is assumed, *deus ex machina,* and this allows, within the nominal framework assumed, some increase in real economic activity. Any income-driven reduction in consumption is soon outweighed by higher company expenditure, a loosening of fiscal and monetary conditions in real terms, and other expansionary effects resulting from lower inflation. Lower inflation is good for everything[19]; international competitiveness improves (hence better net exports), the saving ratio falls (hence more consumption) and there are favourable interest rate and fiscal effects (good for all elements of expenditure). The additional feature, which was absent from earlier models and is still absent from many models today, is the influence of relative factor prices on capital/labour substitution. Such factor substitution effects have not proved easy to model in a theoretically consistent fashion, although the model estimates suggested above are plausible. It seems that, as with energy elasticities, the lags involved may be rather long, which adds to the difficulty of modelling their effects. But those long lags mean that any employment gains from a wage reduction, though they may initially be fairly small, will cumulate through time and may, as with the parallel issue of energy savings, eventually prove very important.

Similar simulations to those described above have been conducted on other United Kingdom models[20]. In general these confirm the trade-off presented by the Treasury model, even though most of these other models do not incorporate effects from factor substitution. However, all of these simulations are predicated on the existence of an initial reduction in real wages, a variable which is normally endogeneous in all the models considered. This is a point which has concerned several commentators. The Warwick Modelling group has subjected five United Kingdom models to various simulated shocks[21]. They find that "... while different magnitudes of response are observed across the five models, the sign of the simple correlation between real wages and employment in the long run is broadly consistent and in accordance with our basic theoretical framework, namely a positive association is induced by demand shocks, and a negative association or genuine trade-off only emerges in response to supply-side shocks". One of the simulations reported is a reduction in wages. With this sort of supply-side shock, a trade-off between real wages and employment, i.e. an implied negative elasticity, occurs in each of the model simulations, with the range of results being from –0.1 to –0.9.

An important point raised by the Warwick study concerns the mechanism by which any exogenous shift in real wages is assumed to take place. The Government is presumably asking the same question and wondering how wages can be moderated. Some of the structural policies aimed at reducing the unrestrained use of workers' bargaining power and encouraging labour market mobility are clearly intended to achieve such a shift, as are the exhortations about realistic pay levels which gave birth to this entire real wage-employment debate. So far the Government has been able to argue quite fairly that a lower wage level would have favourable consequences for employment after a period of time, even though the debate continues on the degree of adjustment. But further advances in real wages, both current and prospective, suggest that this message may not be accepted by those in the private sector who determine levels of pay. Companies seem to be willing to agree to higher wages where productivity improvements are being made or in order to retain their skilled workforce. But there are also cases where employers concede wage claims, even without productivity improvements, rather than risk industrial action, with the hope that the cost increase can be passed on to consumers.

iii) *Deficiency of aggregate demand*

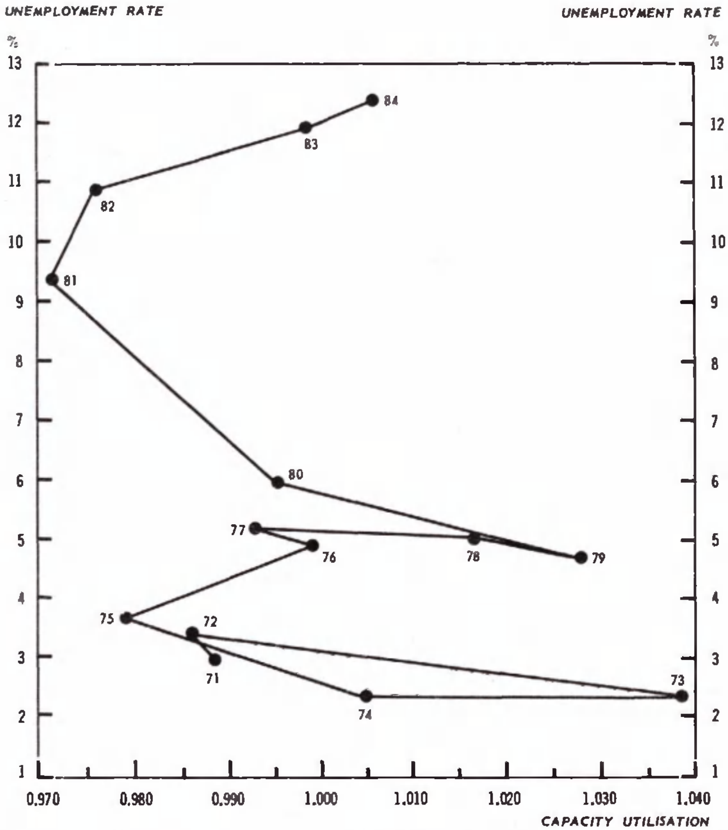
The models reviewed in the previous paragraphs emphasise the link between real wage growth and unemployment via increases in output and factor substitution. But the real wage is not the sole determinant of the level of employment, the demand for labour being a derived demand which depends, *inter alia*, on the growth of output. The output path will itself be influenced both by what is happening to wages, as both a factor input and an important element of demand, and the general level of demand itself. A question of interest for policy purposes is how much of the increase in unemployment in the United Kingdom can be attributed to insufficient aggregate demand resulting from anti-inflationary policies. In this respect, the Layard-Nickell study *(op. cit.)* attributes about three-quarters of the increase in male unemployment between 1975-1979 and 1980-1983 to aggregate demand factors, arguing furthermore that this amounted to three times the amount required for a stabilization of inflation. Qualitatively, this is not a surprising proposition; the Government was engaged on disinflationary policies during this period and trade volumes were affected by depressed world trade and by the exchange rate which appreciated as a result of policy and the petro-currency status of sterling. An increase in unemployment was a natural consequence, although the magnitude of the rise was probably not expected.

The Government would have hoped, of course, that the disinflation could have been achieved without such a large loss of output and employment and hence without such a large increase in unemployment. That might have occurred if there had been greater wage adjustment. So the issue also comes back to the question of the flexibility of the labour market. Looking at the question from another angle, if the Government had attempted to support demand rather than adopting the disinflationary policies it felt were necessary to reduce inflation, would the additional demand have led to greater output (and less unemployment), greater inflation or both? Such hypothetical questions are not easy to answer, but again it is clear that the solution lies in the supposed behaviour of the labour market and the split of the assumed higher level of nominal income as between output and prices. Demand for labour was indeed deficient in the period from 1980 to 1983, when the bulk of the rise in unemployment took place, but this was in large part because the Government was trying at that time to put downward pressure on inflation by reducing monetary growth and hence nominal demand. Viewed in this light, the undoubted deficiency of demand for labour in the early 1980s can be related to structural factors concerned with the working of the labour market which were regarded as a constraint on macroeconomic policy.

iv) *Structural unemployment*

There is some evidence that various structural changes in the economy, particularly in the labour market, have led to some of the increase in unemployment. The relationship between the rate of unemployment and the degree of capacity use, often referred to as the "Okun-curve", appears to have shifted upwards (Diagram 7). At any given degree of capacity utilisation, the unemployment rate seems to have been higher through each cycle. This is a phenomenon that seems to have been common to most European countries but to have been less marked in Japan or the United States[22]. There are many factors which could account for this shift; for the United Kingdom, those most commonly mentioned are increases in frictional unemployment, increased scrapping leading to capital shortages, and adjustment lags and other sources of inflexibility which have changed the relationship between the demand and supply of labour[23]. Various institutional factors, which may have affected labour market behaviour and increased structural unemployment, are examined in detail in the following section.

Diagram 7. **Unemployment and capacity utilisation**[1]



1. The diagram relates the unemployment rate to a ratio of real GDP to its phased trend as calculated by OECD and described in *OECD Economic Outlook 31*, July 1982, p. 133.

Source: OECD estimates.

One of the explanations of increasing unemployment attributes the rise to a mismatch of labour in terms of skill, industry or geographical area which has been caused by an increase in the pace of change or reduced mobility of the workforce. Unemployed workers are therefore not able to fill the sort of jobs that are available. If this were the case then it would show up in a change in the relationship between unemployment and vacancies. Through the 1960s and much of the 1970s, however, this relationship was relatively stable. It is only since the beginning of the 1980s that there appears to have been a change, with increasing unemployment being associated with a stable or even rising number of vacancies. This suggests that some mismatches have developed. An important factor is that the structure of unemployment is heavily weighted towards the unskilled and the peripheral regions which have suffered most from the decline of manufacturing industry. There is some evidence of skill shortages in particular areas even though unemployment remains high.

Another possible reason for the change in the unemployment-capacity relationship is that the scrapping of capital equipment during the recession, especially in the manufacturing sector, has led to a reduction in capacity which it is not possible to reverse in the short-term[24]. The available capital stock has fallen sharply relative to the stock of labour, at a time when the latter has been growing rapidly. If the economy were really flexible, then changes in relative factor prices would lead to more labour-intensive methods of production as wages adjusted and as new investment was put in place. Although substitution occurs as new capacity is introduced, there is no evidence so far that recent investment has tended to be capital-widening rather than capital-deepening. If much of the investment is being put in place to replace existing capacity rather than to expand capacity, the take-up of unemployed workers will tend to be correspondingly less. Even though capacity utilisation can certainly be increased from its present level, there need to be increases in capacity-widening investment over the medium term to avoid a constraint to the creation of new jobs. This will require substantial further growth in investment, especially in manufacturing, for some years to come.

In order to try to reduce the amount of unemployment which might be considered to be frictional, the authorities have attempted to reduce impediments to labour mobility and to increase incentives. Legislation has been introduced to deal with two particularly important impediments to mobility – occupational pensions tied to firms and inflexibilities in the housing market. The Social Security Act 1985 required occupational pension schemes to revalue the accrued rights of "early leavers" by at least 5 per cent a year (or in line with retail price increases, if less) or to offer full transfer values. These changes should reduce the previous deterrent to mobility which may have been felt by workers whose pension provision was adversely affected by moving jobs. In the housing market, obstacles to greater mobility have been reduced by a variety of measures; public sector tenants have been given the right to buy their homes (and later to resell them), the costs of moving house have been reduced by a cut in stamp duties and the end of the solicitors' near monopoly of conveyancing (house transfers), council house mobility has been encouraged by a transfer system and a new form of "shorthold" tenancy has been provided in the private rented sector in order to increase the supply of such accommodation. In addition measures have been taken to improve industrial training and, via various tax changes, to reduce the relative cost of labour and improve work incentives. Taken together, these factors plus the various changes in the institutional framework detailed below should lead to greater labour mobility and flexibility over the longer term.

Institutional factors affecting the labour market

In seeking reasons why the trend in unemployment appears to have risen during the post-war period in most industrialised countries, a variety of institutional factors have been mentioned. These are factors which may have had detrimental effects on labour market adjustment by adversely influencing wage behaviour or labour mobility, hence preventing labour demand and supply from being equalised. Assessing the quantitative effect of such factors is not easy although some econometric work can be cited in certain areas. But it is possible to give some qualitative assessment of the way in which factors have changed over time and hence to give some indication about whether such factors may have contributed to the rise in the underlying unemployment trend since the 1950s. This section reviews a wide range of such factors and attempts to summarise the situation as it exists in the United Kingdom. Although there is clearly a strong influence on the behaviour of the labour market from these institutional factors, the changes in recent years have tended to be towards greater flexibility, so that it is difficult to attribute any of the recent worsening of unemployment to such factors. However, that does not preclude the possibility that their general influence, regardless of recent changes, has been more deletorious in the case of the United Kingdom than in competitor countries, leading to a relatively worse unemployment deterioriation than elsewhere.

i) *Wage bargaining and industrial relations*

One factor which is often cited as preventing labour market flexibility and harming employment prospects is wage bargaining and industrial relations systems which pay little regard to efficiency and productivity. In the United Kingdom the predominant system for wage-setting is voluntary collective bargaining with agreements which have a wide coverage but are not legally enforceable. There is still a sizeable proportion of the work force which is not covered by such bargaining, but the major collective agreements do have an important effect on the level of settlements generally. For the economy as a whole about two-thirds of employees are covered by voluntary collective bargains. The proportion is almost total in the public sector, where national agreements cover virtually all workers, but probably only about half of private sector workers are so covered. In the private sector bargaining is usually on an industry or company basis or some combination of the two. The overall importance of collective agreements has tended to fall. This in part reflects the changes in the structure of employment as well as the shake-out of jobs in the early 1980s. The sectors which have suffered have tended to be those, such as the older declining industries or the public sector, where unionisation has previously been high and collective bargaining has been the norm. The numbers in trade unions fell from 13.2 million in 1979 to 11.3 million in 1983 – a fall from roughly 50 per cent to 42 per cent of the labour force. The influence of national agreements has tended to wane, although hours and holidays may still be set nationally even when pay is decided at other levels. Examples where the settlement of pay has tended to move towards the local level are engineering, the docks, iron and steel, and even the coal industry. Those changes may mean that pay is being more closely related to performance, in particular productivity, although the aggregate figures for the whole economy would not provide evidence of this.

In contrast with the 1960s and 1970s, there has been very little governmental involvement in the settling of pay in the 1980s, at least in the private sector. Formal centrally-determined pay norms came to an end in 1978-79 (during the "winter of discontent") and this Government has in general set its face against interference in pay determination. The major exception has been the public sector where it is inevitable that governments become involved. In the private sector the Government's influence has been only indirect – most importantly through exhortation and through its taxation policy. In the public sector the position is different. There are certain groups where Review Bodies are important in determining pay. Doctors, dentists, nurses, the Armed Services and top salaries in the public sector are covered in this way and in general the Government acquiesces in the awards that are recommended. Two groups – the police and the fire service – have their pay indexed, something which is virtually unknown in the private sector. For other groups the Government is involved through the setting of cash limits, through the control of subventions to local authorities and public corporations and through a variety of other financial and non-financial controls. The joint effect of these various devices has been that public sector pay has generally increased less rapidly than pay in the private sector, at least since 1980[25]. There was a time, in the 1960s and 1970s, when claims were made that major public sector groups acted as pace-setters to wage settlements elsewhere. That was generally in an era when public sector strikes were more successful than they have proved more recently. Those large public sector groups have tended to be in declining industries and they have faced managements and government which are more committed than in the past to resisting wage and other pressures. In recent years unsuccessful industrial action by the steelworkers, civil servants, railway workers, health service workers and the miners indicates that the situation has changed. If it was ever the case that such public sector groups could instigate a general wage push in the economy, it no longer seems to be the case today.

Apart from a change in attitudes and the reinforcing effects of high unemployment, there has also been a change in industrial relations law concerning the organisation of trade unions and their ability to instigate strikes. The main changes, which have occurred in various steps between 1980 and 1984 and which were reviewed in the January 1985 *Survey*, have been as follows:

- Exposing trade union funds to liabilities arising from injunctions and damages when they are responsible for unlawful industrial action;
- Removal of legal immunities for any industrial action organised by a trade union without being agreed in advance by a secret ballot of the membership;
- Removal of legal immunities for picketing, other than by employees at their place of work, for indiscriminate secondary industrial action, and for other extreme forms of industrial action;
- Introduction and strengthening of the rights of employees dismissed for refusing to join closed shops;
- Institution of secret ballots to approve new closed shops and to confirm previous closed shops (requiring an 80 per cent majority of the total membership or 85 per cent of those voting); dismissal on membership grounds will only be "fair" if the closed shop is "approved" by a ballot held within the preceding five years;
- Lengthening the period of employment before complaints of unfair dismissal can be made from six months to two years and removing the onus of proof from employers;
- Removal of legal immunities from civil actions so as to make trade unions subject to injunctions and damages when they are responsible for unlawful industrial action;
- Removal of legal immunities from civil actions in any industrial action which has not been agreed in advance by a secret ballot of the membership;
- Executive committees of trade unions to be elected by secret ballot at least every five years.

The net effect of these changes is difficult to gauge although the relative position of employers has been strengthened vis-à-vis the trade unions and increasing democracy in the latter may lead to greater moderation. The provision for secret ballots before industrial action, which came into force in September 1984, has already proved important in two major cases – prospective strikes at the Austin-Rover car group at the end of 1984 and by the railway drivers in mid-1985 were both voted down by the respective members against the wishes of the union executives. In other cases, the existence of the ballot provisions may have moderated the pressure for action.

Perhaps the main influence in changing behaviour, as witnessed in the strong decline in the number of industrial stoppages to its lowest level for fifty years, has been the high level of unemployment, even though wages have not moderated as much as might be desired. But there does seem to have been an increased preparedness to agree to work reorganisation and greater awareness that higher wages need to be justified by improvements in efficiency. There have been a number of instances where the legislative provisions have helped employers overcome resistance to the introduction of new working practices. Comparability is now less dominant in bargaining and productivity more important. There is a general feeling in the United Kingdom that more realism is emerging in the industrial relations area, and this may be important in the longer run in leading to an improvement in labour market performance. But the key question is whether this realism would survive a return to full employment.

ii) *Minimum wage legislation*

The Wages Councils have the function of setting minimum wages and establishing paid holiday conditions in an industry[26]. The peak number of Wages Councils occurred in 1953 when sixty-six of them covered about 3½ million workers. There were subsequent abolitions and mergers with the numbers declining to twenty-six councils by 1985 covering about 2¾ million workers. The system had begun with an emphasis on industrial processes, but now 86 per cent of all workers covered are in the retail and catering trades, with two-thirds of the remaining 14 per cent in clothing manufacture. About 80 per cent of the workers concerned are female and about two-thirds are part-time. About 5 per cent of the workers covered are full-time employees aged under 18, representing about one-fifth of all young people in employment.

The Government believes that the Wages Councils are detrimental to employment because they set rates which may prevent some employers from offering jobs at wages which would be acceptable to certain job-seekers. There is also the belief that the requirements on paid holidays and premium rates may be harmful to flexibility and efficiency. In July 1985, the Government therefore announced its intention to modify the Wages Council system in the United Kingdom, a move which required the deratification of International Labour Convention No. 26 concerning minimum wage-fixing machinery. The modifications are twofold; first, workers aged under 21 will be removed from the jurisdiction of the Wages Councils, and second, the Councils will henceforth be able to set only a single rate of pay and overtime rate and will have no control over the conditions of employment.

