OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

UNITED KINGDOM

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

MARCH 1975

BASIC STATISTICS OF THE UNITED KINGDOM

THE LAND

Area ('000 sq. km.)	244	Major cities (population in millions, 1973 mid-year estimates):	
Agricultural area ('000 sq. km.)	194	Greater London	7.3
		Birmingham	1.0
		Glasgow	0.8
		Liverpool	0.6
		Manchester	0.5

THE PEOPLE

Population (mid-1973)	56 026 000	Total civilian employment, 1973	24 553 000
No. inhabitants per sq. km.	230	*of which:*	
Net increase in population, 1968-73, annual average	174 000	Agriculture	735 000
Percentage change at annual rates, 1973/1968	0.31	Industry (incl. construction)	10 395 000
		Other activities	13 423 000

THE GOVERNMENT

Public current expenditure 1973 (per cent of GNP)	18	Composition of House of Commons (February 1975):	
Public sector current receipts 1973 (per cent of GNP)	38	Labour	304
National debt 31st March 1974 (ratio to General Government revenue)	147	Conservative	276
		Liberal	13
		Other	42
		Last general election: 10th Oct. 1974	

FOREIGN TRADE

Exports:		Imports:	
Exports of goods and services as a percentage of the GNP (1973)	23	Imports of goods and services as a percentage of the GNP (1973)	26
Main exports (percentage of total exports in 1973):		Main imports (percentage of total imports in 1973):	
Machinery	26	Petroleum and petroleum products	11
Transport equipment	12	Machinery	15
Chemicals	10	Non-ferrous metals	4
Textiles	5	Chemicals	6
Non-ferrous metals	4	Meat	5
Iron and steel	3	Fruit and vegetables	4

THE CURRENCY

Monetary unit: Pound sterling		Currency unit per US$, January 1975 (average of daily figures)	0.4225

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

OECD ECONOMIC SURVEYS

UNITED KINGDOM

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December, 1960, which provides that the OECD shall promote policies designed:

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

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

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

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The annual review of the United Kingdom
by the OECD Economic and Development Review Committee
took place on 23rd January 1975.

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INTRODUCTION

At the beginning of 1973 the Government was aiming for rapid growth of output over the short and medium-term. Policy was stimulatory, sterling had been allowed to float downwards to encourage exports and import substitution, and statutory price and income controls were moving towards the second of what became a three-stage programme. Although the rate of growth of demand and activity slowed down considerably through 1973, the prospect of excess demand in 1974 prompted restrictive demand management measures towards the end of the year. At the same time the rate of inflation increased and the current balance of payments position deteriorated markedly, largely reflecting the steep rise in commodity prices and strong domestic demand pressures. The quadrupling of oil posted prices in late 1973 resulted in a further worsening in the external balance in 1974 and contributed to an acceleration in prices. The immediate effects of the oil crisis were exacerbated by a confrontation with the coal miners over incomes policies which led to three-day working early in 1974.

Demand management policies remained restrictive in the first half of 1974. But with output stagnant and unemployment rising, the Government acted to boost demand, at first marginally in July and rather more substantially in November. Statutory pay controls were abolished in July with the Trade Union Congress agreeing to voluntary restraint of pay claims under a wider social contract. Price controls were partly relaxed in November, with the object of easing the liquidity squeeze on the company sector. On the basis of present policies, prospects for 1975 are for slow growth with little moderation in the rate of inflation, but for some improvement in the external balance, which nevertheless will remain in extremely large deficit.

Part I of this Survey deals with performance in 1973 and 1974, notably the reasons for the slowdown in the economy since the first half of 1973, the deterioration in the external position, the acceleration of inflation, incomes policy experience and monetary developments. Part II begins with a summary of recent policy changes and then looks at how the present stance of policy could, if maintained, influence developments through 1975. The Survey concludes with some considerations on policy options in the light of prospects and possible policy objectives.

I RECENT DEVELOPMENTS

The course of demand and output

At the outset, it is probably useful to recall briefly the main developments in demand and output in the eighteen months leading up to the present time. Reflecting the expansionary budgets in 1971 and 1972, domestic demand was rapidly expanding at the beginning of 1973. Although unemployment had been falling for about a year, the unemployment rate was high by historical standards, and rapid growth remained an important plank of economic policy. Prospects—on unchanged policies—were officially estimated to point to an annual rate of growth of 5 per cent over the eighteen months to the first half of 1974, but slowing down to the estimated rate of growth of productive potential during the period. The budget strategy[1] was based on a desired shift of resources from private consumption and public expenditure towards private investment and exports. In the event there were some signs of a resource switch, but domestic expenditure decelerated sharply during 1973 to levels which suggested, prior to the energy crisis, that the 1973 budget aims for growth would not be fully achieved.

The slowdown in demand in the second half of 1973 was partly attributable to the course of public expenditure which did not provide the stimulus expected. The outturn on public consumption was close to plans[2] but there was a considerable shortfall on public fixed investment. The lower-than-anticipated outturn on fixed investment was partly attributable to supply constraints, notably in the construction industry, but it also appears symptomatic of an inability of public expenditure to react to policy changes as quickly as policy makers would have wished. While public expenditure tended to slow the growth of domestic demand in 1973, the major weakness was private consumption. After growing at an annual rate of 6 per cent in the two years to the first half of 1973, consumers' expenditure in real terms was virtually flat until the end of the year. The slowdown in consumers' expenditure in 1973 seems to be mainly due to the acceleration of prices which was reflected in almost stagnant real personal disposable income in the second half of the year. At the same time, the savings ratio was maintained at an unusually high level and in the fourth quarter was 11¼ per cent compared to the longer-term average of around 8¾ per cent. The effect on aggregate demand of the slowdown in public expenditure and private consumption, however, was cushioned to some extent by a strong acceleration in the growth of private investment in 1973, led by manufacturing industry investment. As a result of developments in 1973 output was about 5¼ per cent higher than in the preceding year, but between the two halves of the year it was virtually flat.

Despite the slowdown, it seemed towards the end of 1973 that conditions of excess demand might exist in 1974. In December, plans were announced to reduce substantially public spending in fiscal year 1974/75 in order to improve the forecast supply/demand balance. Table 2 shows the changes in public expenditure plans. But demand-management was made more complicated by the

Table 1 (*a*) Expenditure and Output-Value
Percentage changes, annual rates, seasonally adjusted

	1963-1970	1971	1972	1973	1973 I	1973 II	1974 I
Consumers' expenditure	6½	11¼	13¼	13¾	15¼	9¼	13¼
Public current expenditure	8½	13¾	13¾	12¾	11½	15	16
Gross fixed investment	9	10¼	12¼	21¼	27¾	17½	13¼
Final domestic demand	7¼	11½	13	14¾	16¾	11¾	13¾
Stockbuilding[1]	¼	–¾	–¼	1	1½	0	–1¼
Total domestic demand	7¼	10¾	12¾	15¾	18½	11¾	12¼
Exports of goods and services	10	12¼	5¼	24½	32¼	25¼	41½
Imports of goods and services	9	9	13¼	36½	39¾	46	60½
Current balance[1]	¼	¾	–1¾	–2¾	–1½	–4½	–5½
GDP, market prices[2]	7½	11¼	11	13¼	16¾	7¼	6¾

1 Changes expressed as a percentage of GDP in previous period.
2 The GDP figures are based on expenditure estimates of GDP.
Source: CSO, *Economic Trends*, HMSO, London.

1 Annex A gives details of the policy measures taken.
2 See Cmnd. 5178, *Public Expenditure to 1976-77*, HMSO, December 1972

Table 1 (*b*) **Expenditure and Output-Volume**
Percentage changes, annual rates, seasonally adjusted

	1973 £ billion	1963-1970	1971	1972	1973	1973 I	1973 II	1974 I[3]
Consumers' expenditure	45	2	2¾	6	4½	5¾	¾	−2¾
Public current expenditure	13¼	1¾	3	4	3¾	3¼	4½	−1¾
Gross fixed investment	13¾	5¼	1	2½	4¾	7¾	3½	−4½
Final domestic demand	72	2½	2½	5	4½	5½	2	−2¾
Stockbuilding[1]	½	—	−¾	−¼	1¼	3¼	−1¾	−1¾
Compromise adjustment[1,2]	—	—	−¼	½	—	−1½	1¼	−1½
Total domestic demand	72½	2½	1½	5¼	5¾	7½	1¼	−6
Exports of goods and services	16½	5¾	7¼	2½	1	17¾	3¾	7¾
Imports of goods and services	18¼	5	4¾	10	11¼	14	8¾	−1¾
Foreign balance[1]	−1¾	¼	½	−1½	−½	¾	−1	3
GDP, market prices	70¾	2¾	2	3½	5¼	8¼	¼	−3

1 Changes expressed as a percentage of GDP in previous period.
2 The GDP estimates are based on a weighted average of the three official estimates of GDP. Differences between the expenditure based and average estimates have been added to the table as a separate entry.
3 The first half 1974 was affected by the period of three-day worxing.
Sources: CSO, *Economic Trends*, HMSO, London; OECD Secretariat estimates.

oil crisis and the onset of three-day working at the beginning of 1974. Although output in the first quarter of last year fell by a little over 3 per cent from the level in the preceding half year, this was considerably less than had been estimated at the time of the March 1974 budget which had a slight contractionary bias. Domestic demand, too, stayed remarkably buoyant. In particular, a reduction in the personal savings ratio was a factor in helping to cushion the fall in consumers' expenditure during the period of three-day working which lasted until the beginning of March. In addition, it seems that real earnings were maintained to a greater extent than might have been expected.

The fall in real personal disposable incomes continued into the second quarter of last year—mainly as a result of the pay limits of the operation of Stage III of the statutory pay policy and accelerating prices—and through its effect on consumers' expenditure, final domestic demand again declined. Nor

Table 2 **Public Expenditure Trends, Budget Estimates and outturns**
Volume percentage changes, annual rates, seasonally adjusted

	First half 1972 / First half 1971	First half 1973 / First half 1972	First half 1974 / First half 1973	1971	1972	1973	1974
Public expenditure							
Current expenditure on goods and services:							
Budget	1.7	2.9	3.0	1.5	2.6	5.3	0.5
Outturn	4.0	3.5	2.0	3.0	4.0	3.7	2.0[1]
Gross fixed capital formation:							
Budget	2.7	1.3	3.2	3.1	5.1	6.4	−3.8
Outturn	−2.7	−2.9	4.5	−1.2	−3.7	0.4	2.6[1]
Total public expenditure:							
Budget	2.0	2.4	3.1	2.1	3.4	5.7	−0.7
Outturn	1.9	1.6	2.9	1.7	1.7	2.8	2.1[1]
GDP at factor cost:							
Budget	3.1	5.9	4.5	1.2	4.7	6.5	−1.1
Outturn	2.7	6.1	−3.8	1.8	2.2	5.3	−0.4[1]

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

Table 3 Personal Income and Expenditure
Percentage changes, annual rates, seasonally adjusted

	1973 £ billion	1963-1970	1971	1972	1973	1973 I	1973 II	1974[3] I
Average earnings	—	7¼	13	10½	11¾	11¾	15¼	9
Employment	—	0	−2	¾	2	2½	¾	—
Wages and salaries	38.7	7¼	10¾	11½	14	14½	12½	13½
Compensation of employees	42.9	7½	10½	12	14½	15	13½	14¾
Other income	19.1	7	10½	15	17½	23¼	13	15½
Total personal income	62.0	7¾	10½	12¾	15½	17½	13¼	15
Tax payments[1]	11.7	12¼	8¾	7¾	17¼	27	13½	32
Disposable income	50.1	6¾	11¼	14	14¾	15¼	13½	11¼
Savings ratio[2]	10.5	8¼	9	9½	10½	9½	11¼	10½
Private consumption	44.9	6½	11¼	13¼	13¾	15¼	9¼	13¼
Consumer price deflator	—	4½	8¼	6¾	8½	9¼	8¼	16½
Private consumption (1970 prices)	35.8	2	2¾	6	4½	5¾	¾	−2¾

1 Income tax and national insurance payments.
2 Savings as a percentage of disposable income.
3 The first half 1974 was affected by the period of three day working.
Sources: CSO, *Economic Trends*, HMSO, London and OECD Secretariat estimates.

was the recovery in industrial production from three-day working as great as might have been expected. In the first half of the year GDP was about 1½ per cent lower than in the second half of 1973. Although the decline in real personal disposable incomes was reversed in mid-year, developments through the second half of last year have been marked by slow growth of demand and output. In 1974 as a whole, GDP may show a slight fall.

In the second half of 1974, demand-management policy was moved to an expansionary stance with the aim of slowing the rise in unemployment and prices. The July measures were estimated by the Secretariat to add about ½ per cent to GDP in the second half of 1974, notably by providing a stimulus to consumers' expenditure. Gross domestic product in this period seems likely to be around ¾ per cent above the level in the second half of 1973.

The recovery in domestic demand in the second half of last year seems to have been mainly due to consumer demand and stockbuilding which rose considerably in the third quarter. Probably the most important factors in the pick-up in consumer spending were the payment of thresholds under the pay policy and the increase in pensions, but the cut in VAT rates from 10 to 8 per cent in the July package of measures also contributed. However, the most recent indications of consumer spending suggest that its growth may have slowed down through the later months of the year. Little information is available about the course of public expenditure which had been an important prop under the economy in the first half of 1974 when it was rather stronger than planned. But reflecting the large December 1973 cuts, public expenditure in the second half of last year is likely to remain at much the same level as in the first half.

An important weakness in domestic demand, however, is gross fixed capital formation which fell by about 2¼ per cent in the first half of 1974 and is expected to show a further fall of 3 per cent in the second half with all principal categories of gross fixed investment sharing in the decline. Probably, the most disturbing feature of the weakness in investment is the trend in manufacturing industry investment. Weak prospects for domestic demand and world trade, the liquidity squeeze on the company sector, and poor profitability all contributed to a sharp reduction in investment plans and intentions through 1974. At the

Table 4 Gross Investment
Percentage volume changes, annual rates, seasonally adjusted

	1973 £ billion	1962-1970 average	1971	1972	1973	1973 I	1973 II	1974 I
A *Fixed investment*								
Manufacturing industry[1]	2½	2¾	–6¼	–9¾	6½	12¾	12¼	14
Distributive and service industries[1] [2]	2½	5½	3	8¼	5½	4	4½	–11¼
Other private (including shipping)[1]	1½	7¼	11	33½	15	9	1¾	–38¾
Private non-residential	6½	5	—	5	8	8¼	6½	–9½
Private residential	1¾	½	18½	18¼	7¾	12¼	–5¼	–34
Total private	8¼	4¼	2½	7	8	8¾	4¼	–14
Total public	5½	5	–1¼	–3¾	½	6	2	7¼
Total	13¾	4¼	1	2½	4¾	7¾	3½	–4½
		£ million, 1970 prices						
B *Investment in stocks*								
Manufacturing industry	—	274	–126	–205	374	207	167	38
Other	—	161	210	166	300	252	48	–47
Total	—	435	84	–39	674	459	215	–9

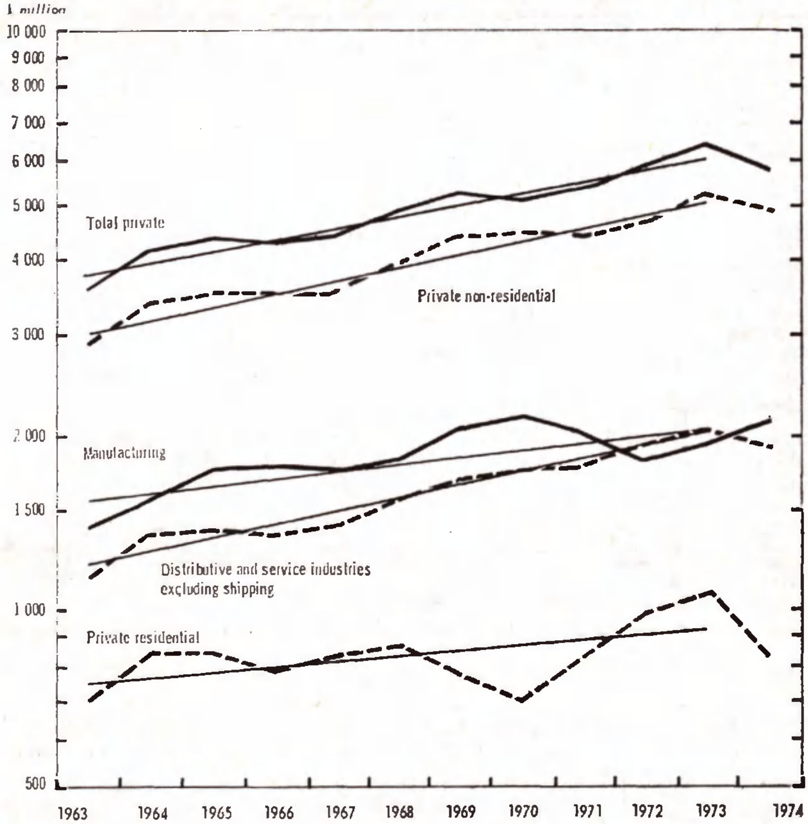
1 The figures for manufacturing and distributive and service industries include a small amount of public sector investment, but not investment by the British Steel Corporation, hence the 1973 levels overestimate these and underestimate the " Other private " components, but the percentage changes are not significantly affected.
2 Excluding shipping.
Sources: DI, *Trade and Industry*, HMSO, London; CSO, *Economic Trends*, HMSO, London.

beginning of 1974 it was becoming apparent that there would be a substantial increase in the financial deficit of industrial and commercial companies compared to 1973. The prospective deficit was further increased by the effects of the three-day week and by the March budget which raised corporation taxation, added a premium for the advanced payment of corporation taxation and provided for higher employer social security contributions which were later passed on through prices. Profits were also caught in a squeeze by the big rise in material and labour costs and the price controls. In the first three quarters of 1974, the financial deficit of industrial and commercial companies at £3.1 billion was over seven times the size of a year earlier.

Statutory dividend restraint was considerably eased in the July package in an attempt to improve investors' confidence in the capital market and attract funds for new issues. With confidence at low levels in business surveys and the existence of some uncertainty about the Government's intentions for industry, the easing of dividend restraint did little to improve liquidity problems and encourage investment. Steps were taken in the November budget to meet the increasing difficulties of the company sector. Corporation taxation was deferred on stock appreciation over the value of 10 per cent of trading profits for company financial years ending in the fiscal years 1973 and 1974, and price controls were substantially relaxed. These measures together are officially estimated to improve companies' financial position in 1975 by about £1.6 billion.

The apparent weak growth of domestic demand through the second half of 1974 has been reflected in industrial production. After falling sharply in the first quarter of the year, industrial production recovered slowly up to the third quarter when it was about 1 per cent below the level in the second half of 1973. Over the three months to November, production was about 2¾ per cent lower than in the corresponding period a year earlier. In the second half, production was adversely affected by industrial disputes, and at the same time there was a sharp build-up of stocks, part of which may have been involuntary.

Diagram 1 **Private Investment Trends**
£ million, 1970 prices



NOTE The 1974 figures are Secretariate estimates based on data for the first three quarters.
Sources: D.I., Trade and Industry, HMSO, London; C.S.O., Economic Trends, HMSO, London.

Prices and incomes: developments and policy

Price and income developments in 1973 and 1974 were largely influenced by the effect of unexpectedly rapid world inflation on retail prices and the operation of statutory price and income controls. The policy measures, which are described in more detail in Annex A, can be summarised as follows:

Stage I. In November 1972 a statutory counter-inflation programme was introduced. The first stage of policy brought a standstill on pay, rents, dividends and prices—with the exception of fresh food and imported goods.

Stage II. Provisions for further stages of the counter-inflation programme were taken in early 1973, including the establishment of a Price Commission and a Pay Board to administer the relevant controls. Stage II was to run to November 1973. The Pay Code generally limited increases in pay from April onwards to some 7 to 8 per cent with a minimum twelve-month delay between settlements. The Price Code allowed prices to rise in line with "allowable" costs per unit of output (50 per cent of extra labour costs were not allowable) subject to profit margin controls and safeguards.

Stage III. The Stage III arrangements, due to run for about a year from November 1973, brought modifications to the Pay and Price Codes. The pay arrangements for the year effectively limited the growth of earnings to 10 to 11 per cent, but there was also provision for threshold clauses whereby additional flat payments up to a level approximately equivalent to full pre-tax compensation for an employee on average earnings were permissible for every 1 per cent by which the retail price index rose more than 6 per cent above its October 1973 level. Some of the price controls were modified to encourage investment, though a loophole in the profit controls was closed and the procedures for vetting price increases by medium-sized firms were strengthened.

The statutory controls were introduced and extended against a background of discussions between the Government, employers and unions on a voluntary approach which failed to come to fruition under the conditions then prevailing.

Although the payment of thresholds under Stage III continued until November 1974, statutory controls on pay were abolished in July last year, the Government relying on a voluntary social contract. A main element in this was a set of voluntary pay guidelines agreed within the trade union movement to secure reasonable moderation in pay and a number of other objectives. The main elements in the TUC guidelines are:

(*i*) an interval of twelve months between pay settlements;

(*ii*) wage increases should not aim to more than maintain the pre-tax real value of wages; and

(*iii*) special provisions to improve the relative position of women and lower-paid workers.

At the same time, price controls which had been strengthened in the first half of last year, were—as noted above—relaxed somewhat in the November Budget, notably to enable companies to pass on in prices an increased proportion of increases in labour costs.

Until the second quarter of last year, the counter-inflation programme was successful in containing the growth of pay. After very rapid growth of wages prior to the freeze—between July and October 1972 wage rates rose by some 7½ per cent, partly because of inflationary expectations and partly because statutory controls were anticipated—wage rates rose by only a fraction over 1 per cent in the four months to March 1973. Settlements under Stage II, which constituted in compressed form a virtually complete wage round, averaged about 7½ to 8 per cent (excluding payments permitted outside the normal limits), considerably less at an annual rate than immediately prior to the introduction of controls.

Table 5 Pay and Price Movements

Percentage changes, annual rates, not seasonally adjusted

	July 1972 to Nov. 1972	Nov. 1972 to Mar. 1973 (Stage I: freeze)	Mar. 1973 to Nov. 1973 (Stage II)	Nov. 1973 to July 1974 (Stage III)	July 1971 to Nov. 1974 (Social contract)	Nov. 1974 to Nov. 1972	Nov. 1972 to Nov. 1973 (Stage I + II)	Nov. 1973 to Nov. 1974
Basic hourly wage rates	26¾	3½	16	24	31¾	14	11¾	26½
Average earnings	22¾	3	17½	20¾	34¾	16¾	12½	25¼
GDP deflator s.a.	10¾	8	8¼	17½		9¾	8¼	
Wholesale prices, input	22¾	41½	45¼	47	23	9	44	37¼
Wholesale prices, output	10	4¼	13	29¾	24	8	9	28
Non-food retail prices	10¼	2½	10¼	20½	13¼	7½	7½	18
Total retail prices	9¾	7½	11¾	19½	16	7¾	10¼	18¼

Sources: Department of Employment Gazette, HMSO; *Trade and Industry*, HMSO; *Economic Trends*, HMSO, London.

With the introduction of Stage III it was expected that external inflationary pressures would ease and have a dampening influence on the rise in prices, and hence add little to the underlying rate of growth of pay through the payment of thresholds. In the event, import prices accelerated markedly in the first quarter of 1974 and indirect taxes were raised in the March budget, with the result that the 7 per cent price rise limit from the October 1973 level triggered the thresholds much earlier than had been anticipated[3]. By itself, the March Budget was estimated to have added some 1½ per cent to the retail price index during 1974. Between May and November last year 11 payments were made under the threshold clause, adding about 12 per cent to wage rate index in 1974 for over 10 million wage and salary workers (just under half of total employees). Partly as a result of threshold payments, there was a sharp acceleration in wage rates in the second half of last year. The switch in July to the TUC voluntary guidelines on pay (part of the Social Contract) was accompanied by a sharp acceleration in wage rates. In a number of instances, this was due to the non-observance of the guidelines on the twelve-month interval between pay settlements. Other high settlements covered special cases and other anomalies which had developed during the period of statutory controls and which were regarded to be outside the normal scope of the guidelines.

The effectiveness of price policy is also difficult to judge as the controls generally applied only to domestic costs and profit margins, while the major sources of inflationary pressures were external until around the second quarter of last year. The evidence suggests that the controls were successful within the limits of policy operation. Over the 17 months to August last year the Price Commission estimated that it had held prices some 1¾ per cent below what they would otherwise have been[4]. It seems likely that much of the estimated savings would have occurred following the payment of the first thresholds in May 1974: under the Price Code, before the changes last November, not more than 50 per cent of allowable cost increases arising from pay increases could be passed on in prices. Therefore, after the acceleration of labour costs since April firms have been obliged to absorb a much larger sum in absolute terms than previously.

The main sources of inflation are shown in Table 6 which illustrates the powerful external pressures on prices in 1973 and the early part of 1974. From mid-1972 to end-1973 import unit values, excluding food items, rose by roughly 50 per cent which would normally imply an eventual 9 to 10 per cent addition to the domestic non-food price level. As food prices on the domestic market are determined principally by world prices, the overall influence of import prices on retail prices was probably greater up to the end of 1973. This suggests that domestic factors probably added very little to the retail price level over this period, with the rise in costs being largely absorbed by profit margin cuts. The surge in import prices was partly attributable to the depreciation of sterling by an effective 10 per cent over the period, partly to the boom in commodity prices—the Reuter index rose by about one-fifth—and partly to the acceleration of domestic inflation in other countries. The main effect of these external pressures was to undermine the assumptions and initial figuring behind the counter-inflation programmes, entailing a squeeze on real household incomes. The recovery in real incomes, which accompanied the threshold payments, came at about the same time as a slowdown in world prices. The direct effects of the commodity price boom, and notably the higher price of oil, had probably worked through to retail prices by mid-year, following which domestic wage costs were the main source of inflation.

3 Under the threshold clauses those who were covered were entitled to pay increases of 40 pence a week for each 1 per cent increase in the retail price index above an increase of 6 per cent from the October 1973 level.

4 Report for the period 1st June to 31st August, 1974, Price Commission, HMSO.

Table 6 Contributions to Price Changes
Percentage changes, annual rates

	1971	1972	1973	1974	1973				1974			
					I	II	III	IV	I	II	III	IV
Wage rates, n.s.a.	13¼	14	13½	19½	3	18½	18	8½	13	25½	39½	27¾
Unit labour costs, s.a.	9¼	8½	8		5¼	7	12¼	12	31	7¼	36	
Gross trading profits of companies net of stock appreciation, s.a.	14	13	7¼		61¼	–20½	–36¼	–9	–88¼	340	374	
(in £ billion)	(4.9)	(5.6)	(6.0)		(1.7)	(1.6)	(1.4)	(1.4)	(0.8)	(1.1)	(1.5)	
Import prices, total, n.s.a.	4½	4	26½	52	24	35¼	45¼	47¾	102	52	9½	11¾
Import prices, materials and fuel, n.s.a.	10¼	2½	33¼	108	33½	34	48¾	107	364	101	6¾	7
Indirect taxes net of subsidies per unit of output, s.a.	2¾	1	0		–33½	–9½	42¾	15¼	51½	141	–40¾	
Retail prices, total, n.s.a.	9½	7	9¼	16	7¼	13½	6¼	14½	17¾	26	10½	19¼
Implicit price deflator of consumers' expenditure (national accounts), s.a.	8¼	6¾	8½		8½	10	6¾	10½	17¼	20¾	12	
GDP (factor cost) deflator, s.a.	10½	10	8½		8¾	5½	9¾	8½	8¾	13	39¾	

Sources: Economic Trends, Department of Employment Gazette, and *Trade and Industry*, various numbers, HMSO, London.