The effect of the Wages Councils on employment and labour market flexibility is difficult to gauge. The dwindling number of Councils and their reduced coverage of workers, largely resulting from structural changes, mean that they may anyway be regarded as having a diminishing effect through time, although by setting a floor level of wages for a certain group of workers they may still influence the pay of many others. The removal of the proliferation of requirements on the conditions of work, as part of a more general move towards deregulation, may be seen as encouraging flexibility, although it should be remembered that barely more than 10 per cent of the workforce was covered by these regulations. The removal of the minimum youth wage in these industries may have a more immediate effect. The Department of Employment estimates that between 50 000 and 100 000 new jobs may be created, but in this area it is bound to be difficult to assess both the initial effect in increasing youth employment and the displacement effect of the new jobs opened up to the young low-paid workers.

There is a danger of overestimating the effect of the minimum wage legislation. It is only a small proportion of the labour force which is covered, about 11 per cent, compared with, for example, about 80 per cent of the labour force covered by federal minimum wage legislation in the United States. Furthermore, in the last ten years the pay of workers covered by Wages Councils has fallen by about 8 per cent relative to earnings elsewhere, so that some wage flexibility has taken place. Although youth unemployment has tended to increase, it is not clear that statutorily-imposed rates of pay can be held to be the major cause. In recent years the ratio of youth to adult rates of pay has stabilized or even fallen back a little after having risen sharply in the early 1970s[27].

iii) *Unemployment and social security benefits*

In the United Kingdom workers becoming unemployed can receive national insurance benefits for a period of up to twelve months, so long as they have made the necessary contributions. Beyond then the benefit recipient is moved on to supplementary benefits which last as long as the person remains unemployed. The benefit scales vary according to need, being related to family circumstances and the housing situation of the recipient[28].

If the replacement ratio, that is the ratio of income when unemployed to income after tax when in work, is very high, then there is a strong deterrent to workers to seek work and to accept employment. An increasing replacement ratio may be a reason for rising unemployment. And a high replacement ratio, once established, may gradually tend to lead to higher unemployment. The analytical difficulties in this area are however rather large. In the first place the structure of the welfare system has a very important influence on the level and length of benefit entitlement of the unemployed. Secondly, the particular family situation – whether married or not, the number of children, the number of earners in the household – has an important influence on the out-of-work income available. And thirdly, the benefit entitlement varies through time depending on the personal situation of the recipient. The OECD has done research in this area, taking hypothetical family types receiving maximum benefits and assessing their replacement rates through time[29]. These results can be summarised as follows:

i) In the first year of unemployment the replacement ratio is rarely above 50 per cent for the single person, regardless of the earnings level;

ii) At the other extreme, the two-child family previously on one half of average earnings can have a replacement ratio of over 90 per cent in the first year of unemployment; however, Dilnot and Morris[30] report that in 1980 less than 5 per cent of the working population would have been eligible to have had such a high replacement ratio;

iii) Replacement ratios for one- and two-earner families decline after one year where there are initially two earners but otherwise remain constant;

iv) Comparing the United Kingdom with the other countries covered by this research (Australia, Canada, Germany and the United States) the disparity in income replacement during unemployment according to personal circumstances seems much wider than in Canada, Germany or the United States. Income replacement ratios are substantially higher than in the United States. The main reason for the disparity in replacement ratios in the United Kingdom is that benefits are related primarily to family size rather than, as in the case of Germany, to previous earnings;

v) For the case of the family with children on average earnings, replacement ratios range from 41 per cent in the United States to 72 per cent in Canada. The figure for the United Kingdom is 63 per cent. Research by Dilnot and Morris *(op. cit.)* reported an average replacement ratio for a full year of unemployment of 65 per cent in 1980 with two-thirds of the working population having a potential replacement ratio between 50 and 80 per cent.

High replacement ratios do occur in the United Kingdom, although they are not the norm. But an average replacement ratio which may be in the range of 60 to 70 per cent does provide a cushion to the unemployed which might result in a reduced intensity of job search and hence the possibility of higher unemployment[31]. However, as an explanation of increased unemployment in the 1980s one would need to show that replacement rates had also increased over time. Here the evidence is mixed. There have been two changes in the system which will have tended to reduce benefits. Earnings-related supplements to national insurance payments, which had been introduced in 1966, were reduced in January 1981 and abolished in 1982. About one-quarter of the unemployed were receiving such supplements at any one time. The second change was that unemployment benefits became liable to tax as from July 1982. The effect of these changes will have been to reduce replacement ratios for certain workers though not for all.

A composite series for the replacement ratio has been devised by Layard and Nickell[32]. Their series shows a sharp rise from the late 1950s to the late 1960s (from around 40 to around 50 per cent) with no trend increase after then although a fairly sharp fall and subsequent rise from 1977 to 1983. Their estimated elasticity of unemployment with respect to the replacement ratio is around 0.7, which leads them to conclude that the rise in the replacement ratio may have increased post-war unemployment by about 0.4 percentage points[33]. They also point out, however, that benefits may have become more available and suggest that less stigma is now attached to benefit receipt. It would seem unlikely, however, that such changes would be able to explain the rapidity with which unemployment has recently risen.

iv) *Hiring and firing legislation*

The impact of employment protection legislation is one factor mentioned as a deterrent to increasing employment and hence as a factor likely to increase unemployment. The legislation in the United Kingdom in the 1970s (much of it as part of a *quid pro quo* for agreement on wage moderation with the unions) attempted to give employees greater protection against unfair dismissal[34]. It may have achieved this to a certain extent for existing workers, but at the same time it may have deterred new engagements. Employers would be more reluctant to take on new workers, especially for cyclical reasons, if the dismissal costs were increased. The cost of unfair dismissal cases is not a negligible one; the number of cases increased from a rate of about 10 000 in the early 1970s to 35 000 by 1977, after which date they tended to stabilize. Such legislation may be one reason for the reduction in turnover rates, as indicated in the data for engagements and separations in manufacturing. The legislation may also be one reason for the development of temporary contracts and sub-contracting on a much greater scale than in earlier years.

The net effect of this legislation is not easy to determine. The employers' increased reluctance to incur the costs involved in dismissing workers has to be set against the increased reluctance to take on new workers given the possibility of important dismissal costs. Taken together the two might anyway tend to lead to a smoothing out of employment fluctuations, but the effect on unemployment might not be very large. Insofar as labour market flexibility is hindered, the legislation might be regarded as unfavourable.

The Government has acted to change some of the provisions of the employment protection legislation. The qualifying period of employment for protection against unfair dismissal was increased in 1980 from six months to one year (to two years for firms with less than twenty employees), and then in 1985 to two years for all businesses. The onus of proof on the employer in unfair dismissal cases has been changed and the requirements for advance notice of redundancies involving less than one hundred people have been reduced. More generally, the Government has attempted to encourage the creation and development of business and to reduce the burdens imposed on business by administrative and legislative regulation. The progress in this area and further proposals were reviewed in a White Paper, "Lifting the Burden", published in July 1985 (Cmnd. 9571).

v) *Labour market policy institutions*

The way that employment offices have been organised has changed a little since the mid-1970s. The Jobcentres now provide a flexible mix of self-service provision, with job seekers responding to information about job vacancies posted on boards and specialist advice provided by employment advisers. The advisory role of employment offices, though it still exists, is less important than formerly; this is due both to the existence of high unemployment itself and to staff cuts. Compulsory registration at employment offices came to an end in 1982. At that time the official unemployment numbers moved from a registration basis to a computerised count of unemployment benefit claimants[35]. The underlying rationale for the Jobcentre system has been to provide as much information to the market participants as possible on the grounds that no market can work without information. The number of Jobcentres is being increased to 1 100 although the number offering full facilities has been reduced from about 900 to 700. Even under the new arrangements, however, only one-third of all vacancies are recorded at Jobcentres, since many employers prefer to use other methods to fill vacancies.

The employment offices are administered by the Manpower Services Commission which also manages the various training and employment measures not directly administered by the Department of Employment. These schemes have developed since the mid-1970s, with many changes and innovations being made. The total number of people covered by such measures as of October 1985 was 675 000 with just over half being in the Youth Training Scheme, which had replaced the previous Youth Opportunities Programme in 1983. The other major programmes are the Community Programme for the long-term unemployed, which covers about 160 000 people, and the Enterprise Allowance Scheme, the Job Release Scheme and the Young Workers Scheme which each involve around 50 000 people. Fuller details of these schemes are given in Annex I[36]. The numbers on these schemes has more than doubled since 1979 when about 300 000 were covered; the maximum coverage had been in 1981 when over half a million workers were covered by the short-time working compensation scheme. The actual effect on the unemployment count, however, is less than the number of people covered by the schemes since, for example, not all those assisted would have been entitled to benefits. The estimated direct effect of the employment and training measures at the end of October was that about half a million people were in jobs, training or early retirement instead of claiming unemployment benefit. However, there is also likely to have been a displacement effect[37]. The gross costs per place in 1984/85 of the major schemes were estimated to range from £4 290 for the Community Programme to only £560 for the Young Workers Scheme[38] However the net cost, taking account of reduced unemployment benefits and higher revenues from tax and national insurance, was estimated to be only £2 200 per person no longer unemployed for those on the Community Programme and there was thought to be a net saving of expenditure for those on the Job Splitting Scheme.

The Government announced an extension to some of these schemes in the 1985 Budget. The number of places on the Community Programme, then about 130 000, is being raised to 230 000 by June 1986, while the Youth Training Scheme (YTS) will be extended so as to provide two years of training for the 16 year-old school leavers (previously one year) and one year of training for 17 year-old school leavers. The overall effect of the schemes has probably been a substantial reduction in unemployment, especially among the young, although as with all schemes of this sort it is very hard to estimate the displacement effect. The measures have tended to increase through time and therefore their impact is likely to have been to moderate the increase in unemployment which has occurred since 1979. Nevertheless, youth unemployment, at which several of the measures are aimed, remains above 20 per cent.

Various changes outlined above, including the extension of YTS, the amendments to Wages Council coverage and the restructuring of national insurance, may ease the youth unemployment problem. But the danger is that some of this unemployment may be redistributed elsewhere in the system.

III. ECONOMIC DEVELOPMENTS AND PROSPECTS

The recovery

The economy continued to expand in the first half of 1985, entering its fifth year of continuous growth. Such a long period of output growth is rather unusual in the post-war history of the British economy, since recoveries have been relatively short-lived. By the middle of 1985 the present recovery had lasted longer than the previous longest recovery (Table 5) and output growth had also been much the same as on that occasion. The difference is that, according to leading indicators and given the current underlying trends, growth looks set to continue. It might be that, as with the 1975-79 recovery, there is a greater scope for lasting output growth before the usual bottlenecks are encountered given the much larger downward

Table 5. **Contributions to GDP growth during the last two recoveries**

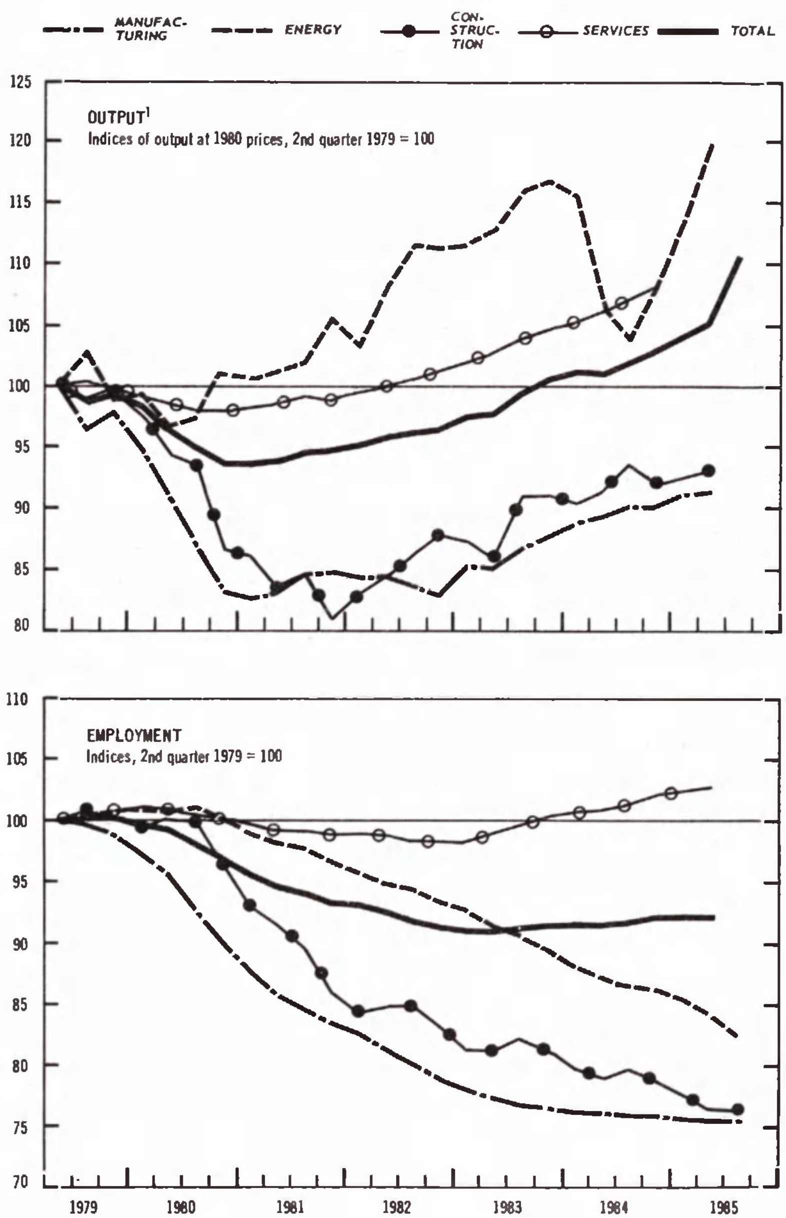
As a per cent of real GDP, seasonally adjusted annual rates

	1975 I to 1979 I	1981 I to 1985 I[1]
Private consumption	1.4	1.2
Government consumption	0.2	0.2
Gross fixed investment	0.2	1.0
of which:		
Public[2]	-0.5	-0.1
Private, residential	0.0	0.1
Private non-residential	0.6	1.0
Final domestic demand	1.8	2.4
Stockbuilding[3]	0.7	0.5
Total domestic demand	2.5	2.9
Exports	1.2	1.5
Imports	1.1	2.0
Foreign balance[3]	0.1	-0.6
Compromise adjustment[3,4]	0.2	0.5
GDP at market prices[5]	2.8	2.9
Output-based GDP	2.6	2.8

1. Figures in 1984 and 1985 are distorted by the miners' dispute. The underlying rate of growth of the output-based GDP and compromise GDP at market prices are estimated to be 3.0 and 2.9 per cent respectively.
2. General government and public corporations.
3. Change as a percentage of GDP in the previous period.
4. The difference between expenditure-based GDP and "compromise" GDP. The latter is the average of the output, expenditure and income measures of GDP.
5. "Compromise" GDP.

Source: *Economic Trends.*

Diagram 8. **Trends in output and employment**



1. Output figures in the four quarters to March 1985 are distorted by the miners' strike.
Sources: Economic Trends and *Employment Gazette.*

shift in output experienced during the two post-oil shock recessions. The 1979-81 recession was nevertheless deeper than that in the mid-1970s so that the level of GDP returned to its 1979 peak only by the third quarter of 1983.

By the first half of 1985, real GDP was, despite the miners' dispute, 13½ per cent above the 1981 trough (Diagram 8). The recovery has been widespread. Output of the services sector, which had only fallen slightly during the recession, was at mid-1985 about 10 per cent above its 1979 peak. Manufacturing output has shown strong growth since the trough, apart from a hiatus in 1982, but it had fallen by more than 15 per cent in the early stages of the recession so that by the middle of 1985 it was still 6 per cent below its average level in 1979. The recovery of manufacturing has been concentrated in a few sectors, mainly chemicals and electrical and instrument engineering. North Sea oil production, which in 1980 represented only 4½ per cent of total output, has alone contributed a fifth of the increase in output since the trough. The present recovery, with a stronger productivity performance than on earlier occasions, has only led to renewed employment growth since early 1983 when dependent employment stopped falling. Although employment growth has been fairly rapid since then, total employment in the middle of 1985 was nevertheless still provisionally estimated to be ½ million lower than at the 1981 trough. Employment growth has been concentrated in the services sector.

Comparing the main forces behind the present recovery with the other post-oil shock recovery in the mid-1970s, a number of features are apparent:

- The rise in total domestic demand has been stronger, with a large contribution of investment but less stockbuilding;
- The contribution of private consumption has been slightly lower this time but the major difference is that rapid consumption growth in 1975-79 resulted from strong growth of real personal disposable incomes, while in the current recovery it has been associated with a fall of 3¼ percentage points in the savings ratio with only a slow increase in real incomes (at an annual rate of 1½ per cent);
- The contribution of the foreign balance to overall growth was negative in the first half of the present recovery, reflecting both a poorer competitive position and a major rise in imports of goods and services which is probably linked to the fact that the recovery started earlier than in the other OECD countries; export growth has nevertheless averaged 5 per cent a year;
- The rate of inflation has fallen from about 20 per cent to 5 per cent between 1981 and the first half of 1985 compared with a fall of roughly 25 per cent to 10 per cent between 1975 and 1979.

The economy grew in 1984 by a little over 2½ per cent, ½ a percentage point more than envisaged in the last *OECD Economic Survey of the United Kingdom* published in January 1985. Growth remained relatively strong during the miners' strike from March 1984 to March 1985. In the second quarter of 1985, the average measure of GDP was 5 per cent higher than a year earlier; abstracting from the effects of the miners' strike, output was probably 4 per cent higher. Taking the first half of 1985 as a whole, the year-on-year rate of growth of GDP was 4¼ per cent, against 2½ per cent in the previous half-year. Since 1983 the main impetus to growth has come from business fixed investment and exports as the growth of private consumption, which had been strong in 1983, slowed in 1984 before reviving again in the first half of 1985 (Tables 6 and 7).

Some of the *investment* strength appears to have resulted in part from the bringing forward of expenditure before the phasing-down of capital allowances at the end of the first quarter of 1985 (in line with the 1984 Budget changes). There was a corresponding fall-off in

Table 6. **Demand and output**

Percentage volume changes, 1980 prices, seasonally adjusted annual rates

	1980	1981	1982	1983	1984	1984 I	1984 II	1985 I
Private consumption	–0.4	–0.3	0.7	4.0	1.7	0.5	1.0	2.3
Government consumption	1.3	–0.1	0.9	1.9	1.0	0.8	2.7	0.0
Gross fixed investment	–5.2	–9.4	6.4	4.6	8.2	12.4	2.6	5.0
of which:								
Public[1]	–8.0	–16.9	–2.4	18.5	0.8	–2.7	–2.2	–32.2
Private residential	–6.8	–6.6	10.3	8.6	2.3	15.3	–19.3	8.3
Private non-residential	–3.2	–6.1	9.4	–2.1	13.5	19.6	11.2	22.6
Final domestic demand	–0.9	–1.9	1.7	3.6	2.7	2.6	1.7	2.3
Stockbuilding[2]	–2.3	0.1	0.7	0.8	–0.3	–1.1	1.0	–0.2
Total domestic demand	–3.3	–1.8	2.5	4.4	2.4	1.5	2.7	2.1
Exports	0.0	–1.7	1.2	2.2	6.9	7.2	8.2	11.9
Imports	–3.6	–3.3	4.8	6.1	9.4	7.8	12.5	3.2
Foreign balance[2]	0.9	0.4	–0.9	–1.0	–0.6	–0.1	–1.1	2.4
Compromise adjustment[2,3]	–0.2	–0.2	0.4	–0.2	0.8	0.7	1.4	–0.5
GDP at market prices[4]	–2.5	–1.6	1.9	3.2	2.6	2.0	3.0	4.0
Memorandum items:								
Manufacturing production	–8.7	–6.0	0.2	2.9	3.8	4.0	2.5	3.3
Employment	–1.0	–3.4	–1.9	–0.6	1.5	1.5	1.4	0.9
Unemployment rate[5]	6.4	9.6	11.0	11.6	11.7	11.6	11.8	11.9
Real personal disposable income	1.4	–2.4	0.2	2.4	2.1	0.0	3.7	1.2
Saving ratio	15.0	13.2	12.7	11.3	11.7	11.1	12.3	11.8

1. General government and public corporations. Figures are affected by the privatisation programme. The most important change has been the switch of British Telecom from the public to the private sector in November 1984.
2. Change as a percentage of GDP in the previous period.
3. The difference between expenditure-based GDP and "compromise" GDP. The latter is the average of the output, expenditure and income measures of GDP.
4. "Compromise" GDP. Figures for 1984 and 1985 are affected by the miners' dispute. The underlying rate of GDP growth is estimated to have been 2.9 per cent in 1984, 2.3 and 3.3 per cent respectively in the first and second halves of 1984 and 3.8 per cent in the first half of 1985.
5. OECD definitions.

Sources: National Income and Expenditure 1985, and *Economic Trends.*

the second quarter. However, until then business investment had been especially strong growing at an annual rate of about 25 per cent in the six quarters to March 1985. This may have been related to two other factors: improvements in company profitability and a gradual increase in capacity utilisation. Gross trading profits, after deducting stock appreciation, of industrial and commercial companies, other than North Sea oil companies, rose by almost a quarter between 1983 and 1984; they rose by a further quarter between the first half of 1984 and the first half of 1985, after taking out the contribution of British Telecom which is included in this category since privatisation at the end of 1984. Profits have risen more rapidly than other forms of income since 1981 so that profits have increased as a share of GDP from 13 per cent in 1980 to 18 per cent in 1984. The real net rates of return on capital employed have also risen, from a low point of 3.3 per cent in 1981 to 6.5 per cent in 1984 excluding North Sea companies, and from 6.5 per cent to 11.6 per cent when North Sea companies are included. Meanwhile, as output has picked up, the number of firms reported to be working

Table 7. **Contributions to changes in GDP**

As a per cent of real GDP, seasonally adjusted annual rates

	1981	1982	1983	1984	1984 I	1984 II	1985 I
Private consumption	–0.2	0.4	2.4	1.0	0.3	0.6	1.4
Government consumption	0.0	0.2	0.4	0.2	0.2	0.6	0.0
Gross fixed investment	–1.7	1.1	0.8	1.4	2.1	0.5	0.9
of which:							
Public[1]	0.9	–0.1	0.8	0.0	–0.1	–0.1	–1.7
Private residential	–0.2	0.3	0.2	0.1	0.4	–0.6	0.2
Private non-residential	–0.6	0.9	–0.2	1.3	1.9	1.2	2.4
Final domestic demand	–1.9	1.7	3.6	2.6	2.6	1.6	2.3
Stockbuilding[2]	0.1	0.7	0.8	–0.3	–1.1	1.0	–0.2
Total domestic demand	–1.8	2.4	4.3	2.4	1.5	2.6	2.0
Exports	–0.5	0.3	0.6	1.8	1.9	2.2	3.3
Imports	0.8	1.2	1.5	2.4	2.0	3.3	0.9
Foreign balance[2]	0.4	–0.9	–1.0	–0.6	–0.1	–1.1	2.4
Compromise adjustment[2,3]	–0.2	0.4	–0.2	0.8	0.7	1.4	–0.5
GDP at market prices[4]	–1.6	1.9	3.2	2.6	2.0	3.0	4.0

1. General government and public corporations.
2. Change as a percentage of GDP in the previous period.
3. The difference between expenditure-based GDP and "compromise" GDP. The latter is the average of the output, expenditure and income measures of GDP.
4. "Compromise" GDP.

Sources: National Income and Expenditure 1985, and *Economic Trends*.

below normal rates of capacity utilisation has fallen – from around 80 per cent in the depths of the recession in 1980-81 to just under 50 per cent by October 1985. These two factors, when combined with the additional incentive to bring forward capital outlays throughout the period up to April 1986, are probably the main reasons for the recent strength of business investment. In contrast, public sector investment has tended to be relatively weak and private residential investment has remained depressed, although housing starts picked up during the first half of 1985.

Export growth has been strong for two years, reflecting rapid market growth and competitiveness gains associated with the fall in the effective exchange rate from 1980 through to the start of 1985. Following the reversal in the movement of sterling early in 1985, export volumes stabilized in the second quarter, but at a level about 10 per cent higher than a year earlier. This rapid growth in exports only partly reflected increasing exports of North Sea oil. The volume of non-oil exports also increased substantially, the increases being across the board with the exception of food and basic materials.

While the main contribution to growth in 1984 has been from investment and exports, the pattern now seems to be changing. *Private consumption* growth, which had been increasing rather slowly since the end of 1983, started to pick up again strongly in the second quarter of 1985; retail sales and new car sales were strong in the third quarter and the preliminary estimate of consumers' expenditure rose at an annual rate of over 3 per cent. The renewed consumption strength originates from a pick-up in real disposable incomes since the last quarter of 1984, partly offset by a saving ratio which has been edging upwards.

Labour market

Employment, which had continued to fall in the early stages of the recovery, has been growing relatively rapidly since the middle of 1983, at about an annual rate of 1½ per cent (Table 8). In the eighteen months to the end of 1984, about 600 000 jobs were created but this was followed (on the basis of provisional estimates) by a slowdown during the first half of 1985 when new jobs amounted to less than 90 000, despite a continued GDP growth at about the same underlying rate as in 1984. Following an unexpectedly large increase of 275 000 (or 12 per cent) between mid-1983 and mid-1984, self-employment has been assumed to increase by 31 000 a quarter (the average quarterly increase recorded between 1981 and 1984). The increase in self-employment may be due in part to various schemes and tax changes which aim to encourage new ventures. Most of the rise in the number of self-employed has been male workers and in the service industries. Meanwhile, dependent employment has been growing more slowly than self-employment, at an annual rate of about ½ per cent in the two years to mid-1985. In 1984, the increase in the number of employees was mainly attributable to part-time working by women; an approximate adjustment for the shorter hours they work would yield an approximate increase in full-time equivalent terms of about a third of the recorded rise. Available figures for 1985, suggest that in terms of full-time equivalents the number of employees might have fallen.

Table 8. **Labour market**

Percentage changes from previous period, seasonally adjusted annual rates

	1979	1980	1981	1982	1983	1984	1985 Q1	1985 Q2	1985 Q3
Working population[1]	0.9	0.7	–0.1	–0.3	0.0	1.6	0.8	1.4	
Employment, total	1.3	–1.0	–3.4	–1.9	–0.6	1.5	0.5	0.4	
of which:									
Manufacturing	–0.7	–5.1	–9.0	–5.4	–4.4	–1.2	–1.0	–1.0	0.0
Employees	1.3	–1.5	–4.2	–2.3	–1.1	0.6	–0.1	–0.1	
of which:									
Government	1.8	–0.9	–0.6	–1.0	0.1	–0.4	..	..	
Self-employment	1.0	5.3	4.8	2.6	4.3	10.2	4.9	5.0	4.8
Productivity[2]									
Total	1.9	–1.9	1.7	3.8	3.6	1.5	4.1	3.7	
Manufacturing	0.5	–3.8	3.4	6.4	7.2	5.2	5.0	3.4	2.4
Numbers unemployed[3]	1 227	1 561	2 420	2 793	2 970	3 047	3 148	3 169	3 179
Unemployment rate:									
National definitions[4]	4.8	6.4	9.7	11.2	12.2	12.6	12.9	13.0	13.0
OECD definitions[5]	4.8	6.4	9.6	11.0	11.6	11.7	11.8	12.0	11.7
Unfilled vacancies[6]	241	134	91	114	137	150	154	162	164

1. All figures relate to the United Kingdom. The working population, on national definitions, is the sum of employees in employment, the self-employed, HM Forces and the unemployed (including school-leavers but excluding students).
2. Output per person employed. Based on output-based GDP and the index of output of the manufacturing industries.
3. Thousands, excluding school-leavers, on the basis of claimants rather than registration since November 1982. From April 1983, the figures were reduced by the effects of the provisions in the Budget (about 160 000 or 0.6 per cent of the labour force). See Annex III in the January 1984 *OECD Economic Survey* of the United Kingdom.
4. As a per cent of employees in employment and the unemployed.
5. As a per cent of employees in employment, the self-employed, and the unemployed.
6. Thousands, new definitions, excluding Community Programme vacancies.

Source: Employment Gazette.

In the twelve months to mid-1985, the labour force (OECD definitions) expanded by around 400 000; with employment increasing by about 250 000 there was a net addition to the unemployment count of about 150 000[39]. The increase in the labour force was unusually large. It reflected not only an increase in the population of working age but also a substantial increase in female participation rates, which seems to have been the main reason for the increase in the female labour force over the period. This reflected in part the fact that many of the new jobs have been in the services sector where there has been a greater demand for part-time workers.

Costs and prices

Inflation, as measured by the year-on-year increase in the GDP deflator, has decelerated markedly from a rate of 20 per cent in 1980 to about 4 per cent early in 1984. It then edged up a little, rising to a rate of 5 per cent in the first half of 1985 (Table 9). Cost pressures increased a little during 1984 and at the beginning of 1985. Despite a fall of world spot prices of primary commodities in dollar terms, the depreciation of sterling led to a strong rise in import prices during 1984 and in the first quarter of 1985 (import prices of goods and services rose at an annual rate of 11½ per cent during 1984 and at an annual rate of 24 per cent in the first quarter of 1985). Since then import prices have been falling. Although average earnings have

Table 9. **Costs and prices**

Percentage changes from the same period a year earlier

	1980	1981	1982	1983	1984	1985 Q1	1985 Q2	1985 Q3
Retail prices	18.0	11.9	8.6	4.6	5.0	5.5	7.0	6.3
Producer prices[1]								
Materials and fuels purchased	8.4	9.2	7.3	6.9	8.1	9.5	3.4	2.8
Output, home sales	14.0	9.5	7.8	5.4	6.2	5.9	5.6	5.5
Import prices[2]	9.9	8.2	6.7	7.7	8.8	14.1	7.6	
of which:								
Goods	10.0	8.1	9.1	9.1	7.3	8.2	10.3	0
Non-oil goods	6.2	4.8	8.4	10.4	9.4	8.7	10.7	1.0
Earnings and wages								
Average earnings	20.1	13.0	9.4	8.4	6.1	7.7	9.2	9.2
Manufacturing	17.5	13.3	11.2	9.0	8.7	9.0	10.1	9.6
Public administration	26.6	13.5	8.0	6.8	6.6	8.0	5.6	7.0
Memorandum items:								
National accounts deflators								
Private consumption	16.4	11.5	8.6	5.2	5.1	5.5	4.6	
GDP at market prices	19.9	11.9	7.5	5.0	4.4	4.7	5.3	
New house prices	19.0	2.0	2.0	11.5	7.8	7.4	7.2	
Unit wage costs[3]								
Total	21.1	9.0	4.3	3.9	3.5	3.8	3.2	
Manufacturing	22.2	9.3	4.9	1.3	3.4	5.4	6.0	6.9

1. Manufacturing industries.
2. Goods and services, average values.
3. Wages and salaries per unit of output.

Sources: *Employment Gazette* and *Economic Trends*.

Table 10. **Analysis of price increases**

Percentage point components of the rate of increase of total final expenditure deflator

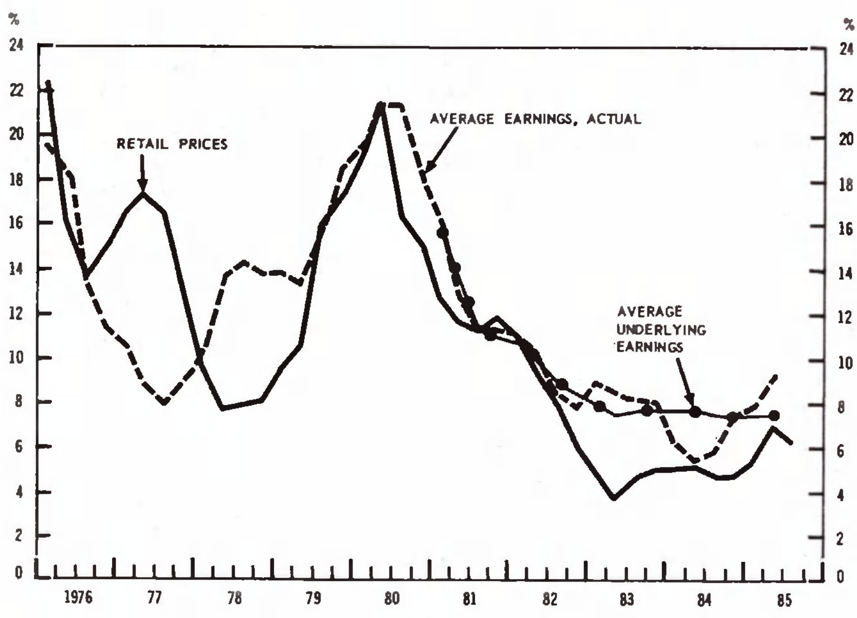
	From previous year						From same quarter a year earlier	
							1985	
	1979	1980	1981	1982	1983	1984	Q1	Q2
Unit labour costs[1]	6.4	10.0	4.6	1.8	1.8	1..4	1.5	1.3
Gross profits and other income[2]	2.3	3.1	2.8	3.0	2.0	2.0	1.9	2.0
Import prices[3]	1.8	2.0	1.5	1.3	1.6	2.0	3.4	1.7
Net indirect taxes[4]	2.8	2.8	2.2	1.3	0.2	0.1	0.2	0.7
Total of above	13.3	18.0	11.2	7.4	5.6	5.5	7.0	5.7
Residual[5]	0.0	–0.4	–0.1	–0.1	0.0	–0.2	–0.2	0.0
Total final expenditure deflator	13.3	17.6	11.1	7.3	5.6	5.3	6.8	5.8

1. Income from employment per unit of output (income-based GDP).
2. After stock appreciation.
3. Implicit deflator of imports of goods and services.
4. Taxes on expenditure less subsidies.
5. The residual reflects changes in weight and lag structures and includes rounding errors.

Sources: National Income and Expenditure 1985, and *Economic Trends.*

Diagram 9. **Cost and price indicators**

Per cent growth on same quarter a year earlier



Sources: Employment Gazette and *Economic Trends.*

been rising at an underlying rate of 7½ to 7¾ per cent, unit wage costs in the whole economy have been rising at about 3½ to 4 per cent a year (Table 10). In manufacturing industries, unit wage costs accelerated in 1984 and the first three quarters of 1985 as the growth of output per employee slowed down.

The year-on-year increase in retail prices, which had decelerated from 18½ per cent to 4 per cent between 1980 and the middle of 1983, picked up again from the end of last year (Diagram 9). Much of the rise from 5.2 per cent in the last quarter of 1984 to around 7 per cent in the second quarter of 1985 is estimated to have resulted from the changes in mortgage interest rates. However, the recent appreciation of sterling coupled with lower import prices have significantly reduced cost pressures, contributing to a lower rate of increase in retail prices.

International trade and payments

The current account has remained in surplus by about £3 to £4 billion over the last three years once account is taken of the distortion due to the miners' strike. The actual surplus fell from £3.2 billion in 1983 to £1.1 billion in 1984, but would have been about £4 billion if there had been no strike. In the first three quarters of 1985 the surplus was £2¼ billion (Table 11).