The labour market

As was to be expected after two years of rapid growth, labour market conditions improved considerably in 1973. Employment[5], in line with the normal lagged response to output growth, continued to rise in the second half of the year after output growth had decelerated markedly. Unemployment fell steadily to a seasonally-adjusted rate of 2.1 per cent in December 1973 compared with a rate of 3.2 per cent a year earlier and the 1972 peak of 3.9 per cent. Unemployment jumped sharply to a rate of 2.4 per cent in January 1974, probably reflecting in part an initial shedding of labour in response to the oil crisis and three-day working, which was not taken back into the workforce once output recovered. Having been flat during the first five months after January 1974, the rate rose to be 3.0 per cent in January this year.

The aggregate movements, however, conceal some interesting changes in labour market behaviour which became increasingly apparent through 1973. One was the sectoral distribution of employment changes, which continued to be weighted in favour of the service sectors and considerably more so than over a longer period. In part this can be explained by the reflationary pattern adopted in 1971 and 1972, which was heavily biased in favour of private consumption and may have favoured expenditure on services. Indeed, the entire increase in employment in the two years to the fourth quarter of 1973 was in the non-manufacturing sectors. The data for 1974 suggests a fall in employment in the first half of the year, but with the fall proportionately greater in non-manufacturing. In the previous downswing in 1970/71, manufacturing employment seems to have taken most of the adjustment. With manufacturing output rising considerably in 1972 and 1973, productivity performance was good, although it was affected by unexpectedly poor productivity growth in other sectors.

An important feature of the labour market is that, at the top of the cycle in 1973, unemployment was still relatively high compared with the corresponding phase of previous cycles up until the mid-sixties; the figures for the latter part of 1973 understate the levels a little. A similar phenomenon has been observed in a number of other Member countries. In the United Kingdom's case, it seems that the underlying level of unemployment has risen in recent years. It is not clear whether this has been due to a cyclical, structural, or frictional component, or to some combination of these. In addition, it is possible that there has been an increased tendency for those out of work to register as unemployed, although the evidence here is still scanty. One possible explanation is that, with a severe labour shake-out in 1971, particularly in manufacturing, succeeded by the rapid upswing of 1973, with scarcities of both skilled and unskilled labour, the process of adjustment of employment to cyclical movements may have been slower or more imperfect than in earlier periods. Experience in 1974, when unemployment rose more slowly than might have been expected, is in accordance with this possibility. The need to make up for production losses during the three-day week may also have restrained the 1974 rise in unemployment.

5 Per cent of total employees, Great Britain.

	1955/73			1971-IV/1973-IV		
	Manufacturing	Non manufacturing	Total	Manufacturing	Non manufacturing	Total
	Percentage change at annual rates					
Output	3	2.5	2.7	5.6	2.8	3.2
Employment	–0.3	0.1	–0.1	–0.1	2.7	1.8
Productivity	3.3	2.4	2.6	5.7	0.1	1.9

Table 7 Labour Market*

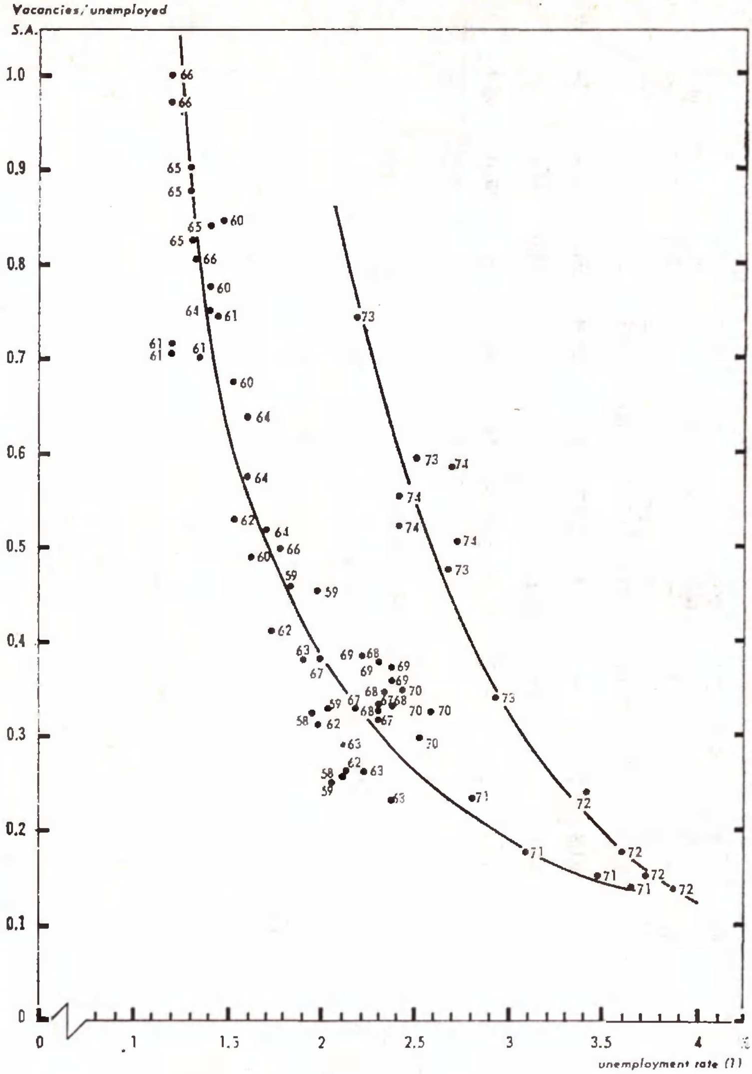
	1972				1973				1974			
	I	II	III	IV	I	II	III	IV	I	II	III	IV[3]
Unemployed total, per cent [1,2]	3.9	3.7	3.6	3.4	2.9	2.7	2.5	2.2	2.4	2.4	2.7	2.7
Unemployed total, thousand[1]	867	838	808	750	667	605	562	489	543	552	600	608
of which: production industries	475	450	426	386	326	291	271	238	269	268	293	305
Vacancies, total, thousand	124	132	147	179	228	289	334	364	285	309	306	276
Total employment, employees, million	21.60	21.65	21.76	21.90	22.14	22.18	22.26	22.29	22.17			
Index of employment in production industries, 1970 = 100	94.0	93.8	93.8	93.9	94.4	94.7	94.8	95.0	94.6	94.4	94.4	93.7
Index of employment in manufacturing industries, 1970 = 100	93.8	93.5	93.4	93.3	93.6	93.9	94.0	94.3	94.0	94.1	94.2	93.8
Average weekly hours worked per operative, manufacturing industries, 1962 = 100	92.5	95.2	95.4	95.7	96.3	96.5	96.5	96.7	90.1	96.0	96.0	95.2

* All figures seasonally adjusted.

1 Excluding school leavers and adult students, G.B.
2 Percentage of employees.
3 The figures for 1974 IV are provisional, being based on November.

Sources: Economic Trends, HMSO; *Department of Employment Gazette*, HMSO. London.

Diagram 2 **Vacancy Unemployment Relationship**



1 Per cent of total employees, Great Britain.
Source: Department of Employment Gazette, HMSO, London.

Another interesting feature of recent labour market experience has been the changing relationship between vacancies and unemployment. From 1967 onwards, there has been an increased tendency for given levels of unemployment to be associated with higher levels of vacancies than previously. The steep rise during 1973, (probably indicative of the unusually rapid recovery in the UK economy from mid-1972 onwards) took vacancies to their highest level since 1948. Although there was a falling off in 1974, vacancies remained high by historic standards.

Deterioration of the external position

In 1973, the volume of international trade accelerated rapidly as many countries moved to cyclical peaks. The situation was also affected by substantial

Table 8 Overseas trade (Balance of Payments Basis)

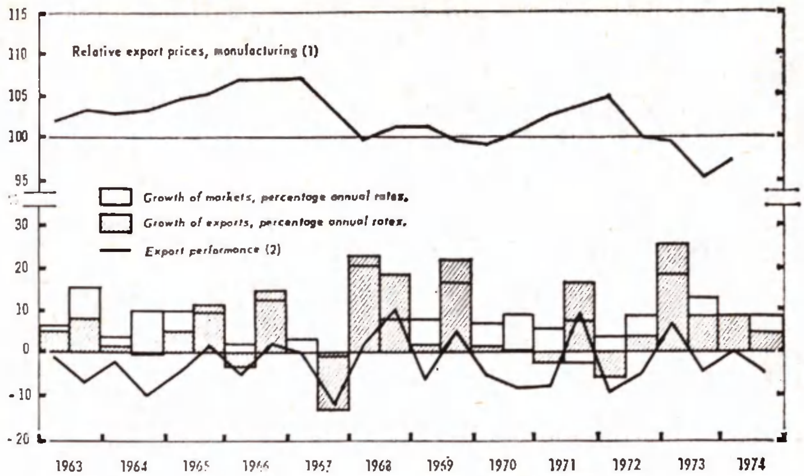
Percentage changes, annual rates, seasonally adjusted

	1961–1970	1971	1972	1973	1974	1973		1974	
						I	II	I	II
Exports, value	8¼	11½	3¾	25½	35	35¼	23¼	46¾	25
Exports, volume	4½	6¾	0	11¾	7½	22¼	4½	13½	–½
Exports, average value	3¾	4½	3¾	12	25½	10¾	18	29¼	25¾
Imports, value	7¾	8	15¼	40¾	49½	43½	52¾	71	14
Imports, volume	4½	4¼	11¾	13	1¼	14	11¾	–½	–4¾
Imports, average value	3	3½	3¼	24½	47¾	26	36¾	72	19¾
Unit values: exports, n.s.a.	3½	5½	5	13¼	29	12¼	18½	33¾	25¼
Unit values: imports, n.s.a.	3	4¾	4¾	27¼	55¼	26¼	45	79½	20½
Unit values: terms of trade, n.s.a.	½	¾	½	–11	–17	–11	–18	–25½	3¾
Exchange rate: % weighted £ depreciation[1], n.s.a.			–4¼	–15	–18¼	–11½	–18	–18	–18¾
Exchange rate: \$/£ (actuals), n.s.a.	2.68	2.44	2.50	2.45	2.34	2.48	2.43	2.34	2.34
Trade balance: £ million (annual rate)	–253	285	–677	–2 355	–5 187	–1 500	–3 210	–5 370	–5 004
Trade balance: \$ million (annual rate)	–671	694	–1 693	–5 819	–12 100	–3 746	–7 892	–12 500	–11 600

1 Average weighted depreciation from Smithsonian parities over the period.

Sources: DI, *Trade and Industry* HMSO, London; CSO, *Monthly Digest of Statistics*, HMSO, London.

Diagram 3 **Relative Export Prices and Export Performance**



1 United Kingdom export average values divided by a weighted index of competitors' export average values (1970 = 100).
2 Growth of exports less growth of markets.
Source: OECD Secretariat estimates.

movements in the exchange rates of many countries, a commodity price boom and the rise of oil prices towards the end of the year. The high level of domestic demand was an important factor in the sharp rise of 41 per cent in the value of imports, while it probably contributed to some export bottlenecks particularly in the second half of 1973. The net effect of these factors on the United Kingdom's trading position was to move it into sizeable and fundamental deficit of over \$5¾ billion for the year as a whole. This followed a deficit in 1972 of around \$1¾ billion. Earnings on invisible account showed some improvement, but it was small compared to the deterioration in visible trade and the current account moved from a small surplus in 1972 to a deficit of \$3 billion in 1973.

The higher oil prices were the main factor responsible for a further marked deterioration in the external position in 1974. The increase in oil prices above the October 1973 levels are estimated to have added about \$6¼ billion to the value of imports in 1974, approximately half the trade deficit of \$12 billion. Although it is substantial (equivalent to around 3¼ per cent of GDP), the trade deficit excluding the effect of higher oil prices has improved through 1974 from the 1973 peak[6]. In the second half of last year, the trade deficit net of higher oil prices, is estimated to have been at an annual rate of \$5½ billion compared with a rate of \$8¾ billion in the fourth quarter of 1973. After allowing for the considerable improvement in earnings on invisibles in 1974, the current account deficit is estimated to be \$9 billion, some \$6 billion higher than in 1973.

Export values in 1974 rose by about 35 per cent, with export prices responsible for most of the value increase. Between the fourth quarters of 1973 and 1974, export unit values rose by 29 per cent, while export volumes rose by about 4 per cent. Export prices rose steadily through 1974, but export volumes, after rising considerably in the first quarter, remained relatively sluggish until the fourth quarter when there was a fall. In 1974 as a whole, however, export volumes were some 7½ per cent higher than in the previous year. The acceleration

6 The " non-oil " deficit refers to the current balance excluding increases in net expenditure on oil due to the increase in prices from the 1973 level.

in export prices in 1974 partly reflects strong domestic inflationary pressures and the substantial increase in import prices of basic fuels and materials, but it is probable that price controls on domestic sales resulted in some marking-up of export profit margins. United Kingdom manufactures broadly maintained their export market share in real terms at a time when price competitiveness remained strong.

The value of merchandise imports rose sharply in 1974, almost entirely because of price increases, and particularly of oil. The rise in import unit values in 1974 was over 40 per cent from the level in the fourth quarter of 1973, while import volumes fell over the same period. Between 1973 and 1974, import volumes rose by about 1¾ per cent. The relative sluggishness of import volumes may be largely attributed to weak domestic demand and the substitution of imports partly reflecting the price effects of sterling depreciation. As a result of the comparative movements of export and import volumes, there was a shift of resources into the real foreign balance in 1974 of around 1¾ per cent of gross domestic product. Whereas export prices continued to rise rapidly through 1974, import prices slowed down markedly after the higher oil prices had largely worked through to import prices in the period to April. As a result, the sharp fall in the terms of trade early in 1974 was reversed in mid-year to show an improvement in the second half of the year.