Table 11. **Balance of payments**

£ billion, actual rates

	1979	1980	1981	1982	1983	1984	1985 Q1	1985 Q2	1985 Q3
Seasonally adjusted									
Exports, f.o.b.	40.7	47.4	51.0	55.6	60.8	70.4	20.3	20.3	18.5
Imports, f.o.b.	44.1	46.0	47.6	53.2	61.6	74.5	21.6	20.5	19.0
Trade balance	–3.4	1.4	3.4	2.3	–0.8	–4.1	–1.3	–0.2	–0.5
of which: Non-oil	–2.7	1.0	0.2	–2.3	–7.8	–11.2	–3.1	–2.6	–2.5
Invisibles, net	2.7	1.7	3.2	1.7	4.0	5.2	0.9	1.7	1.7
Services, net	3.8	4.0	4.2	2.6	3.7	4.2	1.2	1.6	1.8
Interest, profits and dividends, net	1.2	–0.2	1.0	1.1	2.4	3.3	0.7	0.7	0.9
Transfers, net	–2.3	–2.1	–1.9	–2.0	–2.1	–2.3	–1.0	–0.7	–0.9
Current balance	–0.7	3.1	6.5	4.0	3.1	1.1	–0.4	1.4	1.2
Not seasonally adjusted									
Current balance	–0.7	3.1	6.5	4.7	3.2	0.9	–1.0	0.8	
Long-term capital, net	–3.3	–5.2	–9.7	–8.7	–8.0	–12.5	–5.6	–1.2	
Private	–2.9	–4.5	–8.2	–8.3	–7.6	–12.4	–5.7	–1.0	
Official	–0.4	–0.7	–1.6	–0.3	–0.4	–0.3	0.1	0.0	
Basic balance	–4.0	–2.1	–3.2	–4.0	–4.8	–11.6	–6.7	–0.4	
Non-monetary short-term capital	–0.2	–0.6	0.0	0.1	–0.9	–0.9	0.3	0.0	
Errors and omissions	0.6	–0.4	–0.4	–2.7	0.9	1.0	3.0	–0.5	
Balance of non-monetary transactions	–3.7	–3.1	–3.6	–6.6	–4.8	–11.5	–6.7	–0.9	
Private monetary short-term capital	4.4	2.1	1.1	5.1	3.2	9.3	3.3	1.2	
Net transactions of monetary authorities	0.7	–1.0	–2.5	–1.5	–1.6	2.2	–0.1	0.3	
Sterling liabilities	0.8	1.3	0.1	0.2	1.0	1.3	0.0	0.3	
Other financing[1]	–0.4	0.0	0.0	–0.2	0.0	0.0	0.0	0.0	
Changes in reserves	1.1	0.3	–2.4	–1.4	–0.6	–0.9	–0.1	–0.6	

1. Including SDR allocations.

Sources: *Economic Trends*, and The Current Account of the United Kingdom Balance of Payments, Press Notice, Department of Trade and Industry.

The trade balance on manufactured goods, after a long period of progressive deterioration, went into deficit early in 1983 for the first time since the war. The deficit widened in 1984 but seems to have stabilized thereafter. In the first three quarters of 1985 the deficit on manufactures was about £2¾ billion as against £3 billion in the same period of 1984. In 1983, for the first time since 1981 when the energy balance started being in surplus, the surplus on oil was not sufficient to offset the non-oil trade deficit and this has continued in 1984 and into 1985. The visible trade deficit, worsened by the miners' strike, increased from £0.8 billion in 1983 to £4.1 billion in 1984. Since the fourth quarter of 1984 there has been an improvement; the trade deficit was £2 billion in the first three quarters of 1985. The surplus on invisibles grew during 1984 to £5.2 billion, some £1.3 billion above that in 1983, and widened further in the first three quarters of 1985. In 1984 this improvement reflected chiefly a strong rise in interests, profits and dividends, with the biggest increase coming, as in 1982 and 1983, from income on overseas portfolio investment. In 1985 this was coupled with a strong pick-up in the surplus on the services balance, the main contribution coming from the travel account.

Most of the increase in the trade deficit in 1984 was accounted for by faster volume growth in imports than in exports. In spite of the drop in the exchange rate, the terms-of-trade declined by only 1 per cent. Although world trade had been rising since the beginning of 1983, exports of goods only started to respond early in 1984 and rose by about 8¼ per cent for the year as a whole and by a further 8½ per cent (at an annual rate) during the first three quarters of 1985 (Table 12). Price competitiveness in manufacturing export markets has shown

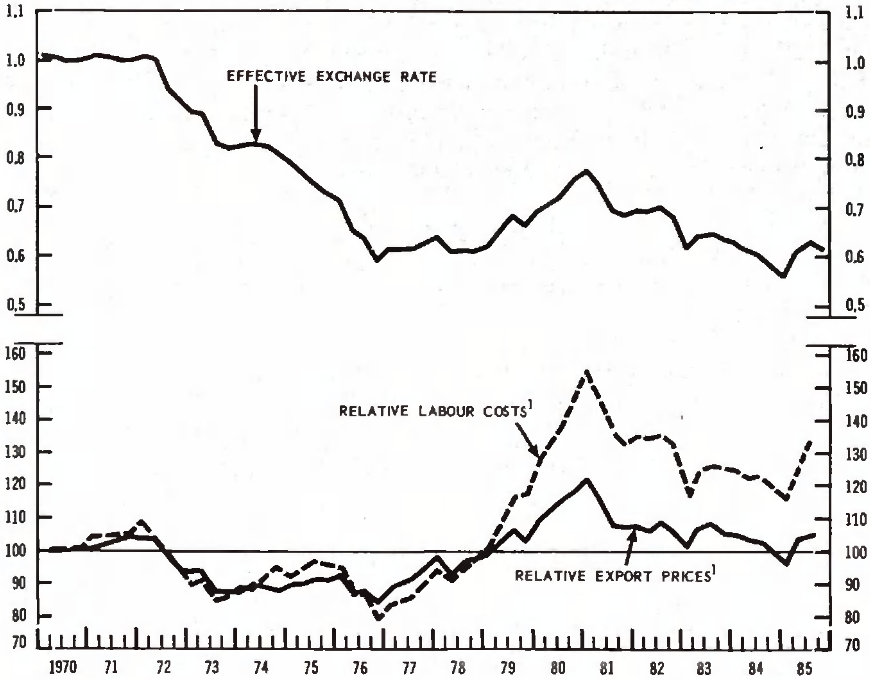
Table 12. **External trade**

Indices, 1980=100

	1981	1982	1983	1984	1985 Q1	1985 Q2	1985 Q3
I. *Volumes, seasonally adjusted*[1]							
Merchandise exports	99.3	101.5	103.8	112.3	120.5	120.6	115.0
of which:							
Food, beverages and tobacco	105	107	110	117	121	122	122
Basic materials	96	94	101	107	113	103	111
Fuels	121	133	148	159	182	175	160
Total manufactures[2]	97	98	96	107	118	116	113
Merchandise imports	96.1	100.7	109.7	121.6	128.5	126.0	123.7
of which:							
Food, beverages and tobacco	104	108	108	112	112	112	116
Basic materials	95	93	105	102	103	97	100
Fuels	82	75	67	85	104	85	71
Total manufactures[2]	102	115	131	147	153	154	154
Non-oil merchandise exports, volumes	96.3	96.9	97.2	104.9	110.9	112.2	108.5
Non-oil merchandise imports, volumes	98.4	104.8	116.4	128.1	132.7	133.0	132.3
II. *Prices, not seasonally adjusted*							
Export unit values	108.8	116.2	125.7	136.0	146.7	146.0	142.0
Import unit values	108.2	116.7	127.5	139.5	152.0	148.7	141.2

1. Total and non-oil volumes on a balance of payments basis; commodity breakdown on an overseas trade statistics basis.
2. Excluding erratic items defined as ships, North Sea installations, aircraft and precious stones.
Source: The Current Account of the United Kingdom Balance of Payments, Press Notice, Department of Trade and Industry.

Diagram 10. **Exchange rate and competitiveness indicators**
1970 = 100



1. Manufacturing industries.
Source: OECD estimates.

considerable improvement since 1981. But this has been more than accounted for by the fall in sterling (of some 40 per cent against the dollar and 20 per cent in effective terms) in the four years to the first three quarters of 1985 (Diagram 10). Imports of goods and services grew rapidly in 1984 and into 1985, as they had done in 1983, boosted by a large increase in fuel imports as a consequence of the miners' strike. Excluding oil and erratic items, import volumes were only 2¼ per cent higher in the third quarter of 1985 than a year earlier.

Short-term prospects

The present set of projections is based on the following assumptions:

- No change in the exchange rate from its level on 5th November 1985; because of the appreciation of sterling up to November, the effective exchange rate is assumed to be 3½ per cent higher than in the first half of 1985;
- Economic policy is assumed to remain unchanged up to mid-1987, which is interpreted to mean that the Medium-Term Financial Strategy (MTFS) will be broadly adhered to. The PSBR is projected to come down from £10.2 billion in 1984/85 to around £8 billion in 1985/86 and to £7 to £7½ billion in the following two

years (approximately 2 per cent of GDP). The forecasts assume that this will allow room for income tax cuts of £2 billion in the 1986 Budget. The MTFS also implies a continued deceleration in monetary growth. It is assumed that interest rates will fall slightly during the first half of 1986 but remain stable thereafter.

Initial information on the second half of 1985 suggests that the growth of GDP may have weakened somewhat. Private consumption growth seems to have picked up but this has apparently been more than offset by a weakening in other elements of domestic demand. So far the falling-off in exports has been more than matched by the downward adjustment of imports. This pattern seems unlikely to continue. The higher level of sterling built into the projections, when taken with the worsening pattern of unit labour cost developments, implies a deterioration in international competitiveness compared with its average level in 1984. In these circumstances a resumption of strong export growth seems unlikely, especially as market growth for manufactures may level out at a much lower rate than in 1984, and import penetration may increase rapidly. The current recovery is therefore likely to continue but at a more moderate pace.

Table 13. **Short-term prospects**

Percentage changes from previous period, seasonally adjusted annual rates

	Treasury		OECD					
	1985	1986	1985	1986	1985 II	1986 I	1986 II	1987 I
Volumes (1980 prices)								
Private consumption	2½	4	2½	3¾	3¾	4	3½	2¾
Government consumption	0	½	1	¾	1½	½	½	½
Gross fixed investment	4	3½	2½	2	–2	4¼	1¾	2¼
Public	..	..	–17½	2½	–32¼	2¼	2¼	2¼
Private	..	..	9¾	2	20	5	1¾	2¼
Final domestic demand	2½	3½	2	2¾	2¼	3¼	2½	2¼
Stockbuilding[1]	0	½	¼	¼	–¼	0	¼	0
Total domestic demand	2½	3½	2¼	3	2	3¼	2¾	2¼
Exports	7	2	7½	2	12	3	3½	3½
Imports	3½	4	4¼	4	3¼	6	5½	5
Foreign balance[1]	1	–½	1	–½	2½	–¾	–½	–½
GDP[2]	3½	3	3¼	2½	4	2½	2¼	1¾
Memorandum items:								
GDP deflator	..	..	5	5	5¼	5	4½	4½
GDP at current prices	..	..	8½	7¼	9¼	7½	6¾	6¼
Real personal disposable income	..	..	3	4	5¼	4	3	2½
Personal saving ratio	..	..	12¼	12½	12½	12½	12½	12¼
Consumer prices[3]	5½	3¾	5	4	3¾	4	4½	4½
Employment	..	..	1	1	1	1	1	¾
Unemployment rate[4]	..	..	11¾	11½	11¾	11½	11½	11½
Manufacturing production	2½	2½	2½	2½	2¼	2¼	2½	2½
Current balance of payments								
(£billion)	3	4	3	3½	4	3½	3½	3
($billion)	..	..	4	5	6	5	5	4

1. Change as a per cent of GDP in the previous period.
2. Compromise estimate of GDP at market prices for OECD and at factor cost for the Treasury.
3. Private consumption deflator for OECD and fourth quarter retail price index for the Treasury (growth rate over same period a year earlier).
4. United Kingdom, excluding school-leavers, as a per cent of the labour force (OECD definitions).

Sources: H.M. Treasury, Autumn Statement 1985, and OECD projections.

The pick-up in private consumption, both in the recent past (the second and third quarters of 1985) and as projected from now on, is due to a recovery in real personal disposable income. The Budget tax cuts have provided some stimulus, but from now on the main impetus seems likely to come from strong growth in real earnings, as wage growth continues at around 7 to 8 per cent per annum and inflation continues to fall. This effect would tend to weaken through 1986, on the assumption that inflation stabilizes around mid-year and that the following wage round is more moderate. Nevertheless, on these projections the growth of real labour costs would accelerate from now on so that, with productivity growth easing off, there might be some pressure on profits in 1986. Given the decline in competitiveness, the squeeze on profits would be most noticeable in the tradeables sector. If companies find themselves unable to hold down wages by more than assumed in the projections, they will probably look for savings in other elements of expenditure. Firms seem unlikely to build up stocks in line with sales, and capacity-increasing investment growth may be reduced, the complete phasing-out of accelerated depreciation allowances by April 1986 having an additional influence in that area. For the same reason the prospects for employment growth seem likely to weaken from now on, although substantial growth is still projected, and unemployment is likely to continue to edge down. Over the next eighteen months the unemployment rate is projected to fall by about ½ percentage point from its record post-war level in the first half of 1985.

Beyond these considerations, North Sea oil production is probably at a peak. Given the generally overpessimistic assessments of proven reserves and production estimates in the past, it would be inappropriate to take too firm a view on actual production. However, the strong contribution to growth which has come from the oil sector in the past will now ease, and the position will probably be reversed if, as seems likely, production turns down sometime in the next few years. The oil account has already deteriorated under the twin influences of a falling dollar oil price and an appreciating pound. Nevertheless the current account is still in surplus. The surplus is expected to remain fairly stable over the next eighteen months, with an improvement in the invisibles balance being roughly offset by a deterioration in the trade balance.

IV. CONCLUSIONS

The recovery, which began in 1981, has now continued for longer than any other post-war recovery with output growing at about 3 per cent annually for three years and inflation falling from 18 per cent in 1980 to 5 per cent in 1984. Profitability has recovered. Both investment and exports have been strong. Employment has picked up rapidly since 1983. The economy has survived a one-year miners' strike without any major disruption to output elsewhere. And the balance of payments has remained in surplus. Thus in many respects the economic performance has been good. But labour cost developments have been unfavourable and the unemployment rate has risen to over 13 per cent, although it appears to have stabilized in recent months. These two related issues have been the main focus of this Survey.

Although the broad medium-term framework of the strategy has been maintained, macroeconomic policies have been implemented with a certain degree of flexibility and have evolved in response to developments which were largely unforeseen. Monetary policy has been faced with problems with the interpretation of the monetary aggregates arising from changes in the financial markets, the extent of which was not predicted when the Medium-term

Financial Strategy (MTFS) was first conceived. Since 1982, the targeted monetary aggregates have changed, as documented in previous Surveys. Increasing emphasis has been put on nominal income in the presentation of policy, with the projected growth rates for money GDP being set alongside those for the monetary aggregates in the 1985 MTFS. With sterling M3 growing above the top of its range during the first half of the financial year, the Chancellor indicated in October that bringing it back within the target range was not warranted since other indicators, including interest rates and the exchange rate, financial conditions were relatively tight.

More emphasis is being placed on the exchange rate as an indicator of monetary conditions. But assessment of the appropriate level of the exchange rate is a delicate matter, as is clear from the 1979-81 period when the real exchange rate was allowed to rise too high. If, in pursuit of inflation reduction, high interest rates are allowed and the exchange rate increases, output will tend to suffer. On the other hand, too low an exchange rate, though it may in the short term help the tradeables sector and hence output, will risk higher inflation. The past volatility of the exchange rate, the damage to output that was caused by its real appreciation in the earlier episode and the risk to inflation caused by its fall at the end of 1984 and the start of 1985, have led to more attention being paid to its movement. This has also led some to advise that the United Kingdom should join the exchange rate mechanism of the European Monetary System. A reduction in the degree of volatility of sterling would certainly seem advantageous both for private sector decision-making and for the setting of policy, and the Government now seems to be influencing interest rates with this consideration in mind. Greater nominal exchange rate stability would mean that improvements in price competitiveness would have to come through better control of domestic costs.

On the fiscal side, the progressive reduction of the PSBR has been seen as an important complement to the reduction of monetary growth. However, the reduction in the PSBR since 1980/81, though substantial, has been less than envisaged in successive versions of the MTFS. The level of the PSBR has remained at 3 to 3¼ per cent of GDP throughout the last four years, although the overshooting in 1984/85 was largely due to the miners' strike. The failure to reduce the PSBR as much as intended has put additional pressure on the operation of monetary policy. The projected PSBR for 1985/86 and beyond of around 2 per cent of GDP would represent a significant reduction but would occur at much higher tax and expenditure ratios than had originally been desired from the point of view of strengthening private initiatives. Furthermore, there are some reservations, discussed in Part II above, about the relevance of the PSBR as an indicator of fiscal stance. The PSBR includes financial flows such as asset sales which reduce its level but, given their nature, might be better considered as a means of financing the deficit. The composition of public sector receipts and expenditures is also important. These considerations have led to a discussion of other measures of the public sector finances such as the public sector's net worth or its outstanding debt/GDP ratio. Issues such as these need to be taken into account in setting out the projected path for the PSBR.

A further aim of the strategy has been the promotion of more efficient product, labour and capital markets to enhance growth potential and improve the output-inflation trade off. The Government has taken a whole series of measures on the supply-side aimed at reducing government intervention, regulation and monopoly positions. The present privatisation programme now covers 40 per cent of what was the state sector of industry in 1979. Since 1979, a large number of financial controls have been lifted, competitition policy has been strengthened and various personal and company tax changes have been introduced. The 1984 Budget changes to the system of investment allowances, which were fully described in the 1985 Survey, reduced the amount of discrimination between capital and labour, between different types of investment and between different forms of financing. It is still too early to judge how the changes have affected investment behaviour, since the transitional period has seen a substantial bringing forward of expenditure to take advantage of the remaining allowances, but in principle the quality of investment should improve. The removal of the tax advantages previously given to investment will also lead to an improvement in the cost of labour relative to capital, hence encouraging employment. In the labour market area a variety of changes have been made to the industrial relations law and to institutional arrangements. Being spread across many areas and being generally long term in their effects, the impact of these supply-side measures is not easy to assess. But their influence in helping to restore a more flexible operation of markets should be important.