The rapid deterioration of the current external balance in 1973 and 1974, largely as a result of price developments, has not given rise to any major financing problems. Foreign currency borrowing by nationalised industries and local authorities, under the exchange cover scheme reintroduced in the 1973 Budget, has been the largest source of finance. In the two years to the end of 1974, some

Table 9 Balance of Payments[1]

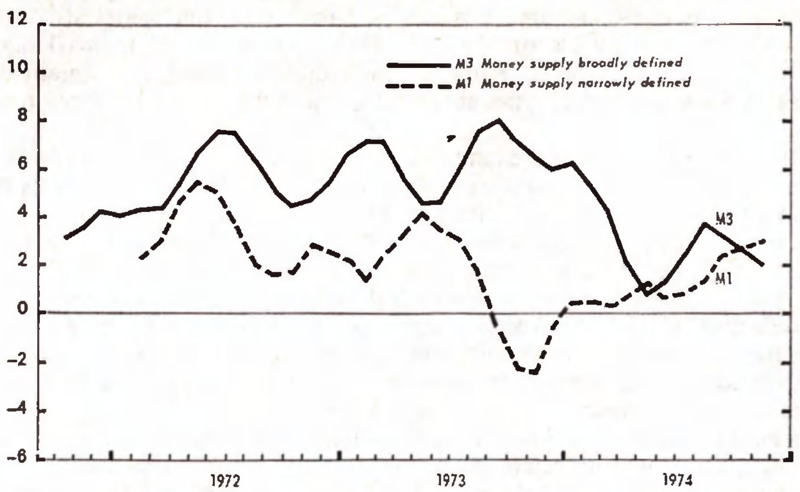
US $ billion, annual rates

	Average 1960-70	1971	1972	1973	1974	1974 I	1974 II
Exports f.o.b.	13¾	21½	22¾	28	36¼	34¼	38¼
Imports f.o.b.	14¼	20¾	24½	33¾	48¼	46¾	49¾
Trade balance	–¾	¾	–1¾	–5¾	–12	–12½	–11½
Invisibles	¾	2	2	2¾	3¼	3	3¼
Current balance	–	2¾	¼	–3	–9	–9½	–8¼
Long-term capital movements (ex. special transactions)	–½	¼	–½	3¼		7	
(*a*) Private	–¼	½	–¼	1		3½	
(*b*) Official	–¼	–¼	–¼	2¼		3½	
Basic balance	–½	3	–¼	¼		–2½	
Non-monetary short-term private capital	–¼	¼	–¼	–¼		–¼	
Non-monetary short-term official capital	–	–	–	–		–	
Errors and omissions	¼	½	–1¾	1		2¼	
Balance on non-monetary transactions	–½	4	–2¼	1		–1	
Private monetary institutions' short-term capital	–	2¼	–1½	–½		–¼	
Balance on official settlements	–½	6¼	–3½	¼		–1¼	
Net liabilities to national monetary authorities	–	1¾	½	¼		2	
Use of I.M.F. credit	¼	–1¼	–½	—		—	
Special transactions	¼	–2¼	2¼	—		—	
Miscellaneous official accounts	–	–1	—	—		—	
Allocation of S.D.R.s	–	¼	¼	—		—	
Change in reserves (+ = increase)	–	3½	–1	½	¼	¼	–

1 The components of the current balance are seasonnally adjusted.

Sources: Direct information to the OECD and Secretariat estimates.

Diagram 4 **Monetary Indicators**



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

Source: CSO, Financial Statistics, HMSO, London.

$5.1 billion of the total deficit of $12 billion was financed under this scheme. Public sector borrowing outside the scheme totalled about $½ billion. There was substantial public sector borrowing in the third quarter of 1974. In the fourth quarter the authorities drew $1½ billion on the $2½ billion loan arranged by the clearing banks earlier last year. Increased overseas investment in the United Kingdom private sector has also helped to ease the financing burden. The combination of factors on the capital account resulted in a rise in reserves of $500 million in 1973 to an end-December level of $6½ billion and a further small increase to $6¾ billion at the end of last year.

Exchange rate and monetary developments

In the wake of the March 1973 currency disturbances, sterling was relatively sheltered by the weakness of the US dollar and high domestic interest rates. The effective post-Smithsonian depreciation was generally in the 10-12 per cent range, but sterling fell against the EEC "snake" in late May and June and then against the dollar with the result that the effective depreciation had reached over 17 per cent by late July. Fears of a resurgence of domestic inflationary pressures and the deterioration in the balance of payments were probably important factors in sterling's change of fortunes. From July 1973 until November 1974, the effective sterling rate remained generally within the 16-19 per cent depreciation range being little affected by disturbed international monetary conditions late in 1973, the oil price rise, or three-day working. Following the announcement in November 1974 of the discontinuation of guarantees for sterling balances, there was a further small increase in the post-Smithsonian depreciation.

1973 was another year of rapid monetary expansion with M3 growing by about 27 per cent. This growth largely reflected borrowing by the private sector, initially by the personal sector and more importantly later in the year by companies as they built up liquid assets, and also increased considerably their dependence on bank borrowing as a source of finance for stockbuilding and investment. Their large-scale borrowing was also encouraged in late 1973 by the

Table 10 Monetary Developments
Annual rates

	1972	1973	1974	1973				1974			
				I	II	III	IV	I	II	III	IV
Money stock, M1 per cent changes, s.a.[1]	16½	10	4¼	−1¼	29¾	−10	8¾	−10¼	13¾	11	34½
Money stock, M3 per cent changes, s.a.[1]	21¾	27	20	25	20¼	36¾	30¾	13¼	7½	13	16½
Velocity of circulation[2]	2.751	2.473		2.658	2.488	2.441	2.304	2.173	2.258	2.360	
Net bank advances to domestic sectors											
Total £m, s.a.	4 897	7 086	6 162	7 696	1 880	10 588	8 180	7 336	4 488	7 784	5 040
of which: manufacturing	489	1 583	2 749	1 840	−64	1 836	2 720	2 044	2 524	3 940	2 488
personal	1 224	843	−135	1 212	732	1 188	248	−252	−324	352	−316
Building societies:											
Net increase in shares and deposits outstanding (£m) s.a.	2 193	2 102		1 856	3 136	1 992	1 424	756	1 712	2 412	
Mortgage advances (£m) s.a.	3 649	3 540		4 332	3 388	3 412	3 028	2 736	2 160	2 912	
Short-term interest rates[3]	8.75	16.13	13.25	10.13	8.13	13.5	16.13	16	13.5	12.25	13.25
Long-term interest rates[4]	9.5	14.5	15.5	10	10.13	13	14.5	14.5	15	14.5	15.5

1 The annual figures relate to the average amounts outstanding over the years, whereas the quarterly figures relate to the amounts outstanding at the end of the period.
2 Ratio of GNP at current market prices, seasonally adjusted at an annual rate to the centred quarterly average of M3, seasonally adjusted.
3 3 month deposits with local authorities at end of period.
4 10-15 year local authority mortgage rates at end of period.

Sources: Financial Statistics, HMSO and *Economic Trends*, HMSO, London.

pattern of market interest rates which facilitated arbitrage operations[7]. Public sector borrowing was an additional important expansionary influence, further inflating the M3 series. Money supply, narrowly defined (M1) increased by only 10 per cent in 1973.

A tighter monetary stance adopted in late 1973 probably helped to moderate the growth rate of M3, although of more importance was a combination of other influences, including unwinding of the special factors (including arbitrage operations) which had earlier inflated the growth of M3, increased sales of public sector debt outside the banking system, and the pattern of financing of the increased external deficit. The growth of bank lending to the private sector also slowed down in 1974. The personal sector's outstanding liabilities to banks were reduced and lending to other financial institutions decelerated, both in line with official qualitative guidance on lending priorities. Lending to manufacturing industry continued to rise strongly, particularly in the middle of the year, reflecting the severe squeeze on the company sector, but there were indications later in the year of a growing reluctance by banks to increase lending to companies to increase further their borrowing in the light of economic uncertainties.

The first important move to make monetary policy more restrictive was made in July 1973 when the authorities made a call for 1 per cent of Special Deposits in order to reduce bank liquidity and raise short-term interest rates. Following market rates, the Minimum Lending Rate then rose from 7½ per cent to 11½ per cent by the end of July and the clearing banks' base rates rose to 11 per cent by the end of August. In mid-November there was a further severe tightening of policy. A further 2 per cent of Special Deposits were called for and the Bank of England set its Minimum Lending Rate at 13 per cent. The clearing banks raised their base rates to the same level.

In early 1974, following the introduction of the supplementary deposits scheme, the authorities sought to reduce short-term interest rates again and 2 per cent of special deposits were released to this end between February and April. Following this measure, and also because of the slowdown in demand for bank credit, short-term rates began to fall in March and the downward tendency continued until last November. On the other hand, long-term interest rates which had risen broadly in line with short rates during most of 1973 (except for the sharp increase in November), showed a general upwards tendency during 1974, largely as a reflection of underlying inflationary expectations. This resulted in a substantial steepening of the profile of the yield curve during the year with long-term rates substantially higher than short-term rates.

Despite the steps taken during 1973, notably the use of special deposits, doubts began to grow about the ability of the 1971 Competition and Credit Control arrangements to control the growth of money and credit. Measures to control sectoral flows, mainly in order to assist building societies, had been taken before the adoption in December 1973 of more direct techniques for the control of monetary and credit expansion. Hire purchase controls were re-introduced and a supplementary deposit scheme designed to restrain the growth of banks' interest-bearing liabilities by reference to a quantitative guideline was introduced[8].

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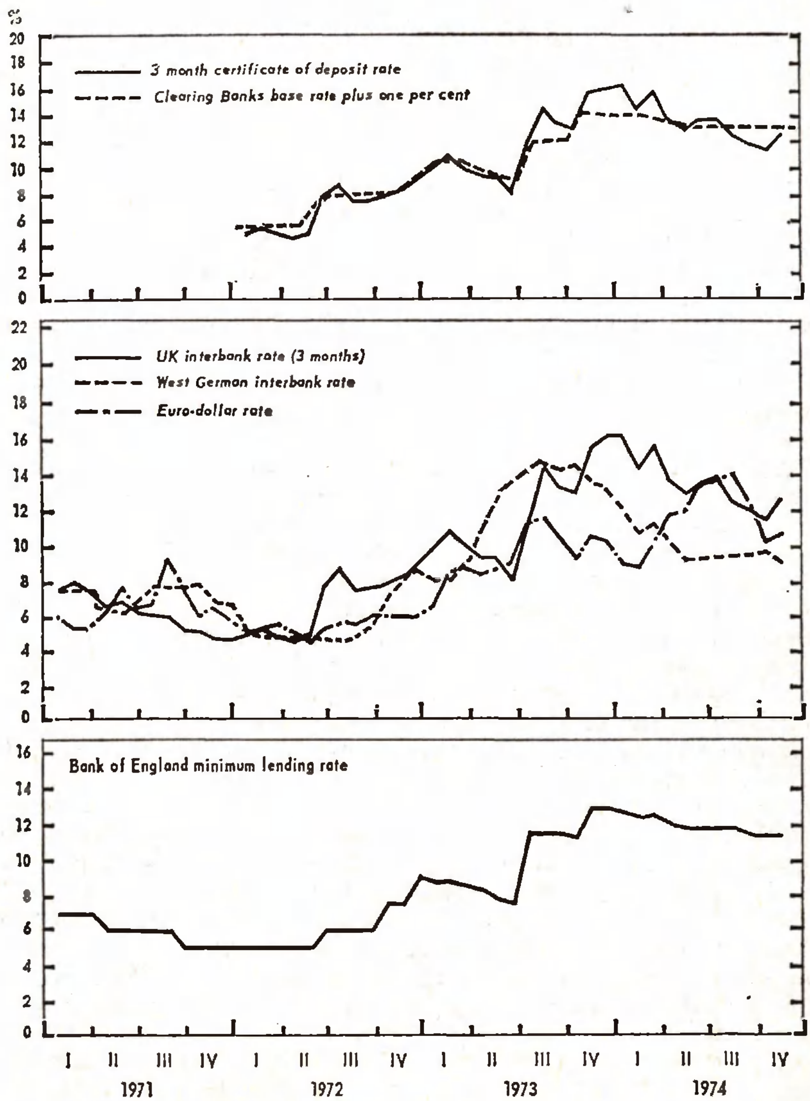
7 Blue chip and some other borrowers also were able to draw on their overdraft facilities and then re-deposit funds elsewhere in the banking system—primarily in certificates of deposit —at higher rates of interest.

8 Under this scheme, a guideline of 8 per cent was laid down for the growth in banks' and deposit-taking finance houses' interest-bearing sterling liabilities between the average for 3 months to mid-December 1973 and the average for the three months to mid-June 1974. If the guideline is exceeded, an interest-free deposit is to be placed with the Bank of England. The rate of deposit required is progressively higher depending on how much the 8 per cent guideline is exceeded.

With relatively weak demand for bank credit in the first six months of 1974, banks had little difficulty in observing the growth limit on eligible interest-bearing liabilities. The authorities subsequently announced in April and November the extension of the scheme on a broadly similar basis for further six-month periods. In addition, the Bank of England announced in November that it was maintaining its directives to the banks to limit the growth of credit to the personal sector and property companies; while clearing banks were to be released from their undertaking to forego interest on a certain proportion of their special deposits with the Bank.

Diagram 5 **Interest Rates**



Source: **CSO, Financial Statistics, HMSO, London.**

II POLICIES AND PROSPECTS

Demand-management policy

The emergence of excess demand in 1973 and the deterioration in the external position and the inflation outlook posed difficult policy problems which were further complicated by the oil crisis at the end of that year. The first major changes in policy were made in November and December when monetary policy was tightened and public expenditure cuts of £1 200 million were announced. At that time the stance of demand-management policy seemed to be appropriate, but the second increase in oil prices and the onset of the miners' dispute and three-day working combined to change dramatically the outlook for 1974. The first priority of the new Government elected in February last year was to end the strike and restore normal working. This was done by freeing the miners' pay negotiations from statutory limitations and the conclusion of a settlement estimated to add 29 per cent to pay rates.

With the return to normal working, a preliminary judgement on the conjunctural position was made in the budget presented in March last year. The Budget impact on demand was estimated to have a slight deflationary bias, but a second budget was announced for later in the year when a firmer view of the effects of the oil crisis and three-day working would be possible. Meanwhile, the March budget included a number of measures aimed at redistributing the burden of taxation. The more important changes included the raising of tax thresholds by increasing personal and child allowances, raising the top rate of income tax, reducing the amount of investment income free of surcharge and narrowing the range of interest payment allowances for tax relief. Corporation taxation was raised with provision for a premium for the accelerated payment of part of the tax. There were also substantial increases in social security benefits and charges. At Budget time the authorities estimated that gross domestic product in the second half of last year would be 2½ per cent higher than a year earlier. The fall in output in the first half of the year was put at 4½ per cent.

Price policies were also tightened in March. Residential rents were frozen until the end of the year and the standstill on business rents extended to May 1975. A cut in the profit guidelines of large food distributors was announced by the Price Commission, while the Government narrowed general profit guidelines in distribution, took powers to control the fixing of maximum prices of key retail goods and provided for a three-monthly interval between price increases under the Price Code, subject to a number of escape clauses.

More direct action on prices was taken, principally in relation to the Budget measures. £550 million was set aside in 1974/75 to help check price rises on essential foods, offset by indirect tax increases on less essentials estimated to raise nearly £600 million in 1974/75. It was estimated that subsidies to the nationalised industries would cost £1 400 million in 1974/75 and provision was made to reduce this subsidy by £800 million through price increases during the financial year. The total direct and indirect effects of all the measures together on retail prices by the end of last year was probably something over 2 per cent.

The acceleration of inflation in the second quarter of 1974 prompted the Government to announce a set of measures in July last year aimed primarily at slowing the rate of price increase. The rate of VAT was reduced from 10 to 8 per cent, relief was provided for domestic rate payers whose local authority rate bills were to rise by more than 20 per cent in 1974, the regional employment premium was doubled to £3 per employee in industrial employment in the development areas and the maximum allowable increase of dividend payments was raised from 5 to 12½ per cent. The effect on retail prices was estimated to be a reduction in the rate of increase of about 1½ per cent in 1974 and a further 1 per cent this year.

The July package was also moderately reflationary, and was estimated by the Secretariat to add ½ per cent to demand by the end of last year. The fall in output in the first quarter turned out to be smaller than had been thought at the time of the March Budget, and it became clear that the underlying trend in demand in the recovery period would be weaker. A boost to demand sufficient to be of some help to employment prospects and encourage investment, but well short of any risk of excess demand and worsening the balance of payments position was thought to be justified.

Policy became more stimulatory in the November Budget, which added, on Secretariat estimates, 1¼ per cent to demand up to the first half of 1975. The Budget was largely geared to improving the financial position of industrial and commercial companies in order to help sustain employment and productive investment. Taxation on the increase in the value of stocks greater than 10 per cent of trading profits was deferred and price control was eased to permit companies to reconstitute profits by about £800 million (subsequently raised by £200 million). The total relief to companies in 1975 was officially estimated at the time to be £1.6 billion. The Government also announced that leading finance institutions would make a fund of £1 billion available over two years to provide medium-term funds for productive investment. Other steps taken in the November Budget included the ending of sterling guarantees for overseas official balances at the end of 1974, and an increase in VAT on petrol from 8 to 25 per cent. The latter measure was reinforced in December by the announcement of a wide-ranging energy conservation programme which could possibly save about £100 million in oil imports annually.

For the medium-term, the aim was to achieve an average rate of growth of public expenditure in demand terms of 2¾ per cent per annunm over the next four years, and to keep a tight rein on consumers' expenditure, thus providing room to switch resources into productive investment and exports. Monetary policy over the medium-term would be geared to ensuring that inflationary pressures were not fuelled through excessive monetary expansion.

The November budget also added substantially to the public sector borrowing requirement[9]. Prior to the measures the borrowing requirement was running at an annual rate of about £5½ billion for the fiscal year 1974/75 compared to an estimate of £2¾ billion at the time of the March budget. Following the November package, the estimate was £6¼ billion (equal to about 7½ per cent of GDP), some 40 per cent higher than in the previous fiscal year. Most of the increased borrowing requirement during the fiscal year has been financed within the context of a slowdown in money supply, by sales of public sector debt to be non-bank public and by public sector borrowing abroad. The public sector's current account is estimated to be in surplus by over £2¾ billion in 1974/75, with the capital account in deficit by about £9 billion.

Prospects in 1975[10]

Developments through 1975 will be largely influenced by the movements in pay and prices, and particularly by the degree to which pay settlements in the current round conform to the guidelines of the Social Contract. Contrary to

9 The borrowing requirement in the United Kingdom relates to the total public sector, including the borrowing of local authorities and nationalised industries. The borrowing requirement of the Central Government alone is estimated in 1974/75 to be £1.7 billion.

10 Unless otherwise stated, the forecasts in this section are those of the Secretariat.

what happened last year when the sharp rise in import prices resulted in an acceleration in prices and pay, import prices in 1975 are likely to slow down, making wages the dominant factor in price increases. Some recent pay settlements have been in excess of 20 per cent and at less than annual intervals. If this pattern persists, it is probable that money earnings may rise by about 25 per cent between 1974 and 1975 but with the rate of increase decelerating slowly through the year.

If money earnings increase at near this rate, little gain in real disposable income might be expected. In addition to the flow-on of pay increases to retail prices, the easing of price controls in the November Budget, which will allow employers to be partly compensated for earlier cost rises, should by itself add to inflationary pressures. Prices will also be affected by the start of the phasing out of subsidies to nationalised industry prices. Taking account of these factors, and allowing for a deceleration in import prices, the forecast for retail prices is for an increase of about 20 per cent between 1974 and 1975, compared with 16 per cent last year. Import prices, however, are an important element of uncertainty, given the large absolute movements in recent years. The forecast is based on little further depreciation of the exchange rate from the mid-December level. With money earnings rising by about 25 per cent, and prices in the range of 20 per cent, there is clearly little scope for any important improvement in real disposable incomes after allowing for fiscal drag. But given the lag between pay and price increases, and the fact that threshold payments up to last November had compensated a large part of the workforce for past price rises, real disposable income is not expected to change appreciably in the first half of 1975 but may fall thereafter.

The prospect for real personal disposable incomes implies a continuing weak picture for private consumption. The forecast shows a small rise in the first half of the year, followed by a slight fall up to the end of the year. But, much will depend on the behaviour of the savings ratio. It has been assumed in the forecast that the bulge in real disposable incomes early in the year will be partly offset by the effects of lower employment and that the savings ratio will decline throughout the year with a considerable fall foreseen in the second half of the year.

Of the other elements of demand, public expenditure is expected to rise at a faster rate in 1975 than last year, with public consumption on goods and services rising by about 3 per cent and public fixed investment by about 3 per cent. Public expenditure, however, is assumed to slow down through the year. Private fixed investment on the other hand, is expected to fall sharply. As in 1974, private residential construction is seen to be the main weakness. Despite the net increase in the inflow of funds to building societies in the second half of last year, high mortgage rates and sluggish real disposable incomes make it unlikely that the fall in residential construction will be arrested before later this year. Fixed investment in manufacturing and distribution industries is also expected to fall considerably. Depressed business confidence, poor prospects for profitability and a continuing tight financial position of companies combined with weak demand, produce a weak outlook for business investment. The measures in the November Budget will help to improve the outlook for manufacturing investment in particular, but without further changes in policy, a considerable fall (of about 7 to 10 per cent) in productive investment through the year seems likely. The historically high deficit of the company sector is also expected to inhibit any strong rise in stocks.

The considerable competitive price advantage enjoyed by British exports in 1974 is forecast to continue into 1975 although it is likely to be reduced during the year, reflecting higher profit margins and the rapid growth of domestic costs. To some extent, floating exchange rates could be expected to maintain the price element of competitiveness but changes in exchange rates are influenced by factors other than the size of the current account deficit. Although some easing of capacity constraints and delivery times is foreseen in 1975, these factors, together with the expected slowdown in world trade, may limit the rise in the volume of exports. Nevertheless, export performance in 1975 is expected not to be significantly different from 1974, (1975 export volumes of goods rising by 1 per cent against the forecast growth of markets of 1½ per cent). Import volumes are also expected to rise relatively slowly, mainly reflecting the weakness in domestic demand, but little improvement is forecast in the real foreign balance. Thus the expected reduction in the current account deficit will largely depend on relative price movements.

The trade deficit last year is estimated to be around $12 billion, equivalent to some 6½ per cent of GDP. The deficit in 1975 is forecast to be reduced to around $10¾ billion, 4½ per cent of GDP, in line with a rise in export prices of around 17½ per cent, compared with about 11½ per cent for imports. The assumption noted above about the exchange rate, however, is crucial in the forecast reduction in the trade deficit. The surplus on invisibles may be slightly higher in 1975 than last year, as some improvement is expected in income from services. The current account as a whole is thus forecast to show an improvement, but at about $7½ billion it remains extremely high by past standards. The forecast improvement in the trade deficit implies a reduction in the deficit net of the effect of higher oil prices from nearly $5¾ billion in 1974 to $4 billion in 1975.

Drawing together all the strands of this discussion of prospects for 1975 on the basis of present policies, output is expected to rise by about 1¼ per cent. If such an outcome is realised, slack will continue to develop in the economy at an increasing rate through the year. Unemployment, which did not rise as quickly as output trends in 1974 suggested, could thus rise subtantially this year. In addition to sluggish demand, serious inflation and the continuing tight financial position of the company sector could combine to produce a massive shake-out of labour on the 1971 scale. But even in the absence of such a massive shake-out unemployment could rise to reach 850 000 to 950 000 or a rate about 3¾-4¼ per cent by the end of the year.

Policy considerations and conclusions

The coincidence of weak domestic and external demand, rapid inflation and a large current account external deficit poses difficult problems for economic policy. Priority has to be given to reducing the rate of inflation and the current external deficit. Success in these areas would itself improve the outlook for employment and investment. But while maintaining a restrictive overall demand-management stance, measures to reduce uncertainties and improve investors' confidence need serious consideration, and selective labour market measures could help to limit the rise in unemployment.

Even the most optimistic assumptions about the operation of the Social Contract suggest that consumer prices will rise faster in 1975 than 1974 on a year-to-year basis. On the assumptions adopted in the Secretariat's forecast, inflation will slow down in the course of the year, but the forecast rates are highly disturbing and the risk of a rate of inflation even higher than suggested here cannot be discounted. In any case, it needs to be recognised that on the present outlook the United Kingdom will have one of the highest rates of inflation among Member countries. With the slowdown in the rise in import prices, domestic wage costs are expected to be the main source of excessively fast price increases. However, despite the forecast increase in money wages of around 25 per cent, the change in real wages after tax is bound to be fairly small. In addition,

Table 11 **Demand and Output in 1975**
Volume percentage changes

	1974	1975	1975 second half / 1974 second half
Consumers' expenditure	–½	2	1¼
Government expenditure	1½	3	2¼
Fixed investment	–3	–4¼	–3¾
Final domestic demand	–½	1	½
Stockbuilding[1] [2]	–1	¼	–½
Total domestic demand	–1½	1¼	—
Exports	6¾	¾	1½
Imports	1	1	2¼
Foreign balance[1]	1¼	—	–¼
GDP at market prices	–¼	1¼	—

1 Changes as a per cent of GDP of previous year.
2 Including compromise adjustment.
Source: Secretariat estimates.

profitability in industry is expected to remain unsatisfactory, despite the rapid rise in prices. In these circumstances, the need to strengthen present counter-inflation policies must be considered.

At the present time the guidelines for wage settlements in the United Kingdom are part of the Social Contract, a voluntary agreement between the Trades Union Congress and the Government. Although some strengthening of present policy seems to be occurring, wages and prices are expected to rise substantially in 1975. It can be argued that the change in real personal disposable income indicated by a combination of pay rising 25 per cent and prices rising 20 per cent is much the same as would result if pay were rising 12 per cent and prices by 9 per cent. The first pair are the rates of increase forecast by the Secretariat for the year 1975 compared with 1974. The difficult question is how to achieve the transition to distinctly lower rates, bearing in mind the cost increases in the pipe line (the familiar fact of the lag between changes in pay—or other costs—and the consequent cost-induced changes in prices). The general benefits that would flow from speedily reducing the rate of inflation are so great that the scope for easing the transition, e.g. by short-term tax measures, needs to be considered as part of any new policy moves. It may be added that it would seem important that any new initiatives or arrangements to introduce stabilising forces which go beyond those likely to be derived from demand management include employers as well as Trade Unions and Government.

Failure to achieve a marked deceleration in inflation increases the problems in other areas of economic policy. In the first place, high and accelerating pay claims make a massive shake-out of labour a possibility as employers move to adjust their workforces to protect profit margins in a weak domestic market. The November measures helped to ease the liquidity squeeze on companies, but the large accumulated corporate financial deficit means that the risk of labour-shedding is a real one. And, although economic slack is expected to increase somewhat further in 1975, and with prices increasing by 20 per cent, any return to full employment would need to be kept relatively slow. Unless inflation can be substantially restrained, the room to reduce unemployment through demand-management policies may be extremely limited. Third, the expectation of continuing rapid inflation has already been a factor in a further marking down of investment intentions in industry through its effects on financing ability and on business confidence.

The outlook for manufacturing investment is a matter of serious concern.

Investment intentions in manufacturing industry and business confidence weakened through 1974 to historically low levels. Poor profitability, the liquidity squeeze, rapid inflation, weak demand and uncertainty about government plans for industry and the Common Market may all have contributed to this. The continuation of at least some of these influences in 1975 suggests that the recovery and restructuring of investment, particularly in favour of export industries, may be further delayed. Steps were taken in November 1974 to boost productive investment, but it may be necessary to take further measures to improve business confidence.