One unsatisfactory feature of the disinflation to date has been the continued pressure for higher wages and resistance to downward flexibility when economic conditions call for wage reductions. The rate of growth of average earnings fell rapidly from a peak of around 25 per cent in 1980 to around 8 per cent in 1983, but since then there has been no further deceleration despite a rate of inflation that has been several points lower and a high level of unemployment that was still rising until spring 1985. Real wages have thus continued to increase rapidly even though there have been three million people without work. This has meant that demand for labour has been less than it otherwise would have been and has itself caused unemployment to be higher. Normally this sort of movement would be expected to be self-equilibrating. Higher unemployment could be expected to moderate wage pressures, improve employment prospects, and hence eventually moderate unemployment. In the case of the United Kingdom this has not happened to a sufficient degree. The result has been that the improvement in the split of nominal income as between output and inflation has been insufficient, as has the split of total wages and salaries as between employment and average earnings, to the detriment of the unemployed.

This unfavourable outcome has been acknowledged by the Government, which has sought to improve the responsiveness of collective bargainers to underlying economic conditions. Measures have been taken to promote greater democracy in trade unions. The trade union movement has been weakened by unemployment which has tended to be especially important in some of the highly unionised sectors of the economy, particularly the older and now declining industries. Nevertheless, the trade unions have sought wage agreements enshrining larger-than-warranted wage rises and have sometimes negotiated settlements where higher wages for those remaining employed are traded off against jobs in various work reorganisation schemes. The higher wages have often been justified by higher productivity but the overall effect economy-wide has been that those in employment have made real wage gains at the expense of others who have become unemployed or who have remained unemployed for a longer period. While this has allowed profitability to be maintained, this has occurred as a result of labour-shedding and will have tended to bias investment towards capital-intensive methods of production.

The structure of employment growth is also an important factor in explaining why unemployment has remained high despite the length of the recovery, and why both male unemployment and long-term unemployment are continuing to rise. The situation during the period since 1979 can be characterised as follows. As employment fell, jobs in the older industries, especially manufacturing but also some publicly-supported sectors, were run down especially rapidly. Male employment suffered particularly badly. As employment recovered, the jobs were generally in newer industries, especially in the services sector, where the demand for labour was generally of a different sort often favouring part-timers and women, and perhaps discriminating against older workers. Although outflows from the unemployment count have remained high, they are lower than they once were; in general, those who had become unemployed were relatively less acceptable than they had been in what was now a bigger pool of labour available for the new jobs. The number of unemployed with long durations increased as the stock of unemployment rose; there are now 1⅓ million who have been unemployed for more than a year, with 1 million of those being men. Of the 3¼ million now unemployed, 2¼ million are males, for whom the unemployment rate is 16 per cent (compared to 10 per cent for women). The male unemployment rate is at 20 per cent or above in the North and North-West of England, Wales, Scotland and Northern Ireland. The structural implications for unemployment of the nature of the recession and the recovery are clearly important.

Although some of the causes of the current unemployment problem in the United Kingdom date back to the 1970s and even earlier, the depth of the recession of the early 1980s further contributed to the problem. The recession was in part induced by the oil shock and depressed world trade and in part by the disinflationary policies adopted by the Government in order to contain inflation. Because of large pay rises and the rise in sterling, the manufacturing sector was especially badly affected, so much so that output is still below its 1979 peak level which was in turn below the 1973 peak. In order to survive, companies were forced to economise on labour and took the opportunity to reduce the overmanning which had developed in earlier years. From peak to trough, around two million jobs were lost. Although the recovery in employment has been strong, unemployment has only recently stopped rising. The disinflationary process which the British authorities embarked on in the wake of the second oil shock and the subsequent slow adjustment of the labour market led to a level of unemployment which is much higher than the authorities expected. Furthermore, despite the changes that have occurred in the labour market in the last few years, which have been mentioned in Part II, the relative lack of labour market flexibility means that reducing this level of unemployment will be a difficult task. The problem has been compounded by a fast expansion of the labour force. The especially rapid rise in the labour force in 1984 is related to the greater availability of jobs for part-time workers in the current recovery and may be associated with a discouraged worker effect through the recession years. The large increase in participation is not likely to be repeated on such a scale, so that from now on, given demographic factors which indicate a slowing down of the growth of the population of working age, the labour force may expand much less rapidly and may even stabilize towards the end of the 1980s. The medium-term prospects for unemployment over the next five years are thus in this respect more favourable than the medium-term trends just witnessed.

Given the disappointing performance of the labour market, the question has to be posed as to how the strategy can be improved or whether there is any alternative to the strategy? As reviewed in the last Survey of the United Kingdom and also followed up in the present Survey, the Government has been pursuing various policies to strengthen the productive capacity and responsiveness of the economy as one part of its economic strategy. A better output-inflation split of any nominal income growth should eventually result from such policies. But it is also recognised that changes in this area, in particular the functioning of the labour market, are difficult to achieve and will take time. The phasing out of investment allowances, for instance, though it has reduced the relative cost of labour and should improve the efficiency of capital, will have its effect over a period of many years. Even greater effort than hitherto is therefore necessary to strengthen the supply responsiveness of the economy, not only by the Government but also by social partners, especially as North Sea oil production is near its peak. Meanwhile, the unemployment problem persists and it would seem desirable to strengthen the employment and training schemes which are aimed at particular sections of the unemployed, although there may be difficulties in implementing such measures effectively without interfering with the process of adjustment. The Community Programme, which is directed towards the longer-term unemployed, seems particularly useful since the evidence suggests that these people do not play an important role in putting downward pressure on wages. Since a major consideration in any of the fiscal measures to reduce unemployment is concern about the rekindling of inflation, measures directed at the longer-term unemployed or even at the highest unemployment areas may entail the least risk of any inflationary outbreak. Furthermore, in view of the emerging shortage of technically trained workers in certain sectors of the economy, the expansion of the training schemes will have desirable supply-side effects over the long term.

The Government is not willing to take reflationary action to stimulate demand until it is clear that any boost to demand will result in greater output and employment rather than in higher inflation. It is unlikely, however, that inflation will fall as rapidly after 1986 as at present. Moderating influences from abroad are expected to diminish; some slowing in inflation is occurring because of the appreciation of sterling in the first half of 1985 but any additional benefit from a further appreciation would be at the expense of a serious weakening of the international competitiveness of British industry. Moreover, the growth of wages does not seem to be responding very much to the high level of unemployment. In these circumstances, there is little that macroeconomic policy can do to reduce unemployment. The Government has suggested that a better outturn on wages and prices would create room for faster output growth within an unchanged nominal framework of macroeconomic policy. In the 1985 Budget Speech, the Chancellor indicated that if the rise in average earnings were moderated, and it looked as if nominal demand would turn out lower than projected, then the Government would act to maintain nominal demand at the desired level through a reduction in interest rates or taxes. The wage moderation that is required, if unemployment is to be reduced without a resurgence of inflation, depends on a greater awareness of the links between wages and employment creation and further improvements in industrial relations and the labour market more generally.

NOTES AND REFERENCES

1. The origins and development of the Medium-term Financial Strategy were reviewed in the January 1984 *OECD Economic Survey of the United Kingdom* (Part I). The progress of the strategy was examined in the January 1985 Survey which focused on the supply-side aspects of policy (Part II).
2. See Part II, "The Supply Side" of the *OECD Economic Survey of the United Kingdom,* January 1985.
3. In 1979, state industries contributed 10½ per cent of GDP. By 1987, those remaining in the public sector are estimated to account for 6½ per cent of GDP.
4. "Round tripping" refers to the possibility which can open up in certain circumstances for borrowing on bills in order to place the funds on deposit with banks at the same maturity as the borrowing at a profitable margin. The Bank of England investigated the possibilities for such arbitrage in a special note in its June 1985 *Quarterly Bulletin* (page 189). It concluded that, although such opportunities had arisen, bill arbitrage did not seem to have been an important factor in inflating bank lending.
5. The "bill mountain" refers to purchases by the Bank of England of commercial bills held by the banking system in order to alleviate pressures on short-term liquidity. The bill mountain had risen to about £17 billion by the spring of 1985.
6. Some of the arguments adduced below are discussed in J. Odling-Smee and C. Riley, "Approaches to the PSBR", *National Institute Economic Review,* August 1985. Three other articles on fiscal policy appear in the same publication.
7. Based on a real discount rate of 2½ per cent, Odling-Smee and Riley *(op. cit.)* estimate a "permanent" revenue stream from the North Sea currently available to the public sector of about £2¾ billion (about ¾ per cent of GDP) compared with the 1985 Budget estimate of revenues of £13½ billion in 1985/86.
8. See C.W. Pettigrew, "National and sector balance sheets for the United Kingdom", in *Economic Trends,* November 1980, and John Hills, Mark Ashworth and Nick Morris, "Public Finances in Perspective", in *Institute of Fiscal Studies Report Series,* No. 8, 1984.
9. These figures refer to the seasonally adjusted total of unemployed benefit claimants excluding school-leavers, expressed as a proportion of the estimated number of all employees in employment plus unemployed claimants.
10. Standardized unemployment rates produced by the OECD and published in the *Economic Outlook* adjust national unemployment rates to a uniform basis conforming with definitions drawn up by the International Labour Organisation in order to facilitate cross-country comparisons.
11. The labour force statistics mentioned here and in the next paragraph are taken from "Labour force outlook for Great Britain", *Employment Gazette,* July 1985. The figures apply to Great Britain and are defined as the sum of employees in employment, the self-employed and people seeking work, whether or not they claim benefits. The labour force figures used by the OECD are for the United Kingdom and are defined as the sum of total employment, i.e. the sum of employees in employment and the self-employed and the unemployed, including school-leavers.

12. This work is reported in D. Coe, "Nominal wages, the NAIRU and wage flexibility", in *OECD Economic Studies* No. 5, Autumn 1985, Table 9. The semi-elasticity of nominal wages with respect to a 1 percentage point increase in the unemployment rate is –0.17 for the United Kingdom compared with: Germany (–0.25), Switzerland (–0.30), France (–0.31), United States (–0.33), the Netherlands (–0.44), Australia (–0.48), Canada (–0.57), Austria (–0.58), Italy (–0.65), and Japan (–3.31). Because a non-linear specification of the unemployment rate has been used in the equations for Austria, Germany, Japan and the Netherlands, the above elasticities are baseline dependent and have been evaluated at sample averages of the unemployment rate.

13. One measure of real wage rigidity, which relates the short-run elasticity of money wages with respect to inflation to the semi-elasticity of money wages with respect to the unemployment rate, indicates a higher degree of rigidity for the United Kingdom than elsewhere (see *OECD Economic Outlook 37*, June 1985, page 30 and Coe, *op. cit.)*. In cross-country comparison, the wage rigidity index is weakly correlated with the rise in unemployment over the period 1975 to 1982.

14. R. Layard and S. Nickell, "Causes of British Unemployment", in *National Institute Economic Review*, February 1985.

15. Department of Health and Social Security, "For richer, for poorer: DHSS Cohort Study of unemployed men", DHSS Social Research Branch, Research Report No. 11, HMSO 1984.

16. However, the wage equation presented by Layard and Nickell which uses short-term unemployment has slightly less explanatory power than that which uses the total unemployment rate.

17. A discussion of the issue and a summary of some of the empirical research is given in HM Treasury, *The Relationship between Employment and Wages*, January 1985.

18. On the alternative assumption of unchanged tax rates and interest rates, the elasticity is reduced to –½.

19. This is acknowledged in the Treasury paper *op. cit.*, paragraph 3.29, which admits that "... virtually all of the output effect is attributable to the fall in prices".

20. Such results are reported in the Treasury paper already cited and in the Warwick paper referred to below. Simulations of a real wage shock based on the most recent version of the OECD Interlink model, which now includes a theoretically consistent supply approach to factor demand, indicate substantial factor substitution effects; the elasticity of employment with respect to real wages builds up from about –0.2 after two years to about –0.6 after five years.

21. See M.J. Andrews, D.N.F. Bell, P.G. Fisher, K.F. Wallis and J.D. Whitley, "Models of the UK Economy and the real wage-employment debate", *National Institute Economic Review*, May 1985; the models used are the quarterly models of the London Business School, the National Institute and the Treasury (January 1984 version without any factor substitution effect), and the annual models of the City University Business School and the Liverpool University Research Group in Macroeconomics.

22. *OECD Economic Outlook 37*, June 1985, pages 29-34.

23. Another factor is the tendency for unemployed workers to be available for full-time work whereas many of the vacancies are for part-timers. A person who is on benefit after losing full-time employment is unlikely to be able to switch to part-time employment because of the reduction in income which would ensue.

24. This argument is put forward by Bill Robinson and Keith Wade in "Unemployment, scrapping and factor prices", *London Business School Economic Outlook*, Volume 9, number 10, July 1985.

25. In the 1979-80 period public sector pay rose relatively rapidly as a result of commitments by the incoming government to honour certain awards recommended by a review body headed by Professor Clegg.

26. The first statutory regulation of wages came in 1909 with the setting up of four Trade Boards which were empowered to provide for statutory minimum wages in "sweat-shops". Immediately after the First World War the system was extended to a further thirty-seven industries with the number of workers protected by statutory regulation reaching 1½ million. After the Second World War the

system was extended from factories and into retail and catering trades and the boards were renamed Wages Councils, the name under which they still exist today. Proposals on minimum terms and conditions are effected by Wages Orders and enforced by a Wages Inspectorate. The evidence from pay checks carried out by the Inspectorate over the past three years suggests that around 95 per cent of workers covered by Wages Councils are being paid not less than the legal minimum. The Wages Orders are published by HMSO and reported in the Department of Employment's *Time Rates of Wages and Hours of Work.* The history of the Wages Councils is given in C.W. Guillebaud, *The Wages Council System in Great Britain* (Nisbet, 1958) and in F.J. Bayliss, *British Wage Councils* (Blackwell, 1962). For more recent information see Department of Employment, *Consultative Paper on Wages Councils,* 1985.

27. See Chapter V, "Do relative wage levels affect youth employment?", in the *OECD Employment Outlook,* September 1984.

28. In practice, take-up rates for some means-tested benefits are often below 100 per cent.

29. For more details of this research and the definition of the replacement ratio used, see chapter VI on "Unemployment and Family Income" in *OECD Employment Outlook,* September 1984. Two earlier studies are OECD *Unemployment Compensation and Related Employment Policy Measures,* Paris 1979, and OECD, *The 1982 Tax/Benefit Position of a Typical Worker in OECD Member Countries,* Paris 1983.

30. A.W. Dilnot and C.W. Morris, "Private costs and benefits of unemployment; measuring replacement rates", *Oxford Economic Papers* (Supplement), November 1983.

31. An offsetting factor is the positive effect on the level of demand arising from high replacement rates.

32. R. Layard and S. Nickell, "Unemployment in Britain", paper presented to a conference on the rise in unemployment at Chelwood Gate, Sussex in May 1985; an earlier version appeared in the February 1985 *National Institute Economic Review.*

33. This elasticity is of the same order of magnitude as some other cross-section estimates but is much lower than reported in P. Minford, *Unemployment; Cause and Cure,* Martin Robertson, Oxford, 1983.

34. There is a distinction between dismissals that occur for commercial reasons, which are covered by the Redundancy Payments Act of 1965, and "unfair dismissals", as covered by the Industrial Relations Act of 1971 and the Employment Protection Act of 1975.

35. The effect of this change was to reduce the unemployment count by about 150 000; see Annex III of the January 1984 *OECD Economic Survey of the United Kingdom* for details.

36. Details of the rather greater number of schemes that existed in 1982 were given in Annex II of the February 1983 *OECD Economic Survey of the United Kingdom.*

37. For instance, surveys by the Manpower Services Commission on the Enterprise Allowance Scheme indicate that displacement may be about 50 per cent.

38. These estimates are taken from the 1985 Public Expenditure White Paper.

39. Including unemployed school-leavers; unemployment excluding school-leavers increased by 137 000 during this period. All figures are seasonally adjusted. The OECD definition of the labour force is explained in footnote 11.

Annex I

EMPLOYMENT MEASURES

This annex summarises the various special employment and training measures in existence at the end of 1985 together with estimates of numbers covered. In the last ten years there has been a whole range of different schemes in this area. The February 1983 Survey contained a similar annex which detailed the rather larger number of schemes that then existed. At that time there were about 500 000 people covered by such schemes with the largest number (about 200 000) being on the Youth Opportunities Programme. By October 1985 there were 675 000 people covered, the largest schemes being the Youth Training Scheme (350 000) and the Community Programme (159 000). Details of the schemes, together with estimates of the numbers covered, are released each month in a Department of Employment Press Notice. The information presented below draws on this material. Further information and analysis of some of the schemes is given in articles in the *Department of Employment Gazette* and in publications of the Manpower Services Commission.

I. Overview of the schemes

Estimates of the numbers covered by the special employment and training measures in Great Britain at the end of October 1985 are presented below. The total number covered at that date is estimated to have been 675 000. The estimated direct effect of the measures was that about 495 000 people were in jobs, training or early retirement instead of claiming unemployment benefit.

Youth Training Scheme	350 000
Community Programme	159 000
Young Workers Scheme	54 000
Job Release Schemes	52 000
Enterprise Allowance Scheme	50 000
Community Industry	8 000
Training in Industry	1 500
Job Splitting Scheme	280

II. Details of the schemes

Youth Training Scheme. The scheme provides a programme of training and planned work experience lasting up to a year, including a minimum of 13 weeks off-the-job training or further education. It is designed to give school leavers a range of practical transferable skills to enable them to compete more effectively in the labour market. The majority of places are work-based with employers. The scheme provides training for three groups of youngsters: 16 year old school leavers (whether employed or unemployed), unemployed 17 year old leavers in their first post-school year, and some other trainees with special needs. From April 1986 the scheme is to be extended so that it provides two years' training leading to vocational qualifications for 16 year old school leavers; and one year's training for 17 year old leavers, again with special provision for groups with special needs. The Youth Training Scheme replaced the Youth Opportunities Programme and became fully operational in September 1983.

Community Programme. The programme provides jobs of up to a year's duration for long-term unemployed adults on projects of benefit to the community. Recruitment to job opportunities is normally restricted to people in receipt of benefit aged 18 to 24 who have been unemployed for at least six months in the past nine months, and those aged 25 and over who have been unemployed for at least 12 months in the past 15 months. An expansion of the programme, to 230 000 places by June 1986, was announced by the Chancellor in his Budget statement on 19th March 1985.