A large external deficit is building up a debt burden which will continue to increase for a number of years. The size of the external deficit forecast for 1975 in itself imposes a major restraint on domestic reflation, and especially a stimulus to consumers' expenditure which would quickly spill over into imports. So far, the United Kingdom has not encountered major difficulties financing the external deficit, and the medium-term balance of payments outlook is brightened by the development of North Sea oil reserves. In terms of foreign exchange, the official production schedule suggests savings on the trade account in 1978 of some $6 billion (1974 prices) building up to around $8 billion in 1980 (see Annex B). Should the United Kingdom make substantial progress towards eliminating the non-oil current account deficit in 1975 and 1976, a not unreasonable assumption, the flow of North Sea oil should be sufficient—providing there are no major delays in the production schedule—to cope with the prospective debt burden and allow repayment of a substantial part of the debt by the early 1980s, while permitting a modest rate of growth of real consumption in the meantime. The adjustment process, however, will be more difficult in the absence of buoyant demand conditions in the OECD area as a whole and close co-operation on the financing of balance of payments deficits.

Despite restrictive demand management, the public sector borrowing requirement rose sharply to around 7½ per cent of GDP in fiscal year 1974/75. Much of the rise in the borrowing requirement reflects increased expenditures of local authorities and the national health service. Subsidies aimed at reducing price rises have also been important. Given the economic outlook for 1975, the United Kingdom may not be able to reduce substantially the borrowing requirement in 1975/76. Indeed, it is possible that the borrowing requirement in 1975/76 will be larger than in the preceding year. In view of the need to reduce inflation it seems important that the impact of the borrowing requirement on the money supply continue to be contained and the growth of the money supply kept within reasonable limits.

To draw these threads together, the outlook for the United Kingdom in the period ahead is clearly difficult. The first priority of policy must be to slow down inflation. Success in this area would make it easier to bring about the desirable shift of resources to investment and exports. But without an appreciable deceleration in the domestic elements of inflation through 1975, the scope for any reflationary action would seem to be very limited.

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Annex A

CALENDAR OF MAIN ECONOMIC EVENTS IN 1973 AND 1974

1973

1st January

The United Kingdom, Denmark and the Irish Republic became full members of the European Communities.

17th January

Stage II of the prices and incomes policy was announced in two White Papers —*The Programme for Controlling Inflation: The Second Stage* (Cmnd. 5205) and *A Draft Bill* (Cmnd. 5206). The end of the pay standstill was announced for the beginning of April, the standstill on prices was to last a month longer. During Stage II, which was expected to last until the autumn, pay increases were to be limited to £1 per week plus 4 per cent of the previous year's pay bill (exclusive of overtime) for any group of workers—or the equivalent of an average 7 to 8 per cent addition to basic rates—up to an annual £250 ceiling. Prices were generally to be allowed to rise in line with input costs, though only fifty per cent of pay increases up to the policy ceiling were to be allowable in calculating price increases.

26th February

Cmnd. 5247, *The Price and Pay Code, A Consultative Document,* gave details of the prices to be controlled and the circumstances under which increases would be allowed. Pay limits remained unchanged, a 5 per cent limit on dividend increases was proposed, as were special panels for the food, drink and construction industries.

6th March

Budget 1973/74. The overall judgement was that the expansion under way, the depreciation of sterling and the expansionary policy stance would lead to a rate of expansion over the following year in line with official aims, so a neutral budget was introduced. The initial VAT and car tax rates would be 10 per cent and a new unified personal taxation system (replacing income tax and surtax) would be introduced. Revenue duties on alcohol, tobacco, etc. were reduced to compensate for VAT, while children's footwear and clothing and foods previously liable to purchase tax would have a zero VAT rating.

26th March

Cmnd. 5267, *The Counter-inflation Programme, The Operation of Stage II,* gave the draft Pay and Price Code, with a number of concessions to industry on prices but no major alteration on pay.

31st March

Pay and dividend standstill ended. Purchase tax and selective employment tax ended.

1st April

Stage II, Price Commission and Pay Board became operational.
VAT introduced.
First tariff cuts on industrial trade between UK and EEC.

6th April

Unified Personal income tax introduced.
Corporation tax—imputation scheme introduced.

30th April

Phase I price standstill ended.

21st May

Chancellor announced reductions in public expenditure totalling £500 million in 1974/75, and £100 million in the current financial year (1972 Survey prices).

19th July

The Bank of England made a call for Special Deposits equivalent to 1 per cent of eligible liabilities, bringing the total up to 4 per cent.

13th September

Cmnd. 5429, *Pay Board Advisory Report 1, Anomalies,* recommended that all genuine wage anomalies caused by the pay standstill of November 1972 should be corrected in full in Phase III of the counterinflation policy and calculated the cost as up to £145 million for not more than 1.25 million workers.

6th October

Cmnd. 5444, *The Price and Pay Code for Stage III, A Consultative Document,* outlined the proposed arrangement for the next stage of the prices and incomes policy, to run for about a year from November. The main proposals were:

(*i*) a basic ceiling of £2.25 per head per week or 7 per cent (whichever higher) for income increases, but with special provisions and overtime earnings officially estimated to bring the average rate of earnings increase up to 10-11 per cent;
(*ii*) threshold clauses in pay agreements, to come into operation if and when retail prices reached 7 per cent above October 1973 levels, with suggested payments roughly equivalent to full compensation on pre-tax basic rates of pay for the average wage and salary earner for each full percentage point by which the rise in the index from the reference date had exceeded 6 per cent;
(*iii*) some relaxation of the regulations controlling profit margins (the cuts in percentage margins need not go beyond 10 per cent in order to safeguard investment) but there would be increased policing of policy via extended provisions for notification of price increases;
(*iv*) dividend and rent controls to continue much as before.

In addition, action was promised on pay anomalies along the lines recommended by the Pay Board and further progress towards equal pay for women was to be permitted.

10th October

National Union of Mineworkers (NUM) rejected a 13 per cent package offer which included a 7 per cent increase in basic rates. National Coal Board and NUM opened negotiations.

22nd October

The Prime Minister and TUC leaders met to discuss Stage III. No agreement was reached on voluntary pay and price restraint.

30th October

Final Stage III code published. Few changes except:
— profit-linked payments curbed.
— modification in rules to calculate unsocial hours premia.
— issue of shares and granting of share options to be limited to Stage I and II levels.
— a relaxation of rules on equal pay and threshold agreements.

13th November

Coal miners overtime ban began.

19th November

The Government ordered 10 per cent cuts in oil company deliveries.

5th December

The Government announced further measures to restrict energy consumption.

13th December

Prime Minister announced new measures aimed at saving 20 per cent electricity consumption.

17th December

Cmnd. 5519, *Public Expenditure to 1977/78*, showed the following planned development at 1973/74 outturn prices (£ million):

	1972/1973	1973/1974	1974/1975	1975/1976	1976/1977	1977/1978
£ million	30 016	32 348	32 804	33 280	33 800	34 727
Growth from previous year	7.4	7.8	1.4	1.5	1.6	2.7

(*i*) Public expenditure plans for 1974/75 were cut by £1 200 million (1973/74 outturn prices).
(*ii*) 10 per cent surcharge on surtax bills for 1972/73.
(*iii*) Hire purchase controls re-introduced.
(*iv*) Other credit and money supply controls: the call for second 1 per cent of special deposits announced on 13 November replaced by new arrangements; banks and finance houses were to place non-interest bearing

supplementary deposits with the Bank of England if their interest-bearing liabilities grew by more than 8 per cent between October-December 1973 and April-June 1974. Restrictions also to be imposed on the growth of lending and on arbitrage transactions of clearing banks.

1974

21st January

Talks between the Prime Minister and the TUC broke down. The Chancellor said the Government intended to make clear to the miners that the nation could not afford a settlement beyond the Stage III norms.

31st January

Bank of England announced the release of ½ per cent of special deposits.

5th February

NUM called off further talks on pay until a higher cash offer was made and called for a national strike from 9th February.

8th February

Parliament was dissolved and a General Election called for 28th February.

9th February

Coal miners went on strike.

28th February

General election.

4th March

Mr. Heath resigned as Prime Minister and was succeeded by Mr. Wilson and a minority Labour government.

6th March

Following a Government decision to free the miners' pay negotiations of any statutory limits, a new £103 million pay offer from 1st March (compared with the Stage III offer of £44 million) was put forward by the Coal Board.

8th March

A freeze on all residential rents announced until the end of 1974.

9th-11th March

Miners' meetings decided on acceptance of the latest pay offer and an immediate return to work. Three-day working week and most restrictions on energy use ended.

26th March

Budget 1974/75 presented to Parliament, which was designed to have a largely neutral impact.

The Chancellor announced a 10-year loan of $2½ billion arranged by the clearing banks and an increase of $1 billion to $3 billion in swap facilities with the Federal Reserve Bank of New York. Exchange control restrictions were tightened.

Social Security benefits increased, by an estimated £860 million in 1974/75, with offsetting increases of some £650 million and £110 million in employers' and employees' contributions, respectively. Extra expenditure of £500 million on food subsidies was confirmed (see April 3), anticipated to reduce the retail price index by about 1½ per cent in 1974 (6 per cent off food prices). £50 million was made available to local authorities to buy private houses completed and not sold.

Defence expenditure was cut by £55 million at current prices beyond the December 1973 cuts.

Tax changes. The most important changes were increases in income tax allowances, more than offset by a rise from 30 to 33 per cent in the standard rate of income tax, and 3 per cent increases in all other rates up to the top rate which was raised from 75 to 83 per cent. A new rate of 38 per cent was inserted to cover the £4 500 to £5 000 per annum range of taxable income. An investment income surcharge of 10 per cent was introduced on the previously exempted slice of annual investment income between £1 000 and £2 000 with some relief for the elderly. The corporation tax rate for 1974/75 was set at 52 per cent with provision for accelerated payment of a proportion of 1974/75 liabilities. VAT at the standard rate was extended to petrol, derv, confectionery and soft drinks, etc. and duties on alcoholic drink, tobacco and betting were increased substantially.

3rd April

The Treasury announced new guarantees to official overseas sterling holders up to the end of 1974.

The *Price Bill* proposed introducing powers to allow the Government to set maximum prices on certain basic household products; to extend the discretionary powers of the Price Commission; to authorise the Government to spend a total of £700 million on food subsidies (including subsidies already introduced on bread and milk and confirming the intention to spend a further £500 million); and to abolish the Pay Board.

4th April

The Bank of England announced release of 1 per cent of special deposits.

18th April

The Bank of England announced the release of a further £149 million of special deposits (½ per cent of eligible liabilities).

22nd April

The Government announced an additional £350 million grant to local authorities to help housing programmes over the next year.

30th April

The supplementary deposits scheme, covering the growth of banks' interest bearing eligible liabilities, extended from June to December.

2nd May

Modified Stage III price controls were announced.

23rd May

The Government announced that the standstill on business rents would continue until May 1975 and be followed by a nine-month transitional period before controls were ended.

24th May

The April retail price index showed a rise of 3.4 per cent over March and "triggered" three thresholds, giving an increase of £1.20 per week for approximately 7 million employees covered by threshold agreements.

12th June

Voluntary agreement announced between Retail Consortium and Government to hold down prices of some basic items in the family budget.

21st June

Increase in retail price index in May triggers two thresholds (£0.80 per week) for 8 million workers.

26th June

TUC 8-point guidelines on wages policy published as its contribution to the social contract, the main points being (*i*) a twelve-month interval between pay settlements, (*ii*) wage increases should aim only to maintain the real value of wages and (*iii*) special provisions for lower paid workers and for women.

28th June

Rents freeze to be eased after 31 December.

19th July

One per cent rise in retail price index triggers sixth £0.40 per week threshold rise.

22nd July

The July measures, annouced by the Chancellor of the Exchequer, were aimed to moderate inflation and to foster domestic demand. VAT was reduced from 10 per cent to 8 per cent; relief provided for some domestic rate-payers; rent and rates rebates and rent allowances were increased, and an additional £50 million food subsidy to the £500 million of the March budget was allowed for.

Other measures were also announced: a doubling of rates of Regional Employment Premium from £1.50 to £3.00 per week for a male employee; relaxation of the limit on increases in dividend distributions from 5 per cent to 12½ per cent.

Iran to provide £1.2 billion credit for public sector bodies over next 3 years.

26th July

Pay Board and National Industrial Relations Court abolished.

15th August

Publication of White Paper "The Regeneration of British Industry" outlines Government's state ownership plans.

Rise in retail price index for July of 0.9 per cent triggers one (seventh) threshold.

11th September

Chancellor of the Exchequer announces additional government orders of £120 million to construction industry in 1975-77 in a move to curb the rise in unemployment.

Publication of White Paper on pensions proposing inflation-protected earnings-related state pensions.

18th October

Eighth threshold triggered by 1.1 per cent rise retail price index, giving £0.40 per week to 10 million workers.

12th November

November Budget. The measures were expected to give a mild stimulus to demand by alleviating the liquidity squeeze on the company sector. The direct demand effect by the second quarter 1975 was estimated at an additional £600 million (present prices, annual rate). The public sector borrowing requirement would increase by £800 million but this would be matched by a corresponding reduction in the borrowing needs of industry.

1 *External considerations.* The Government proposed to continue financing the external deficit for the time being by foreign borrowing. Sterling guarantees on overseas official balances would be discontinued at the end of the year.

2 *Measures to assist industry.* Companies could reduce the closing valuation of their stocks and work in progress for corporation tax purposes in 1973-74 by the amount by which the increase in the book value of stocks and work in progress exceeds 10 per cent of trading profits; also initial allowance for industrial buildings was increased from 40 to 50 per cent. These changes should improve company liquidity by about £800 million.

   Companies would also benefit from better access to credit and capital funds. The Bank of England renewed its guidelines to banks and finance houses to give priority to industrial borrowers and lifted the voluntary suspension of payment of interest on a proportion of the banks' special deposits. Also, to improve the flow of medium-term finance, the Bank and the clearing banks arranged for an expansion of up to £1 billion over the next two years in the resources of Finance for Industry. The supplementary deposit scheme was extended for a further six months to June 1975.

3 *Public expenditure.* The intention was to limit expansion over the next four years to an average annual rate of $2\frac{3}{4}$ per cent in demand terms and give greater priority to housing and social benefits.

4 *Nationalised industries.* Subsidies payable to the nationalised industries to compensate them for price restraint were to be phased out.

5 *Energy policy.* Transition was to be made towards more realistic pricing of output from the nationalised energy industries. The rate of VAT on petrol was increased to 25 per cent.

6 *Personal taxation.* Increases in tax exemptions and allowances for over-65's and blind persons. Lower starting points for investment income surcharge. Revenue cost: £245 million in a full year.
7 *Social Security.* Family allowances, pensions, sickness and unemployment benefits and other Social Security benefits would be raised from April 1975, with more increases planned for December 1975. Total cost in 1975/76 will be £815 million for National Insurance benefits, £205 million for family allowances and £110 million for other benefits wholly financed from exchequer.
8 *Tax legislation proposals.* Separate Bills would introduce legislation for the Capital Transfer Tax described in the August White Paper, a Development Land Tax on the lines of the September White Paper and a new tax on oil profits from the Continental Shelf.

Price Code. The Government published their proposals for relaxations in the Price Code. The main proposals are:
1 Companies (not Nationalised Industries) will be entitled to recover 17½ per cent of firmly budgeted capital expenditure in higher prices.
2 Productivity deduction reduced from maximum of 50 per cent to maximum of 35 per cent tapering down to less than 10 per cent for the most labour-intensive industries, with a standard rate of 20 per cent.
3 Distributors operating below 75 per cent of net profit margin reference level would be allowed to widen their gross margins so as to achieve the 75 per cent safeguard level of net profit. For manufacturing and service enterprises the net profit margins would apply on a product rather than enterprise base. Also, the extent of profit erosion needed to override the cost constraints of the code was relaxed.
4 Nationalised industries were to be allowed price increases such as to allow them to earn a modest surplus, defined as either 2 per cent of turnover or 10 per cent return on net assets.

These measures should increase firms' profitability by some £800 million in 1975.

15th November

2 per cent rise in retail price index triggers threshold payments of £1.20 per week for 10 million workers in final month of 12-month scheme. In total 11 thresholds were set off over the period giving weekly pay rises of £4.40 altogether.

8th December

Government proposes to cut defense spending by £4.6 billion over 10 years.

9th December

Government announces energy-saving measures in 12-point package including higher petrol prices, lower speed limits and compulsory temperature limits in buildings other than private accommodation, hoping for about £700 million import savings over "next few years".

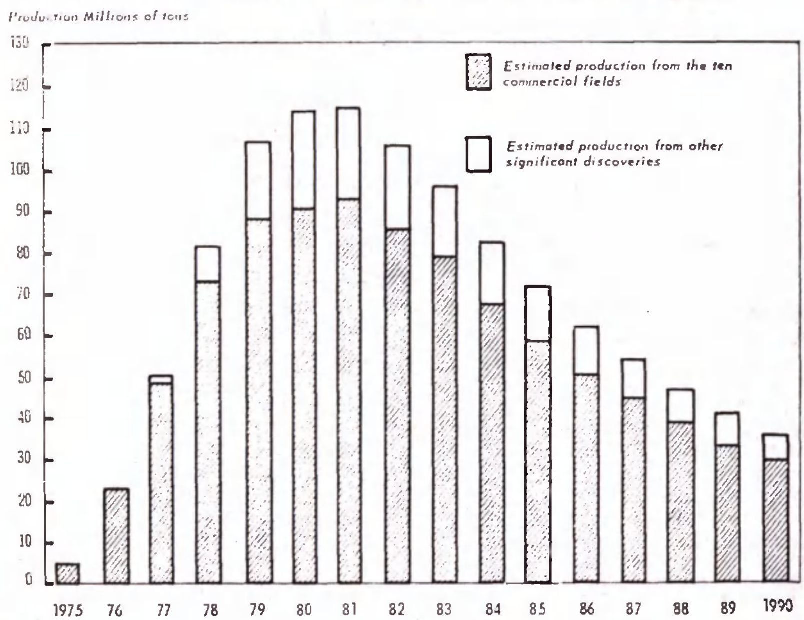
Annex B

NORTH SEA OIL AND THE BALANCE OF PAYMENTS

The medium-term outlook for the United Kingdom has been improved by the discovery of substantial oil reserves in the North Sea. The published estimates show total possible reserves in the United Kingdom's continental shelf within licensed blocks of around 3 billion tons[1]. Although much of the United Kingdom's likely oil-bearing area has been surveyed, a substantial exploration programme is in hand and new fields could well be found. Estimates of existing reserves may also be raised as further wells in known fields are drilled. If current rates of consumption are sustained, reserves may well be sufficient to meet the United Kingdom's total oil requirements for about 25-30 years. The development of the North Sea has also resulted in large additions to the United Kingdom's known reserves of natural gas, now standing at about 40 trillion cubic feet.

Production from the North Sea is expected to commence in 1975, but on a small scale, from the Argyll, Auk and Forties fields. Production is projected

Diagram A **United Kingdom Continental Shelf**
Forecast oil production profile 1975-1990
Commercial discoveries and other significant finds up to 5th April 1974



Source: **Department of Energy, *Production and reserves of oil and gas in the United Kingdom, May* 1974, HMSO.**

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1 **Department of Energy, *Production and Reserves of Oil and Gas in the United Kingdom,* HMSO, May 1974.**

to rise steadily to reach between 100 to 120 million tons in 1980. At that time, the United Kingdom should be self-sufficient in oil supplies. Looking at the total energy picture up to 1980, official expectations are that there will be little change in total oil and coal consumption, a moderate rise in the use of nuclear power, but with the largest increase being in gas consumption, supplies of which may rise by up to 90 per cent.

The development of North Sea oil and gas will obviously produce substantial net benefits to the balance of payments over the medium-term. The size of the benefits will depend to some extent on official policy on exports of oil and the rate of depletion of reserves. It is expected that a proportion of North Sea oil will be exported to obtain the premium value which its low sulphur content can command in certain export markets. It is unlikely, however, that the existing development programme would permit a sizeable net export trade.

In order to give an idea of the magnitudes involved in the development of North Sea oil, the Secretariat has prepared Table A, which shows its estimates of the balance of payments effects. At an assumed price of about $11 per barrel, 1980 production could be worth about $8 billion in 1974 prices[2]. The overall impact on the balance of payments picture is a little more complicated as profit outflows and investment requirements have to be taken into account. It is impossible to assess likely profit flows as fiscal arrangements are still under discussion. Oil company profit is assumed in Table A below to be about 10 per cent of turnover on Middle East oil, and to the extent that profits were retained, or dividends paid, in the United Kingdom the capital outflow would be smaller. Total investment up to 1980, at 1974 prices, may be of the order of £3 billion. About half this equipment is expected to be ordered directly abroad and the import content of that ordered in the United Kingdom may be high. But non-British oil companies are expected to finance 70 per cent of their investment from external sources and it seems that British companies may finance about half of their requirement in a similar fashion. The impact on the domestic economy will be by no means negligible, particularly in Scotland. Over 16 000 oil-related jobs have been created since 1970, and more are in prospect up to 1980. And oil revenues will bring a sizeable increase in public sector receipts.

Table A The Balance of Payments Impact of North Sea Oil[1]
$ billion, 1974 prices

	1974	1975	1976	1977	1978	1979	1980
Oil production	—	0.4	1.7	3.8	6.0	7.1	8.0
Imports for investment programme	1.4	0.9	0.8	0.8	0.6	0.5	0.5
Trade balance effect	-1.4	-0.5	0.9	3.0	5.4	6.6	7.5
Interest payments, etc.[2]	—	—	0.1	0.3	0.4	0.5	0.6
Current balance	-1.4	-0.5	0.8	2.7	5.0	6.1	6.9
Capital inflow for investment programme	1.4	0.9	0.8	0.8	0.6	0.5	0.5
Memorandum items:							
Production (million barrels)	—	35	160	350	550	650	730
Investment programme	1.9[3]	1.2	1.0	1.0	0.8	0.7	0.67

1 Secretariat estimates.
2 Assumed equal to 7 per cent of the value of production.
3 Includes some gas and exploration expenditure.

2 100 m. tons equals about 750 m. barrels.

STATISTICAL ANNEX

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Table A Expenditure on GDP

£ million

	GDP at factor cost*	Final expenditure at market prices**	Consumers' expenditure	Public current expenditure	Fixed investment	Change in stocks	Exports of goods and services	Imports of goods and services	Indirect taxes less subsidies
	1	2	3	4	5	6	7	8	9
At current prices:									
1972	54 348	75 910	39 472	11 776	11 429	–23	13 256	13 438	8 124
1973	62 188	89 084	44 855	13 270	13 871	574[1]	16 514	18 346	8 550[1]
At 1970 prices...									
1969	42 240	59 849	30 649	8 960	9 069	445	10 726	10 357	7 252
1970	42 990	61 395	31 387	9 095	9 237	438	11 238	10 872	7 533
1971	43 777	63 037	32 241	9 366	9 319	84	12 027	11 395	7 865
1972	44 740	65 768	34 179	9 745	9 543	–39	12 340	12 509	8 519
1973	47 117	70 040	35 759	10 109	10 004	674	13 494	13 904	9 019
...and seasonally adjusted:									
1973 1	11 940	17 631	9 051	2 486	2 551	257	3 286	3 423	2 268
2	11 681	17 305	8 796	2 512	2 409	202	3 386	3 382	2 242
3	11 786	17 550	8 955	2 539	2 521	94	3 441	3 519	2 245
4	11 710	17 554	8 957	2 572	2 523	121	3 381	3 580	2 264
1974 1	11 523	17 289	8 890	2 550	2 561	–260	3 548	3 529	2 237
2	11 825	17 555	8 782	2 518	2 366	227	3 662	3 538	2 192
3	11 989	17 772	8 925	2 579	2 394	214	3 660	3 549	2 234
4			9 010						

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

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

Source : Monthly Digest of Statistics.

Table B Consumption and Investment

	Consumer demand				Investment					
					Capital expenditure of			Housing: new starts		
	Total retail sales (volume)	Non-food retail sales (volume)	New car regis-trations	Changes in hire purchase debt total	Manufac-turing industry	Distribution and services industries	Engineer-ing net new home orders	Private	Public	Investment in stocks (manufac-turing)
	1971 = 100		*Thousands, monthly averages*	*£ million, end of period*	*£ million at 1970 prices*		*1970 = 100*	*Thousands*		*£ million at 1970 prices*
1972 1	102.1	103.9	124	+84	477	457	106	51.9	36.0	-62
2	104.8	107.4	147	+112	447	480	104	57.0	28.9	-107
3	107.3	111.4	140	+118	438	484	108	57.4	28.2	-42
4	109.2	113.5	144	+110	440	501	114	61.1	29.9	6
1973 1	111.8	119.8	152	+171	474	511	134	62.8	31.6	146
2	108.3	113.8	136	+87	458	492	134	54.9	27.5	61
3	110.6	117.3	143	+103	487	514	143	53.0	27.2	68
4	112.0	119.8	119	+77	501	510	132	44.2	26.5	99
1974 1	109.8	117.0	103	-69	527	494	108	34.3	36.4	-100
2	107.3	112.3	104	-45	527	471	113	26.0	39.4	138
3	111.0	116.9	109	-16	526	469	106	22.9	36.3	283
4	111.6		96							
% change latest quarter:										
on previous quarter	+0.5	+4.1	-11.9		-0.2	-0.4	-6.2	-11.9	-7.9	
on a year earlier	-0.4	-0.3	-19.3		+8.0	-8.8	-25.9	-56.8	+33.5	

Sources : Economic Trends; Monthly Digest of Statistics.

Table C Production and Manpower

	GDP average estimate[1]	GDP per person employed[2]	Index of industrial production	Index of manufacturing production	Unemployed	Unfilled vacancies for adults[3]	Employment in production industries	Employment in manufacturing industries	Hours of overtime worked in manufacturing industries
	1970 = 100				*Thousands*		*1970 = 100*		*Million per week*
1972 1	101.3	103.6	97.3	97.7	867	124	94.0	93.8	11.23
2	104.1	106.4	102.8	101.6	838	132	93.8	93.5	12.37
3	104.2	106.6	103.6	102.9	808	147	93.8	93.4	12.91
4	106.4	107.7	105.8	106.0	750	179	93.9	93.3	13.51
1973 1	109.6	109.5	109.9	109.9	667	228	94.4	93.6	14.70
2	109.0	108.6	109.6	110.1	605	289	94.7	93.9	15.23
3	109.6	109.6	110.7	111.4	562	334	94.8	94.0	15.52
4	109.5	109.1	109.4	110.4	489	364	95.0	94.4	16.02
1974 1	106.2	106.5	103.4	105.5	543	285	94.6	94.0	11.60
2	109.4		107.8	109.3	552	309	94.4	94.1	14.60
3	110.6		109.0	110.6	600	306	94.4	94.2	14.43
4			106.4	107.3					
% change latest quarter:									
on previous quarter	+1.1		–2.4	–3.0			0.0	+0.1	–1.2
on a year earlier	+0.9		–2.7	–2.8			–0.4	+0.2	–7.0

1 Average of expenditure, income and output data.
2 Based on output estimate of GDP.
3 Break in the series from April 1974.

Sources : Economic Trends; Department of Employment Gazette.