Young Workers Scheme. The scheme, which began in January 1982, is designed to encourage employers to take on more young people at realistic rates of pay. Under the scheme employers are able to claim £15 a week for up to one year in respect of young people in their employment whose earnings do not exceed £50 a week, who are under age 18 and in their first year of employment. They must also have either left full-time education on or after their 17th birthday or have been out of full-time education for at least a year if they left school at 16. The scheme is open for applications until 31st March 1986.

Job Release Schemes. The Job Release Scheme makes it easier for older workers to give up work early and to release their jobs to unemployed people. It offers a weekly allowance from the date the applicant leaves work until the state pension age, provided the applicant's employer agrees to replace him or her by an unemployed person. The scheme is at present open to two categories of people: one for men aged 64 and women aged 59, and one for disabled men aged 60 to 63.

The part-time Job Release Scheme is open to men aged 62 to 64, women aged 59, and disabled men aged 60 and 61. It allows people to change to part-time work and receive a weekly allowance, provided an unemployed person is recruited by the employer as a result of the application. The scheme will remain open to the three categories of people until 31st March 1986. A payment of £840 is available to employers who recruit replacement workers from certain groups.

Enterprise Allowance Scheme. The scheme helps unemployed people who want to start up in business but who may be deterred by the fact that they would lose their entitlement to unemployment or supplementary benefit. Under the scheme they are paid a flat-rate taxable allowance of £40 a week for a maximum of 52 weeks. Applicants have to be in receipt of unemployment or supplementary benefit, unemployed for at least 13 weeks and between 18 and state pension age. They must also be able to show that they have at least £1 000 available to invest in the business. Following a trial period in five pilot areas, the scheme was extended nationally on 1st August 1983. 74 000 unemployed people joined the scheme in the period from August 1983 to 31st March 1985 and present provision allows for up to a further 65 000 new entrants in 1985-86.

Community Industry. The scheme provides temporary jobs for personally and socially disadvantaged young people who undertake work projects of benefit to the community. All the places on the scheme are provided by Community Industry Ltd., a registered charity which is mainly financed through a grant from the Department of Employment. From 1st April 1983, the scheme has been available to 16 to 19 year olds outside the scope of the Youth Training Scheme.

Training in Industry. The number of trainees supported under Training in Industry has declined as first year apprentice recruitment has been subsumed within the Youth Training Scheme. However, Training in Industry support is being given, outside the Youth Training Scheme, to redundant apprentices, existing training board award holders, sandwich course students, and other long-term trainees.

Job Splitting Scheme. The scheme is designed to encourage employers to split existing full-time jobs into two part-time jobs and so open up more job opportunities for unemployed people. It came into operation in January 1983 and will be open for applications until 31st March 1986. The scheme was extended from 1st April 1985 to enable employers to provide more job opportunities, not only by splitting an existing full-time job, but also by combining regular hours into a part-time job or by creating two new part-time jobs for people leaving particular Government schemes. For part-time jobs created from 1st April 1985 and maintained for a period of at least 12 months a grant of £840 is paid to an employer in three equal instalments of £280.

Annex II

CALENDAR OF ECONOMIC EVENTS

Details of economic events between November 1983 and December 1984 were given in the OECD Economic Survey of the United Kingdom of January 1985

1985

11th January

Major clearing banks raise base lending rates from 9½ to 10½ per cent.

14th January

Bank of England reintroduces its minimum lending rate at 12 per cent for one day only, the first time that it has been used since 1981.

Major clearing banks raise base lending rates from 10½ to 12 per cent.

22nd January

Public Expenditure White Paper (Cmnd 9428) published. The main points were:

i) Estimates for the public expenditure planning total for 1984/85 are revised to £128.1 billion. This is £1.7 billion higher than the provisional total for that year published in the February 1984 White Paper (Cmnd 9143) and roughly the same as in the Autumn Statement of November 1984. The overrun is due largely to the effects of the miners' strike.

ii) The public expenditure planning total for 1985/86 is set at £132.1 billion, the same as in the February 1984 White Paper.

iii) On the assumption of increases in the general price level of 4½ per cent in 1985/86, 4 per cent in 1986/87 and 3¼ per cent in 1987/88, the level of public expenditure is expected to be kept constant in real terms between 1983/84 and 1987/88. The main changes in real terms are as follows:

- Local authorities' budgets to be cut by 7 per cent in 1985/86 and by about 10 per cent over the three-year period;
- Capital spending to be cut by 8 per cent over the three-year period;
- Further cuts in real pay and number of civil servants;
- Growth in social security spending to be held to about 2½ per cent per annum after a 7½ per cent rise in 1985/86;
- Central government health spending to rise by about 1 per cent per annum.

28th January

Major clearing banks raise base lending rates from 12 to 14 per cent.

29th January

White Paper on *Financial Services in the UK; a new framework for investors' protection* published, proposing a new series of regulations and increasing the protection of investors.

1st February

British National Oil Corporation (BNOC) to pay a provisional price for North Sea oil of $28.65 a barrel, in line with the official price of the Nigerian light crude agreed by OPEC.

6th February

Legislation to be introduced in the Autumn to abolish all restrictions on shop opening hours, as recommended by the Auld Report.

13th March

British National Oil Corporation to be abolished and a new Oil and Pipelines Agency to be set up.

19th March

The Budget introduced to Parliament. Main points were:

i) The main personal allowances for income tax relief raised by 10 per cent, some 5 percentage points more than indexation, at an estimated cost of £730 million in 1985/86 and £910 million in a full year compared with an indexed base;

ii) Excise duties raised by an estimated £820 million in 1985/86, about £235 million more than required to keep pace with the general price level;

iii) Indexation relief of the capital gains tax at an estimated cost of £129 million in a full year;

iv) Abolition of the development land tax;

v) Abolition of fifteen stamp duties;

vi) VAT changes: newspaper and magazine advertising to be subject to VAT from 1st May; some temporary exports and imports to be relieved from VAT from 1st June; VAT threshold for business increased to £19 500;

vii) A Green Paper on personal tax reform to be published;

viii) The lower and upper earnings limits for national insurance contributions raised to £35.50 a week and £265 a week respectively from April 1985. A new structure of rates to take effect from 6th October:

- upper earnings limit on employers' contributions to be abolished with the standard rate of 10.45 per cent applying on all earnings above £130 a week;
- a graduated system for employers' and employees' contribution rates to be introduced for lower-paid workers: 5 per cent for employees earning £35.50 to £55.00 a week, 7 per cent for those earning between £55.00 and £90.00 a week, and 9 per cent for those earning between £90 and £130 (employers) or £265 (employees);
- the flat rate class 2 contributions paid by the self-employed to be reduced from £4.75 to £3.50 a week;

ix) Employment and training programmes; changes in the two main programmes, which are estimated to reduce unemployment by about 150 000 by March 1987 and nearly 200 000 by March 1988, are as follows:

- Community Programme: an additional 100 000 places to be provided by June 1986 for long-term unemployed (over 6 months for 18-24 year-olds and over a year for other adults) to work on projects which benefit the community;
- Youth Training Scheme: an extra £125 million in 1986/87 and £300 million in 1987/88 to extend the scheme by one year to two years for 16 year-olds.

x) The qualifying period for unfair dismissal claims to be raised, with employees only able to appeal if they have worked for the same company for two years (previously one year);

xi) The Medium-term Financial Strategy reaffirms the previous target ranges for sterling M3, 5-9 per cent, and M0, 3-7 per cent, for 1985/86, with a 1 per cent reduction in the range in each year to 1988/89. Equal weight is being given to MO and sterling M3 with changes in the exchange rate also being taken into account. The PSBR is projected to fall to £7 billion in 1985/86 (2 per cent of GDP) and to remain unchanged in nominal terms at £7-7½ billion in the three years to 1988/89. The projections allow for a fiscal adjustment of £3½ billion in 1986/87 and £3 billion in each of the following two financial years.

20th March

Major clearing banks reduce base lending rates from 14 per cent to 13½ per cent.

21st March

The Building Societies Association agrees a rise in rates of 1 percentage point.

28th March

National Westminster and Lloyds Banks reduce base lending rates from 13½ per cent to 13 per cent.

Publication of White Paper on *Employment, the Challenge for the Nation* (Cmnd 9474), examining the nature of the unemployment problem and detailing measures taken in the Budget and before.

3rd April

Barclays and Midland banks reduce base lending rates from 13½ per cent to 13¼ per cent.

Publication of White Paper *Education and Training for Young People*, (Cmnd 9482), linking the rationalisation of job qualificatons with measures announced in the Budget.

12th April

Barclays and Midland banks reduce base lending rates from 13¼ per cent to 12¾ per cent.

19th April

National Westminster and Lloyds banks reduce base lending rates from 13 per cent to 12½ per cent.

30th April

Home-improvement grants to be replaced by home-improvement loans for all but the poor.

2nd May

The Government approves the disposal of shares in the British Gas Corporation and announces the offer for sale later in the year of its remaining stake in Britoil.

3rd June

Publication of Green Paper on *Reform of Social Security*, three volumes (Cmnd 9517, 9518 and 9519) and of *The Housing Benefit Review*, (Cmnd 9520).

4th June

Rate support grants to local councils to be cut by £400 million.

12th June

Barclays and Midland banks reduce base lending rates from 12¾ per cent to 12½ per cent.

20th June

Reforms to strengthen supervision of the U.K. banking system after previous year's collapse of Johnson Matthey Bankers are introduced (Cmnd 9550).

15th July

Clearing banks reduce base lending rates from 12½ per cent to 12 per cent.

25th July

One major building society (Abbey National) reduces base lending rates from 14 per cent to 13¼ per cent for new borrowers.

29th July

Clearing banks reduce base lending rates from 12 per cent to 11½ per cent.

5th September

The remaining 23 per cent publicly-owned stock in Cable and Wireless to be sold before April 1986.

3rd October

Publication of a Treasury White Paper stating that there has been a sharp rise to £1.2 billion in Britain's net contribution to EEC in 1985.

17th October

In his Mansion House Speech the Chancellor of the Exchequer announces that the sterling M3 target of 5-9 per cent growth will be dropped for the rest of the 1985/86 financial year but that a sterling M3 target for 1986/87 will be set at the time of the next Budget. Other aspects of the Speech are discussed in the main part of the Survey in the section on monetary policy.

12th November

Autumn Statement by the Chancellor of the Exchequer. The main points are as follows:

i) The PSBR for 1985/86 is now expected to be £8 billion (2¼ per cent of GDP), some £1 billion higher than projected in the March Budget. North Sea oil revenues are projected to be £2 billion lower than previously projected with other receipts some £1 billion higher. The public expenditure planning total is projected at £134 billion, the same as in the Budget, but with all of the Reserve of £5 billion already allocated to individual programmes;

ii) The PSBR for 1986/87 is assumed to be held to the £7½ billion (2 per cent of GDP) indicated in the 1985 Budget MTFS;

iii) The public expenditure planning total for 1986/87 is projected at £139 billion, as in the 1985 Budget, but with two important changes:

- The Reserve of £4½ billion is £1½ billion lower than set in the 1985 Budget MTFS;
- The special sales of assets of £4¾ billion are projected to be £2½ billion higher than envisaged in the 1985 Budget;

iv) The lower earnings limit for National Insurance contributions is to be raised to £38 a week (from £35.50) and the upper earnings limit to £285 a week (from £265) as from April 1986. The earnings limits for the reduced rate brackets are to be uprated to £60, £95 and £140 a week (from respectively £55, £90 and £130).

16th December

Publication of White Paper on the social welfare system. The main points were:

- The State earnings-related pension scheme (Serps) is reprieved but its benefits are to be curtailed in order to cut its cost by the time it is fully operational twenty five years hence;
- The complex supplementary benefit and family income supplement to be replaced by the simpler income support and family credit, which will be means-tested and consistent with each other.

Implementation of most proposals will take place in April 1988.

STATISTICAL ANNEX

Table A. Expenditure on GDP

£ million

	GDP at factor cost*	Final expenditure at market prices**	Total domestic demand***	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	10
At current prices:										
1980	199 246	287 729	224 614	136 995	48 906	41 588	–2 875	63 115	57 718	30 765
1981	217 628	314 037	246 132	152 339	55 357	41 432	–2 996	67 905	60 375	36 034
1982	236 126	344 266	271 206	166 612	60 380	45 390	–1 176	73 060	67 514	40 626
1983	257 887	377 760	297 723	182 207	65 698	49 046	772	80 037	77 171	42 702
1984	274 573	411 206	319 470	194 673	69 655	55 319	–177	91 736	91 852	44 781
At 1980 prices...										
1974	186 762	267 065	214 310	125 828	43 926	42 278	2 278	52 755	53 223	27 080
1975	185 038	261 506	210 191	124 918	46 377	41 540	–2 644	51 315	49 469	26 999
1976	191 970	271 629	215 710	125 307	46 951	42 217	1 235	55 919	51 539	28 120
1977	194 041	274 460	214 849	124 631	46 175	41 441	2 602	59 611	52 177	28 242
1978	199 259	284 510	223 775	131 621	47 220	42 726	2 208	60 735	54 203	31 048
1979	203 546	295 327	232 198	137 552	48 257	43 855	2 534	63 129	59 891	31 890
1980	199 246	287 729	224 614	136 995	48 906	41 588	–2 875	63 115	57 718	30 765
1981	196 561	282 557	220 515	136 598	48 845	37 695	–2 623	62 042	55 785	30 211
1982	199 636	288 713	225 942	137 614	49 267	40 104	–1 043	62 771	58 457	30 620
1983	206 507	300 101	235 968	143 074	50 206	41 947	741	64 133	62 018	31 576
1984	209 453	310 131	241 603	145 455	50 689	45 391	68	68 528	67 831	32 847
...and seasonally adjusted:										
1984 1	52 435	76 695	59 859	36 176	12 510	11 194	–21	16 836	16 142	8 118
2	51 901	76 904	60 149	36 364	12 667	11 357	–239	16 755	16 775	8 228
3	51 973	77 165	60 268	36 222	12 853	11 348	–155	16 897	17 022	8 170
4	53 144	79 367	61 327	36 693	12 659	11 492	483	18 040	17 892	8 331
1985 1	53 642	79 749	61 346	36 612	12 695	12 186	–147	18 403	17 865	8 242
2	54 232	80 062	61 509	37 142	12 812	11 221	334	18 553	17 609	8 221
3										

Note: For the years prior to 1978 the aggregates differ slightly from the sum of the components due to the method of rebasing to 1980 prices.
* 1 = 2–9–10.
** 2 = 4+5+6+7+8.
*** 3 = 2–8.
Source: *Economic Trends.*

Table B. Gross domestic fixed capital formation

£ million at 1980 prices, seasonally adjusted

		Total	Private sector[1]	General government[1]	Public corporations[1]	Vehicles, ships and aircraft	Plant and machinery	Dwellings: Private	Dwellings: Public	Other new building and works[2]	Extraction of mineral oil and natural gas	Manufacturing[3]
1974		42 278	24 829	10 227	7 066	4 908	12 920	5 600	3 295	15 625	1 357	7 435
1975		41 540	24 138	9 419	7 765	4 301	12 383	5 537	3 554	15 803	2 687	6 781
1976		42 217	24 965	9 117	8 006	4 169	12 830	5 606	3 762	15 828	3 606	6 475
1977		41 441	26 510	7 555	7 285	4 722	13 001	5 560	3 382	14 777	3 319	6 774
1978		42 726	29 201	6 718	6 807	5 187	13 928	5 934	3 114	14 563	3 088	7 221
1979		43 855	30 597	6 462	6 796	5 426	15 044	6 311	2 886	14 188	2 525	7 495
1980		41 588	29 395	5 554	6 639	4 564	15 002	5 883	2 573	13 566	2 399	6 481
1981		37 695	27 567	4 086	6 042	3 609	13 872	5 497	1 716	13 001	2 668	4 867
1982		40 104	30 218	3 759	6 127	3 698	14 082	6 065	1 790	14 469	2 813	4 623
1983		41 947	30 233	5 136	6 578	3 709	14 840	6 585	2 329	14 484	2 553	4 781
1984		45 391	33 585	5 687	6 119	4 443	15 848	6 738	2 215	16 147	2 910	5 549
1984	1	11 194	8 123	1 421	1 650	1 118	3 788	1 711	611	3 966	728	1 378
	2	11 357	8 492	1 336	1 529	956	3 861	1 838	530	4 172	800	1 354
	3	11 348	8 365	1 447	1 536	1 166	4 070	1 603	556	3 953	671	1 365
	4	11 492	8 605	1 483	1 404	1 203	4 129	1 586	518	4 056	711	1 452
1985	1	12 186	9 814	1 245	1 154	1 422	4 615	1 686	540	3 950	641	1 442
	2	11 221	8 856	1 315	1 118	1 028	4 182	1 633	444	4 002	554	1 429
	3											

Note: For the years prior to 1978, totals differ slightly from the sums of their components due to the method of rebasing to 1980 prices.
1. Including purchases less sales of land and existing buildings.
2. Including transfer costs of land and buildings.
3. Including leased assets.

Source: *Economic Trends.*

Table C. **Consumption and investment**

Seasonally adjusted

		Consumer demand				Investment					
		Total retail sales	Non-food retail sales	New car registrations	Changes in hire purchase debt total[1]	Capital expenditure of: Manufacturing industry	Capital expenditure of: Distribution and services industries	Engineering new home orders[2]	Housing starts: Private	Housing starts: Public	Investment in stocks (manufacturing)
		Volume, 1980 = 100		Thousands, monthly averages	£ million, end of period	£ million at 1980 prices		Average monthly sales 1980 = 100	Thousands		£ million at 1980 prices
1974		95.6	93.0	105	–164	7 435	11 387	–	105.9	146.1	2 124
1975		93.5	93.1	99	–13	6 781	9 932	149	149.1	173.8	–1 825
1976		93.1	93.9	107	348	6 475	9 827	95	154.7	170.8	437
1977		91.5	92.1	109	935	6 774	10 613	100	134.8	132.1	1 354
1978		96.4	99.3	132	1 547	7 221	11 581	112	157.3	107.4	476
1979		100.6	103.8	142	1 402	7 495	12 709	108	144.0	81.2	275
1980		100.0	100.0	127	937	6 481	12 751	92	98.9	56.4	–2 321
1981		100.4	99.7	125	658	4 867	12 032	95	116.7	37.2	–1 516
1982	1	101.7	102.1	118	249	1 177	3 013	91	35.4	13.4	–77
	2	100.8	100.7	125	266	1 168	3 068	92	33.9	12.7	–16
	3	102.6	103.1	139	237	1 178	3 258	93	35.4	12.6	–398
	4	103.9	104.5	145	505	1 100	3 224	97	35.8	14.1	–622
1983	1	105.3	105.7	147	442	1 138	3 158	87	44.6	14.9	0
	2	106.6	107.6	148	339	1 162	3 112	93	42.0	11.8	–45
	3	107.7	108.2	157	671	1 195	3 169	101	40.9	9.6	–287
	4	109.0	110.3	151	1 034	1 286	3 435	100	42.3	11.3	202
1984	1	108.2	108.1	148	645	1 378	3 426	105	39.7	11.9	–55
	2	110.3	111.0	152	427	1 354	3 630	102	39.1	10.0	–31
	3	111.4	112.6	147	469	1 365	3 909	102	38.4	9.4	95
	4	112.7	114.2	139	363	1 452	3 917	103	37.0	8.2	130
1985	1	113.3	113.8	146	600	1 442	4 591	104	36.3	8.2	–380
	2	115.0	115.6	149	510	1 429	3 885	88	39.9	8.1	214
	3	116.5		153							
% Change latest quarter:											
on previous quarter		1.3	1.6	2.7		–0.9	–15.4				
on a year earlier		4.6	4.1	4.1		5.5	7.0				

1. Up to 1979, including further interest payments due over the whole period of the loans.
2. Net of cancellations.

Sources: *Economic Trends* and *Monthly Digest of Statistics.*

Table D. **Production and manpower**

Seasonally adjusted

		GDP compromise estimate[1]	GDP per person employed[2]	Index of industrial production	Index of manufacturing production	Unemployed[3]	Unfilled vacancies adults	Employment in whole economy	Employment in manufacturing industries	Hours of overtime worked in manufacturing industries
		1980 = 100				Thousands		1980 = 100		Million per week
1974		93.2	93.7	97.4	112.7	571	294	98.8	116.1	15.29
1975		92.0	92.5	92.2	104.9	909	154	98.2	110.9	13.55
1976		94.4	95.0	95.2	106.9	1 202	122	98.7	107.4	14.01
1977		96.9	97.6	100.1	108.9	1 280	155	99.0	107.7	15.58
1978		99.8	100.4	103.1	109.5	1 244	210	99.4	106.1	15.61
1979		102.4	102.2	107.1	109.5	1 170	241	100.7	105.3	15.07
1980		100.0	100.0	100.0	100.0	1 554	143	100.0	100.0	11.76
1981		98.4	101.8	96.6	94.0	2 353	97	96.6	91.0	9.37
1982	1	99.9	104.1	97.4	94.8	2 576	109	95.3	87.8	10.25
	2	100.1	105.4	98.7	94.9	2 650	109	94.9	86.7	10.22
	3	100.3	106.4	99.1	94.0	2 728	112	94.4	85.4	9.75
	4	101.3	107.3	98.3	93.1	2 812	116	93.9	84.1	9.66
1983	1	102.9	108.7	100.4	95.8	2 868	122	93.6	83.1	9.68
	2	102.8	109.0	100.4	95.5	2 934	137	93.6	82.3	9.60
	3	104.0	110.5	102.8	97.4	2 944	161	93.9	81.9	10.59
	4	105.0	111.1	103.9	98.7	2 958	162	94.4	81.6	11 24
1984	1	105.6	111.3	104.4	99.7	3 014	147	94.8	81.3	11.20
	2	105.1	110.9	102.3	100.3	3 032	154	95.1	81.3	11.59
	3	106.2	111.7	102.4	101.3	3 091	163	95.3	81.2	11.58
	4	107.7	112.3	103.5	101.2	3 106	164	95.8	81.2	11.86
1985	1	108.9	113.3	106.0	102.7	3 148	161	96.0	81.0	11.80
	2	110.2	114.2	108.0	103.1	3 169	172	96.1	80.8	11.65
	3					3 179	180		80.8	12.17
% change latest quarter:										
on previous quarter				+1.9	+0.4			+0.1	0.0	+4.4
on a year earlier				+5.6	+2.8			+1.1	–0.6	+5.1

1. Average of expenditure, income and output data.
2. Based on output-based GDP.
3. United Kingdom, excluding school leavers.

Sources: *Economic Trends* and *Department of Employment Gazette*.

Table E. **Domestic finance**

Seasonally adjusted

Year	Quarter	Change in narrow money supply M1	Change in money supply Sterling M3	General government borrowing requirement	Sterling lending to the private sector by banks	Net increase in building society shares and deposits	Building society new commitments to mortgages	Government securities-calculated redemption yields*[1] Short-dated	Medium-dated	Long-dated	Local authority deposits 3 months rates*	Covered comparison between local authority and Euro-dollar 3 months rates*[2]
		£ million				£ million		% per annum			% per annum at end of period	
1974		–	3 255	5 684	3 435	1 992	3 114	12.51	14.21	14.77	13.25	–5.15
1975		2 018	2 260	9 974	–365	4 173	5 301	11.48	13.18	14.39	11.31	–
1976		1 944	3 528	7 889	3 407	3 405	6 090	12.06	13.61	14.43	14.88	–0.41
1977		2 189	4 127	4 652	3 188	6 099	7 254	10.08	12.02	12.73	6.73	0.16
1978		3 841	6 737	8 970	4 698	4 822	8 710	11.32	12.12	12.47	12.44	–0.33
1979		2 492	6 651	12 201	8 585	5 769	9 119	12.64	12.93	12.99	17.22	0.32
1980		1 203	10 610	11 816	10 025	7 159	10 228	13.84	13.91	13.78	14.75	0.34
1981		3 141	9 025	10 587	11 138	7 196	11 948	14.65	14.88	14.74	15.75	0.60
1982	1	656	2 113	16	5 877	2 202	3 218	15.34	15.01	14.68	13.66	0.22
	2	840	1 827	1 642	3 628	2 579	4 030	13.91	13.95	13.74	13.13	0.25
	3	1 147	1 906	1 733	5 046	2 854	4 357	11.61	12.36	12.28	10.88	0.13
	4	1 754	1 935	1 563	3 272	2 880	5 294	10.29	11.02	10.83	10.62	0.13
1983	1	1 495	3 901	4 346	2 221	2 109	5 049	11.29	11.68	11.36	10.75	0.22
	2	981	2 262	1 789	3 383	2 100	4 441	11.07	11.07	10.53	9.69	0.03
	3	1 023	1 087	2 782	3 742	2 983	4 604	11.33	11.25	10.67	9.69	0.04
	4	1 035	2 227	2 692	3 557	3 372	5 260	10.79	10.77	10.35	9.31	0.10
1984	1	2 296	2 067	1 997	4 962	3 919	5 791	10.36	10.67	10.23	8.94	–0.05
	2	1 918	2 253	3 260	2 824	3 096	6 719	11.88	11.81	11.15	9.50	0.08
	3	1 892	2 965	2 294	3 586	2 819	6 182	11.85	11.49	10.78	10.75	0.05
	4	781	2 575	2 051	5 169	3 380	5 939	10.88	10.98	10.46	10.13	0.29
1985	1	2 617	4 423	2 297	7 030	3 050	6 064	11.72	11.51	10.90	13.13	0.13
	2	2 177	2 598	1 628	4 547	3 423	6 390	11.23	11.10	10.70	12.56	0.21
	3					3 298	7 021	10.64	10.66	10.39	11.50	0.08

* Not seasonally adjusted.

1. Average of wednesday yields until February 1980; from March 1980 figures are the average of all observations (3 a week); from January 1982, figures are the average of working days.
2. Difference between the local authority rate net of the cost of forward cover and the Euro-dollar rate. A plus indicates that the net local authority rate is above the Euro-dollar rate and a minus that it is below.

Sources: Bank of England Quarterly Bulletin and *Financial Statistics.*

Table F. **Wages, prices and external position**

Seasonally adjusted

	Average earnings[1]	Producer prices manufacturing output for home market*[2]	Retail prices*	Export unit values*	Import unit values*	Exports (fob)	Imports (fob)	Visible balance	Current balance	Official financing*
	January 1980 = 100	1980 = 100	1975 = 100	1980 = 100		£ million			£ million	
1974	44.5	42.6	80.5	41.5	50.9	16 394	21 745	–5 351	–3 317	–1 646
1975	56.4	52.4	100.0	50.9	58.0	19 330	22 663	–3 333	–1 582	–1 465
1976	65.1	60.9	116.6	60.8	70.9	25 191	29 120	–3 929	–913	–3 629
1977	71.0	72.0	135.1	72.0	82.1	31 728	34 012	–2 284	–128	7 362
1978	80.2	79.1	146.2	79.1	85.2	35 063	36 605	–1 542	972	–1 126
1979	92.6	87.7	165.8	87.6	90.9	40 687	44 136	–3 449	736	1 905
1980	111.4	100.0	195.6	100.0	100.0	47 422	46 061	1 361	3 100	1 372
1981	125.8	109.5	218.8	108.8	108.2	50 977	47 617	3 360	6 528	–687
1982 1	133.9	115.7	231.1	114.7	115.2	13 481	13 039	442	1 319	–31
2	136.4	117.5	238.5	114.4	115.5	13 857	13 660	197	573	–661
3	139.0	118.7	239.6	117.2	117.1	13 803	13 182	621	910	247
4	141.2	120.1	241.4	119.0	120.0	14 424	13 353	1 071	1 861	–839
1983 1	146.0	121.8	242.6	123.0	125.1	14 787	14 666	121	1 613	–616
2	147.9	124.2	247.6	124.9	126.7	14 754	15 246	–492	–53	129
3	150.4	125.1	250.7	126.9	127.7	15 131	15 277	–146	1 153	–5
4	152.5	126.8	253.5	128.2	130.4	16 104	16 422	–318	455	–328
1984 1	154.9	129.0	255.1	131.3	133.8	16 795	16 797	–2	983	–190
2	155.9	132.0	260.3	134.1	137.5	16 851	18 022	–1 171	–109	–668
3	159.1	132.8	262.6	137.8	141.3	17 451	19 066	–1 615	–363	–343
4	163.3	134.5	265.8	140.9	145.4	19 312	20 625	–1 313	424	–115
1985 1	166.8	136.6	269.2	146.7	152.0	20 295	21 578	–1 283	–535	–274
2	170.2	139.4	278.4	146.0	148.7	20 251	20 473	–222	1 183	438
3		140.2	279.2							
% of change latest quarter:										
on previous quarter	+2.0	+0.6	+0.3	–0.5	–2.1					
on a year earlier	+11.4	+5.6	+6.3	+8.9	+8.1					

* Not seasonally adjusted.
1. From 1973 to 1975 index, january 1970 = 100 and from 1976 to 1979 index, january 1976 = 100 linked to index january 1980 = 100.
2. Excluding food, drink, tobacco.

Sources: *Economic Trends* and *Employment Gazette.*

Table G. Analysis of capital transactions and official financing[1]

Not seasonally adjusted

£ million

	1982	1983	1984	1985 Q1	1985 Q2	1985 Q3
1. **Current balance**	4 663	3 168	935	–999	834	
Investment and other capital transactions						
2. Official long-term capital	–337	–389	–361	–88	–33	
3. Overseas investment in UK public sector	+393	+700	+323	+487	+636	
British government stocks[2]	+568	+714	+781	+496	+647	
Other	–175	–14	–458	–9	–11	
4. Overseas investment in UK private sector	+3 094	+4 463	+3 296	+2 159	+1 352	
5. UK private investment overseas	–10 428	–11 241	–14 585	–7 907	–4 637	
6. Foreign currency borrowing or lending abroad by UK banks	+4 274	+1 413	+8 865	+1 402	+952	
Exchange reserves in sterling[3]						
7. British government stocks	–212	+227	+188	+367	+648	
8. Banking and money market liabilities	+438	+785	+1 089	–395	–348	
9. Other external banking and money market liabilities in sterling	+4 134	+3 167	+5 163	+4 812	–150	
10. External sterling lending by UK banks	–3 299	–1 339	–4 716	–2 914	+416	
11. Other external borrowing or lending	–36	–590	–1 489	–381	+1 231	
12. Import credit[4]	–205	+12	+172	–21	–5	
13. Export credit[4]	–1 211	–1 553	–646	–71	–93	
14. Other short-term transactions	+196	–520	–590	+320	+173	
15. Total investment and other capital transactions	–3 199	–4 865	–3 291	–2 230	+142	
16. Balancing item	–2 748	+877	+1 040	+2 955	–538	
17. **Total official financing**	–1 284	–820	–1 316	–274	+438	
Official financing						
Net transactions with overseas monetary authorities:						
18. IMF	–163	–36	–	–	–	
19. Other monetary authorities	–	–	–	–	–	–
20. Foreign currency borrowing by HM Government	–	–	+273	+145	–177	
21. Foreign currency borrowing by public sector under exchange cover scheme	+26	+249	+135	+39	+345	
22. Drawings on (+) additions to (–) official reserves[5]	+1 421	+607	+908	+90	–607	
23. **Total official financing**	+1 284	+816	+1 316	+274	–438	

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. Holdings of British government stocks by non-residents other than overseas monetary authorities, which are included as exchange reserves in sterling.
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 9.
4. Excluding trade credit between "related" firms (part of items 4 and 5). After deducting advance and progress payments to suppliers.
5. Value in sterling at transactions rates of exchange.

Source: Bank of England Quarterly Bulletin.

Table H. Foreign assets and liabilities

		Effective exchange rate	Official reserves[1] Total	Official reserves[1] of which: Convertible currencies	Sterling balances: Official Total	Sterling balances: Official of which: Oil-exporting countries	Sterling balances: Other holders	Outstanding official borrowing from abroad[2] Total	Outstanding official borrowing from abroad[2] of which: IMF[3]
		1970Q1 = 100	$ million, end of period		£ million, end of period			$ million, end of period	
1974		81.8	6 789	4 823	4 634	3 101	2 500	7 092	–
1975		75.4	5 429	3 335	4 102	2 839	3 228	8 921	–
1976		64.6	4 129	2 513	2 647	1 421	3 484	14 160	2 051
1977		61.3	20 557	19 015	2 852	1 360	4 965	18 042	4 029
1978		61.4	15 694	14 230	2 633	1 006	5 258	15 847	2 152
1979		65.1	22 538	18 034	3 320	1 205	7 838	14 585	1 048
1980		71.1	27 476	18 621	4 669	2 238	10 309	11 986	704
1981		72.2	23 347	13 457	4 757	2 471	12 916	8 372	382
1982	1	68.9	18 969	11 949	5 100	2 421	14 589	8 131	278
	2	68.6	17 703	10 741	4 888	2 335	16 089	8 065	172
	3	69.4	18 299	11 256	5 138	2 295	17 131	8 137	115
	4	67.6	16 977	9 634	5 561	2 654	17 630	7 867	58
1983	1	61.1	17 337	8 560	6 152	2 837	19 218	7 796	–
	2	63.9	17 711	8 962	6 198	2 793	19 820	7 818	–
	3	64.5	17 902	9 077	6 588	2 774	20 203	7 885	–
	4	63.2	17 817	9 040	6 628	2 758	21 408	8 187	–
1984	1	62.2	16 749	8 465	7 040	2 720	22 756	8 193	–
	2	60.8	15 505	7 063	7 213	2 615	24 701	7 930	–
	3	59.8	15 260	7 032	7 437	2 796	26 293	8 010	–
	4	57.8	15 694	7 577	7 754	2 702	26 799	8 525	–
1985	1	55.4	13 528	6 818	7 719	2 444	31 771	8 428	–
	2	60.8	14 318	7 560	8 027	2 623	31 703	8 646	–
	3	62.8	14 176	7 351					

Memorandum item: Schedule of capital repayments of certain public sector foreign currency liabilities outstanding at end-1981 ($ billion).

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 onwards	Total
1.7	0.9	1.6	1.2	1.2	1.4	1.2	0.9	0.7	0.7	2.8	14.3

1. From end-March 1979 the rates at which the reserves are valued are to be revised annually. Gold is valued at $35 per fine ounce until end-November 1971, then at $38 per fine ounce until end-January 1973 and at $42.2222 per fine ounce until end-March 1979. Special drawing rights are valued at SDR 1=$1 until end-November 1971, then at SDR 1=$1.08571 until end-January 1973 and at SDR 1=$1.20635 to end-March 1979. Convertible currencies are valued at middle or central rates from end-December 1971 to end-March 1979. The basis of valuation announced in 1979 was modified in March 1980. In 1979, gold was valued at the average of the London fixing price for the three months up to end-March, less 25%; from end-March 1980 it is to be valued at that price or at 75% of its final fixing price on the last working day in March, whichever is the lower. Special drawing rights and convertible currencies are valued from end-March 1979 at the average of their exchange rates against the US dollar in the three months to end-March, with the alternative, from end-March 1980, of their actual US dollar values on the last working day of March, whichever is lower. From July 1979, convertible currencies include European currency units (ECUs) acquired from swaps with the European Monetary Co-operation Fund. These are valued at the average of the $/ECU or $/European unit of account exchange rates in the three months to end-March or (from end-March 1980) at the rate applicable on the last working day in March, whichever is lower. Until March 1980 this valuation differed from that used for monthly reserve announcements, where ECUs were valued at the market rate applicable for each swap.
2. The borrowing included is that recorded as official financing in the balance of payments accounts. From end-March 1979 the rates at which outstanding borrowing is valued are to be revised annually on the same basis at the reserves. The effect of the 1979 revaluation was to increase the level of borrowings at end-March by $576 million (IMF +$148 million and other public sector under the exchange cover schemes +$428 million).
3. Drawings from the IMF, net of repayments by the United Kingdom, and drawings of sterling from the IMF by other countries; excludes interest and charges in sterling.

Source: Bank of England Quarterly Bulletin.

Table 1. **Foreign trade by area**
Million US dollars, monthly averages

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
								Imports, cif							
Total OECD	1 239	1 380	1 660	2 308	3 021	3 082	3 231	3 775	4 951	6 637	7 564	6 708	6 614	6 810	7 156
North America	371	352	372	482	631	592	635	716	854	1 100	1 452	1 272	1 183	1 141	1 231
OECD Europe	748	885	1 111	1 610	2 169	2 264	2 368	2 798	3 766	5 117	5 604	4 931	4 892	5 114	5 384
EEC	492	595	738	1 071	1 518	1 642	1 725	2 055	2 670	3 721	4 060	3 628	3 684	3 805	3 920
Centrally planned economies	74	72	84	115	136	129	161	183	191	250	253	141	168	166	198
Developing countries	437	485	511	723	1 251	1 127	1 204	1 211	1 271	1 567	2 026	1 582	1 393	1 246	1 309
of which: OPEC	160	211	209	295	724	575	611	528	538	580	826	603	482	331	286
								Exports, fob							
Total OECD	1 102	1 258	1 427	1 831	2 278	2 410	2 650	3 293	4 081	5 526	6 941	6 090	5 840	5 720	6 010
North America	246	291	333	395	440	426	465	555	678	854	1 055	1 204	1 216	1 181	1 270
OECD Europe	731	831	961	1 264	1 610	1 762	1 989	2 517	3 135	4 361	5 562	4 595	4 325	4 283	4 464
EEC	483	554	626	843	1 094	1 204	1 403	1 783	2 290	3 210	4 081	3 569	3 372	3 352	3 515
Centrally planned economies	57	57	61	70	89	115	105	126	161	179	229	175	135	125	153
Developing countries	380	458	473	558	735	996	1 019	1 275	1 609	1 710	2 206	2 126	1 932	1 649	1 539
of which: OPEC	81	102	119	147	213	380	431	565	703	603	881	932	850	666	561

Source: OCDE, *Foreign Trade Statistics.*

BASIC STATISTICS :

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland
Population								
Total	Thousands	1984	15 540	7 552	9 852	25 150	5 111	4 882
Inhabitants per sq.km	Number		2	90	323	3	119	14
Net average annual increase over previous 10 years	%		1.3	0.0	0.1	1.2	0.1	0.4
Employment								
Total civilian employment (TCE)[2]	Thousands	1984	6 471	3 235	3 577 (83)	11 000	2 389 (83)	2 404
of which: Agriculture	% of TCE		6.2	9.4	3.0	5.3	7.4	12.2
Industry	% of TCE		28.1	38.1	30.9	25.9	28.4	32.6
Services	% of TCE		65.7	52.5	66.1	68.8	64.2	55.2
Gross domestic product (GDP)								
At current prices and current exchange rates	Billion US$	1984	173.7	64.5	75.8	334.1	54.6	51.2
Per capita	US$		11 178	8 535	7 697	13 285	10 690	10 493
At current prices using current PPP's[3]	Billion US$	1983	..	75.6	105.4	343.8	59.0	49.7
Per capita	US$		..	10 010	10 690	13 803	11 538	10 220
Average annual volume growth over previous 5 years	%	1984	2.6	1.6	1.0	1.7	1.5	3.3
Gross fixed capital formation (GFCF)	% of GDP	1984	21.8	21.8	16.1	18.1	17.9	23.4
of which: Machinery and equipment	% of GDP		9.3 (83)	10.2	5.3 (83)	6.8	7.7	8.5
Residential construction	% of GDP		3.7 (83)	5.1 (83)	3.1	3.7	5.1	6.5
Average annual volume growth over previous 5 years	%		1.3	–0.9	–3.6	–1.1	–2.6	3.8
Gross saving ratio[4]	% of GDP	1984	20.3	24.1	15.6	19.4	15.8	24.5
General government								
Current expenditure on goods and services	% of GDP	1984	17.1	18.5	17.4	21.0	25.9	19.5
Current disbursements[5]	% of GDP	1983	32.4	45.5	53.5	43.0	58.2	36.1
Current receipts	% of GDP	1983	32.6	46.6	44.6	39.0	53.1	37.4
Net official development assistance	% of GNP	1983	0.49	0.23	0.59	0.45	0.73	0.33
Indicators of living standards								
Private consumption per capita using current PPP's[3]	US$	1983	6 287 *	5 716	6 669	7 858	5 900	5 359
Passenger cars, per 1 000 inhabitants	Number	1983	..	306 (81)	335 (84)	421 (82)	272	291
Telephones, per 1 000 inhabitants	Number	1983	540	460	414	664	719	572
Television sets, per 1 000 inhabitants	Number	1983	..	300 (81)	303 (84)	471 (80)	370	363
Doctors, per 1 000 inhabitants	Number	1983	..	1.7 (82)	2.8 (84)	1.8 (82)	2.4 (82)	2.2
Infant mortality per 1 000 births	Number	1983	9.6	11.9	11.3	9.1	7.7	6.2
Wages and prices (average annual increase over previous 5 years)								
Hourly earnings in manufacturing	%	1984	14.9 (83)	5.7	6.9	8.5	8.4	11.0
Consumer prices	%	1984	9.0	5.5	7.4	8.7	9.5	9.6
Foreign trade								
Exports of goods, fob*	Million US$	1984	23 856	15 720	51 708 [7]	86 868	15 912	13 464
as % of GDP	%		15.3	23.4	64.6	26.8	28.2	27.3
average annual increase over previous 5 years	%		5.1	0.4	–1.7	9.2	1.7	3.8
Imports of goods, cif*	Million US$	1984	23 424	19 596	55 248	74 004	16 584	12 432
as % of GDP	%		15.1	29.2	69.0	22.8	29.4	25.2
average annual increase over previous 5 years	%		7.2	–0.6	–1.8	6.7	–2.1	1.9
Total official reserves[6]	Million SDR's	1984	7 869	5 070	5 853	3 246	3 127	2 854
As ratio of average monthly imports of goods	Ratio		4.1	3.2	1.3	0.5	2.3	2.8

	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg
Population								
Total	54 947	61 181	9 900	240	3 540	56 983	120 018	366
Inhabitants per sq.km	100	246	75	2	50	189	322	141
Net average annual increase over previous 10 years	0.5	–0.1	1.0	1.1	1.3	0.3	0.9	0.4
Employment								
Total civilian employment (TCE)[2]	20 941	24 822	3 508 (83)	114 (83)	1 111 (83)	20 418	57 660	157 (83)
of which: Agriculture	7.9	5.6	30.0	10.5	17.0	11.9	8.9	4.5
Industry	33.0	41.3	28.6	36.8	29.8	34.5	34.8	35.7
Services	59.1	53.1	41.4	52.6	53.2	53.6	56.3	59.9
Gross domestic product (GDP)								
At current prices and current exchange rates	489.4	613.4	33.5	2.6	17.6	348.4	1 231.8	3.4
Per capita	8 907	10 025	3 380	10 723	4 986	6 114	10 264	9 235
At current prices using current PPP's[3]	613.8	703.1	54.3	..	23.6	495.1	1 280.7	4.2
Per capita	11 276	11 447	5 512	..	6 740	8 711	10 739	11 381
Average annual volume growth over previous 5 years	1.1	0.9	0.8	1.1	2.1	1.1	4.3	1.7
Gross fixed capital formation (GFCF)	18.9	20.3	18.6	22.2	21.0	17.9	28.0	22.2
of which: Machinery and equipment	9.1	8.0	7.9	5.8	10.9	7.3	9.9 (83)	9.1 (82)
Residential construction	4.9	6.4	3.8	5.8	5.5 (83)	4.8	5.5 (83)	4.8 (82)
Average annual volume growth over previous 5 years	–0.3	–0.7	–4.5	1.1	–2.9	0.9	2.6	–0.1
Gross saving ratio[4]	18.6	21.9	16.1	18.0	17.5	17.7	31.6	57.5
General government								
Current expenditure on goods and services	16.4	20.1	19.0	17.3	19.0	19.4	10.0	15.7
Current disbursements[5]	48.6	44.4	37.5	27.6 (80)	51.4 (82)	51.5	28.1	45.7 (80)
Current receipts	47.7	45.2	32.3	36.0 (80)	42.5 (82)	45.3	30.4	51.5 (80)
Net official development assistance	0.74	0.49	..	..	..	0.24	0.33	..
Indicators of living standards								
Private consumption per capita using current PPP's[3]	7 110	6 287	3 570	6 024 *	3 775	5 408	5 877	7 195
Passenger cars, per 1 000 inhabitants	360	412 (84)	108	405	206	346 (82)	221	385
Telephones, per 1 000 inhabitants	541	598 (84)	336	525	235	404	535	589
Television sets, per 1 000 inhabitants	297 (80)	367 (84)	158 (80)	282 (82)	181 (80)	234 (80)	250 (80)	336
Doctors, per 1 000 inhabitants	2.1 (82)	2.4	2.6 (82)	2.2 (82)	1.3 (82)	3.6 (82)	1.3 (82)	1.7
Infant mortality per 1 000 births	8.9	9.6 (84)	14.6	6.2	9.8	12.4	6.2	11.7 (84)
Wages and prices (average annual increase over previous 5 years)								
Hourly earnings in manufacturing	12.5 (83)	4.4	26.5	..	15.7 (83)	17.9	5.3	..
Consumer prices	11.1	4.5	21.8	54.0	14.9	16.1	3.9	7.6
Foreign trade								
Exports of goods, fob*	93 120	171 012	4 812	768	9 672	73 428	169 776	.. [8]
as % of GDP	17.9	26.2	13.9	34.0	53.9	20.8	14.7	..
average annual increase over previous 5 years	–1.0	–0.1	4.4	–0.6	6.2	0.4	10.6	..
Imports of goods, cif*	103 440	152 016	9 612	864	9 684	84 336	136 080	..
as % of GDP	19.9	23.3	27.8	38.2	53.9	23.9	11.8	..
average annual increase over previous 5 years	–0.7	–0.7	–0.2	0.9	–0.4	1.6	4.2	..
Total official reserves[6]	24 227	44 282	1 117	132	2 412	23 549	27 811	..
As ratio of average monthly imports of goods	2.9	3.6	1.4	1.9	3.1	3.4	2.5	..

	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population											
Total	14 420	3 245	4 141	10 170	38 387	8 337	6 507	48 720	56 488	236 681	22 960
Inhabitants per sq.km	387	12	13	110	76	19	158	62	231	25	89
Net average annual increase over previous 10 years	0.6	0.7	0.4	1.0	0.9	0.2	0.1	2.1	0.0	1.0	0.8
Employment											
Total civilian employment (TCE)[2]	4 929 (83)	1 280	1 970	3 892 (83)	10 382	4 255	3 142	14 912 (83)	23 656	105 005	..
of which: Agriculture	5.1	11.2	7.1	24.6	18.0	5.1	6.7	58.9	2.6	3.3	..
Industry	27.8	32.1	28.3	37.5	32.7	29.8	37.7	16.7	32.9	28.5	..
Services	67.1	56.7	64.6	38.0	49.3	65.1	55.7	24.3	64.5	68.2	..
Gross domestic product (GDP)											
At current prices and current exchange rates	123.1	23.2	54.7	19.3	160.9	94.8	91.1	49.6	423.4	3 634.6	46.1 (83)
Per capita	8 534	7 159	13 215	1 905	4 192	11 369	14 002	1 018	7 495	15 356	2 023 (83)
At current prices using current PPP's[3]	147.2	..	53.7	45.7	266.7	..	..	..	552.6	3 275.7	..
Per capita	10 247	..	12 999	4 549	6 977	..	..	..	9 802	13 969	..
Average annual volume growth over previous 5 years	0.3	3.1	2.6	1.3	1.4	1.5	1.5	3.9	0.6	2.0	..
Gross fixed capital formation (GFCF)	18.4	21.5	25.6	24.7	17.8	18.3	23.3	18.5	17.4	17.9	24.0 (83)
of which: Machinery and equipment	8.2	8.8 (83)	7.5	13.8 (81)	5.9 (83)	8.2 (83)	7.3	9.1 (82)	8.1	7.4 (83)	..
Residential construction	5.1	4.1 (83)	3.7	7.8 (81)	5.1 (82)	4.0	16.0 [9]	2.6 (82)	3.7	4.0 (83)	..
Average annual volume growth over previous 5 years	–2.3	4.3	3.1	–2.1	–1.4	0.3	3.5	0.1	0.7	2.5	..
Gross saving ratio[4]	23.0	24.5	30.8	20.1	19.9	17.5	28.6	17.2	19.3	17.0	..
General government											
Current expenditure on goods and services	16.8	15.9	18.8	14.7	12.3	27.8	13.4	8.9	21.9	18.8	15.0 (83)
Current disbursements[5]	58.0	..	45.9	37.4 (81)	31.8 (82)	61.3	30.8	..	44.3	36.9	..
Current receipts	56.1	..	52.6	33.0 (81)	30.7 (82)	60.0	33.9	..	42.5	31.7	..
Net official development assistance	0.91	0.28	1.06	..	..	0.85	0.32	..	0.35	0.24	..
Indicators of living standards											
Private consumption per capita using current PPP's[3]	6 415	4 260 *	5 893	2 936	4 690	5 728 *	9 354 *	769 *	5 706	9 451	1 057
Passenger cars, per 1 000 inhabitants	311 (84)	446 (84)	345 (84)	135 (82)	232	369 (84)	392 (84)	18 (82)	312	547 (82)	121
Telephones, per 1 000 inhabitants	391 (84)	622	622 (84)	166	362 (84)	890 (84)	1 269	55	521 (84)	760 (82)	122
Television sets, per 1 000 inhabitants	313 (84)	..	323 (84)	140 (80)	252 (80)	390 (84)	326	76 (79)	336 (84)	621 (80)	175
Doctors, per 1 000 inhabitants	2.2 (84)	..	2.3	1.8 (82)	3.0	2.3	2.6 (82)	1.5	0.5	1.8 (82)	1.6 (82)
Infant mortality per 1 000 births	8.3 (84)	12.5	7.9	19.0	9.6 (82)	6.4 (84)	8.0	..	10.1	11.2	31.7
Wages and prices (average annual increase over previous 5 years)											
Hourly earnings in manufacturing	3.6	..	9.9	..	16.2	8.9	5.1 (83)	..	11.9	6.5	..
Consumer prices	5.0	12.3	10.1	22.7	13.6	10.2	4.4	46.0	9.5	7.4	32.3
Foreign trade											
Exports of goods, fob*	65 652	5 517	18 888	5 172	23 508	29 316	25 812	7 116	94 224	217 884	8 700
as % of GDP	49.7	24.0	34.3	25.0	14.9	31.9	26.6	14.3	20.7	6.7	13.8
average annual increase over previous 5 years	0.6	3.2	7.0	8.2	5.3	1.3	–0.5	23.5	0.7	3.7	6.9
Imports of goods, cif*	61 980	6 195	13 860	7 752	28 800	26 340	29 376	10 908	105 180	325 728	10 200
as % of GDP	47.0	26.9	25.2	37.5	18.2	28.7	30.2	21.9	23.1	9.9	16.2
average annual increase over previous 5 years	–1.6	6.4	0.2	3.5	2.6	–1.6	0.0	13.9	0.5	9.5	–3.8
Total official reserves[6]	10 961	1 824	9 596	1 237	12 709	4 135	18 520	1 429	10 297	33 517	1 247
As ratio of average monthly imports of goods	2.2	0.3	8.5	2.0	5.4	1.9	7.8	1.6	1.2	1.3	1.5

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour force Statistics*.
3. PPP's = Purchasing Power Parities.
4. Gross saving = Gross national disposable income *minus* Private and Government consumption.
5. Current disbursements = Current expenditure on goods and services *plus* current transfers and payments of property income.
6. Gold included in reserves is valued at 35 SDR's per ounce.
7. Including Luxembourg.
8. Included in Belgium.
9. Including non-residential construction.

Sources:
Population and Employment: OECD *Labour Force Statistics*.
GDP, GFCF, and General Government: OECD *National Accounts*, Vol. I and OECD *Economic Outlook, Historical Statistics*.
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD *Main Economic Indicators*.
Foreign trade: OECD *Monthly Foreign trade Statistics, series A*.
Total official reserves: IMF *International Financial Statistics*.

4.12.85

EMPLOYMENT OPPORTUNITIES

Economics and Statistics Department

OECD

A. **Administrator.** A number of economist positions may become available in 1985 in areas such as monetary and fiscal policy, balance of payments, resource allocation, macroeconomic policy issues, short-term forecasting and country studies. *Essential* qualifications and experience: advanced university degree in economics; good knowledge of statistical methods and applied econometrics; two or three years experience in applied economic analysis; command of one of the two official languages (English and French). *Desirable* qualifications and experience also include: familiarity with the economic problems and data sources of a number of Member countries; proven drafting ability; experience with the estimation, simulation and implementation of computer-based economic models; some knowledge of the other official language.

B. **Principal Administrator.** A number of senior economist positions may become available in 1985 in areas such as monetary and fiscal policy, balance of payments, resource allocation, macroeconomic policy issues, short-term forecasting and country studies. *Essential* qualifications and experience: advanced university degree in economics; extensive experience in applied economic analysis, preferably with a central bank, economics/finance ministry or institute of economic research; good knowledge of statistical methods and applied econometrics; command of one of the two official languages (English and French) and proven drafting ability. *Desirable* qualifications and experience also include: experience in using economic analysis for formulating policy advice; familiarity with a number of OECD economies; experience in using econometric models; good knowledge of the other official language.

These positions carry a basic salary (tax free) from FF 171 284 or FF 211 318 (Administrator) and from FF 242 960 (Principal Administrator), supplemented by further additional allowances depending on residence and family situation.

Initial appointment will be on a two or three year fixed-term contract.

Vacancies are open to both male and female candidates from OECD Member countries. Applications citing reference "ECSUR", together with a detailed curriculum vitæ in English or French, should be sent to:

Head of Personnel
OECD
2, rue André-Pascal
75775 PARIS CEDEX 16
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