Table D Domestic Finance

	Domestic credit expansion	Change in money supply	Central Government borrowing requirement*	Change in loans[1] (banking sector)	Net increase in building society shares and deposits	Building society commitments to mortgages	Government securities-calculated redemption yields*[2] Short-dated	Medium-dated	Long-dated	Local authority deposits 3 months rates*	Covered comparison between local authority and Euro-dollar 3 months rates*[3]
	£ million				£ million per month		% per annum			% per annum at end of period	
1972 1	978	950	–834	1 373	201	311	6.02	6.96	7.89	4.94	–0.73
2	2 231	1 950	416	1 584	199	341	6.82	7.63	8.53	7.56	–1.35
3	1 357	1 060	527	1 001	155	312	8.79	9.08	9.38	7.50	–1.08
4	2 312	1 720	1 320	1 553	175	303	8.97	9.17	9.51	8.75	–0.72
1973 1	1 566	1 480	–439	1 128	155	325	9.34	9.58	9.83	10.13	–1.30
2	1 358	1 270	808	987	261	248	9.20	9.76	10.03	8.13	–2.80
3	2 924	2 330	663	1 863	166	281	11.05	11.06	11.16	13.44	–1.50
4	2 882	2 150	1 002	1 736	119	231	12.14	11.95	11.87	16.00	–0.82
1974 1	1 422	1 040	–600	1 052	63	178	12.72	13.30	13.32	16.00	–3.44
2	1 448	640	993	1 302	143	195	12.26	13.63	14.10	13.25	–3.18
3	1 939	1 090	894	1 345	201	311	12.29	14.28	15.03	11.94	–3.46
4		1 390									
% change latest quarter:											
on previous quarter					+40.6	+59.5					
on a year earlier					+21.1	+10.7					

* Not seasonally adjusted.

1 Private sector.

2 Average of Wednesday yields throughout the period.

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

Sources : Bank of England Quarterly Bulletin; Financial Statistics.

Table E Wages, Prices and External Position

	Hourly wage rates*	Average earnings	Wholesale prices, manufacturing output for home market*[1]	Retail price index*	Export unit values*	Import unit values*[2]	Exports[3] (fob)	Imports[4] (fob)	Visible balance	Current balance	Total currency flow*
	31 July 1972 = 100	*Jan. 1970 = 100*	*1970 = 100*	*Jan. 1962 = 100*	*1970 = 100*		*£ million per month*			*£ million*	
1972 1	95.9	126.3	113.8	159.7	110.3	106.3	726	766	–40	84	57
2	98.1	130.6	115.6	162.7	110.8	107.4	764	786	–22	121	–1 045
3	103.4	135.1	117.7	165.4	114.1[5]	110.8[5]	684[5]	779[5]	–95[5]	–110	–79
4	108.1	142.0	120.4	169.4	115.1	115.8	871	940	–69	–23	–198
1973 1	108.9	143.8	121.4	172.4	119.1	122.2	878	995	–117	–192	69
2	113.8	149.3	123.5	177.9	123.5	131.8	931	1 064	–133	–197	377
3	118.6	154.8	127.3	180.6	128.4	144.7	996	1 197	–201	–272	–258
4	121.1	160.0	132.1	186.8	135.3	159.5	1 013	1 348	–334	–537	22
1974 1	125.0	158.4	142.3	194.6	146.4	190.2	1 136	1 562	–426	–964	–39
2	132.2	170.2	153.4	206.1	159.1	211.3	1 304	1 758	–454	–990	111
3	143.8	185.5	162.0	211.3	167.4	216.2	1 391	1 778	–387	–781	183
4	152.9			220.8	174.9	229.9	1 330	1 789	–459	–986	
% change latest quarter:											
on previous quarter	+6.3	+9.0	+5.6	+4.5	+4.5	+6.3					
on a year earlier	+26.3	+19.8	+27.3	+18.2	+29.3	+44.1					

* Not seasonally adjusted.

1 Excluding food, drink, tobacco.
2 Excluding United States military aircraft.
3 Including balance of payments adjustments and allowance for factors affecting recording.
4 Includes payments for United States military aircraft and other balance of payments adjustments.
5 Affected by the dock strike.

Sources : Economic Trends; Monthly Digest of Statistics.

Table F Analysis of Total Currency Flow and Official Financing[1]
Not seasonally adjusted
£ million

		1972	1973	1973 Q1	1973 Q2	1973 Q3	1973 Q4	1974 Q1	1974 Q2	1974 Q3
1	CURRENT BALANCE	+72	−1 198	−388	−191	−231	−388	−1 050	−950	−853
	Investment and other capital flows									
2	Official long-term capital	−255	−252	−55	−30	−26	−141	−52	−42	−15
3	Overseas investment in UK public sector[2]	+113	+345	+51	+68	+37	+189	+61	+280	+164
4	Overseas investment in UK private sector	+753	+1 470	+339	+406	+265	+460	+648	+369	+491
5	UK private investment overseas	−1 387	−1 310	−315	−191	−276	−528	−186	−108	−278
6	Foreign currency borrowing (net) by UK banks to finance UK investment overseas	+725	+570	+175	+70	+135	+190	+195	+85	—
7	Other foreign currency borrowing or lending (net) by UK banks	−254	+647	−152	+276	+225	+298	+115	+241	−314
	Exchange reserves in sterling[3]									
8	British government stocks	+65	+74	+18	+92	−38	+2	+68	−190	−50
9	Banking and money market liabilities	+222	+87	+183	−3	−307	+214	+164	+421	+588
10	Other external banking and money market liabilities in sterling	−91	−7	−31	+77	−70	+17	−53	+155	+95
11	Import credit[4]	+207	+128	−1	+27	+8	+94	−28	+16	−54
12	Export credit[4]	−359	−232	−108	−15	−45	−64	−104	−173	−113
13	Other short-term flows	−425	−275	+49	−49	−159	−116	−95	+119	−89
14	Total investment and other capital flows	−686	+1 245	+153	+728	−251	+615	+733	+1 173	+425
15	Capital transfers	—	−59	−38	−19	−1	−1	—	−29	−40
16	Balancing item	−651	+222	+342	−141	+225	−204	+278	−83	+651
17	TOTAL CURRENCY FLOW	−1 265	+210	+69	+377	−258	+22	−39	+111	+183
18	Allocation of Special Drawing Rights	+124	—	—	—	—	—	—	—	—
19	Gold subscription to IMF	—	—	—	—	—	—	—	—	—
20	TOTAL - ROWS 17 to 19	−1 141	+210	+69	+377	−258	+22	−39	+111	+183
	Official financing									
	Net transactions with overseas monetary authorities									
21	IMF	−415	—	—	—	—	—	—	—	—
22	Other monetary authorities	+864	—	—	—	—	—	—	—	—
23	Transfer from dollar portfolio to reserves	—	—	—	—	—	—	—	—	—
24	Drawings on (+) additions to (−) official reserves[5]	+692	−210	−69	−377	+258	−22	+39	−111	−183
25	TOTAL OFFICIAL FINANCING	+1 141	−210	−69	−377	+258	−22	+39	−111	−183

1 The sum of items 1-5 equals the total formerly known as the "basic balance"; the remainder (except for item 16) makes up the total formerly known as "monetary movements".
2 Excluding investment in British government stocks by central monetary institutions and international organisations (item 8).
3 Sterling reserves of overseas countries and international organisations (other than IMF) as reported by banks, etc. in the United Kingdom. Exclude other official funds such as trust, pension and other earmarked funds, holdings of equities and funds held locally with commercial banks, movements in which are included in items 3, 4 and 10.
4 Excluding trade credit between "related" firms (part of items 4 and 5). After deducting advance and progress payments to suppliers.
5 From 23rd August, 1971, valued in sterling at transactions rates of exchange.
Source : Bank of England Quarterly Bulletin.

INTERNATIONAL COMPARISONS

BASIC STATISTICS : INTERNATIONAL COMPARISONS

Item	Period	Unit	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
POPULATION	Mid-1973	Thousands	13 132	7 521	9 742	22 125	5 027	4 643 [2]	52 177	61 967	8 972	212	3 051
Net average annual increase	1963 to 1973	%	1.87	0.48	0.48	1.55	0.71	0.26	0.88	0.77	0.57	1.37	0.68
EMPLOYMENT Total civilian	1972	Thousands	5 489	(3 210)	3 783	8 329	2 356	2 107	20 677	25 934	(3 296)	(83)	1 037
Agriculture		% of total	8.0	16.2	4.2	6.9	9.8	18.9	12.7	7.5	35.7	18.1	25.7
Industry [6]		% of total	37.9	41.8	43.3	30.9	34.3	35.6	38.4	50.4	25.2	37.3	30.3
Other		% of total	54.1	42.0	52.5	62.2	55.9	45.5	48.9	42.1	39.1	44.6	44.0
PRODUCTION GDP [7] per head	1972	$ [8]	3 610	2 721	3 664	4 852	4 257	2 906	3 792	4 177	1 375	3 633	1 831
GDP by sector: Agriculture	1972	% of total	6.4 [9] [10]	5.9	3.8	4.2 [11]	7.4	12.3 [11]	6.1	2.9	17.3 [11]	..	18.0 [11]
Industry		% of total	37.2 [9] [10]	50.0	41.4	36.0 [11]	36.7	43.9 [11]	45.9	52.4	32.7 [11]	..	33.8 [11]
Other		% of total	56.4 [9] [10]	44.1	54.8	59.8 [11]	55.9	43.8 [11]	48.0	44.7	50.0 [11]	..	48.2 [11]
GDP [7] [14] annual volume growth	1972	%	3.8 [9]	7.1	5.2	5.6	5.0	6.0	5.5	3.0	10.3	6.4	3.3
	1967 to 1972	%	5.1 [9]	6.2	5.2	5.0	5.1	6.0	5.9	5.3	8.5	3.2	4.7
INDICATORS OF LIVING STANDARDS Private consumption per head	1972	$	2 136	1 488	2 215	2 794	2 430	1 512	2 263	2 255	917	2 314	1 195
Public expenditure on education	1970	% of GNP	4.3	4.7	5.4 [15]	8.6	7.0	6.3	4.7	4.0	2.2	4.3	4.8 [15]
Dwellings completed, per 1 000 inhabitants	1972	Number	11.1	6.4	5.4 [17]	10.6	10.0	10.8	10.5	10.7	14.0 [10]	9.0	6.9
Passenger cars, per 1 000 inhabitants	1971	Number	314	177	212	321	231	163	260	239	30	222	140
Television sets, per 1 000 inhabitants	1971	Number	227	226	236	349 [10]	282	256	237	293	31 [10]	220	173
Telephones, per 1 000 inhabitants	1972	Number	340	226	240	499	377	295	199	268	160	370	114
Doctors, per 1 000 inhabitants	1971	Number	1.25	1.87	1.60	1.50	1.41 [12]	1.11	1.38	1.71 [12]	1.67	1.44	1.09 [15]
GROSS FIXED INVESTMENT [14] Total	1968-72 average	% of GDP [7]	25.8 [9]	29.0	20.8	21.4 [18]	23.6	24.1	26.3	25.9	25.7 [19]	28.7	24.2
Machinery and equipment		% of GDP [7]	10.9	12.5	8.8	7.9	12.1	8.9	12.0	12.4	8.2	8.6	12.2
Residential construction		% of GDP [7]	5.2	16.5 [24]	4.7	4.4	4.6	5.8	6.5	5.2	8.0	5.3	4.3
Other construction		% of GDP [7]	9.7	— [24]	7.3	9.1	6.9	9.4	7.8	8.3 [25]	9.5	14.8	7.7
GROSS SAVING	1968-72 average	% of GDP [7]	25.9	29.3	24.9	22.3	19.1	29.8	26.8	27.5	23.8	..	20.8
PUBLIC SECTOR [26] Total current revenue	1972	% of GDP [7]	28.2	37.3	35.8	36.0	45.2	38.0	38.0	39.0	26.6	33.2 [16]	33.7
WAGES/PRICES Hourly earnings [27]	Annual increase 1967 to 72	%	7.6 [28] [29]	9.3 [30]	10.2	8.2 [28]	12.4 [31]	11.8	11.3 [32]	9.3 [28]	8.3 [28]	18.3 [33]	13.5 [33]
Consumer prices	Annual increase 1967 to 72	%	4.2	4.3	4.0	3.9	6.2	5.5	5.6	3.8	2.6	13.3	7.6
GDP [7] deflator	Annual increase 1967 to 72	%	5.8	4.4	4.6	4.0	6.4	6.5	5.5	5.2	2.9	17.2	9.3
FOREIGN TRADE Imports [43]	1972	$ million [8]	6 180	6 290	14 570	23 130	6 080	3 680	32 070	51 150	2 530	300	2 240
		% of GDP [7]	13.2	30.9	40.9	21.8	28.6	27.4	16.4	19.9	20.7	39.5	40.6
Exports [43]		$ million [8]	7 500	6 220	15 430	23 750	6 240	3 700	33 760	55 730	1 470	290	1 930
		% of GDP [7]	16.0	30.5	43.4	22.4	29.4	27.5	17.2	21.6	12.0	38.2	35.0
BALANCE OF PAYMENTS Current balance	1968-72 average	% of GNP	−2.1 [9]	−0.4	2.5 [45]	0.0	−2.1	−1.2	−0.2	0.8	−3.6	−4.2	−3.3
Official reserves [44], end-1973: per cent of imports of goods in 1973		%	88.3	42.4	23.3 [45]	24.7	17.2	14.8'	22.8	60.8	30.1	28.1	36.7
Change	Nov. 1973 - Nov. 1974	Mill. SDR's	−1 157	204	333 [45]	48	−316	60	362	−1 063	−163	−54	153
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [48]	1973	% of GNP	0.55	0.52	1.10	0.93	0.70	— [49]	1.10	0.52	— [50]	— [49]	— [49]
EXPORT PERFORMANCE [51] Growth of markets [52]	1972 to 1973	%	10	14	13	10	12	15	13.5	14.5	14	12	12
	1961-62 to 1971-72 (average)	%	9	9	9	8.5	8	7.5	8.5	8.8	9	8	7.5
Gains or losses of market shares [53]	1972 to 1973	%	−12	−3	2.5 [45]	−1	−5.5	−10	−2	5.5	5	0	−6.5
	1961-62 to 1971-72 (average)	%	4.5	2	1.5 [45]	−2	−0.5	−0.8	1	1	1.5	2.5	0.5

Item	Period	Unit	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia [1]
POPULATION	Mid-1973	Thousands	54 888 [3]	108 350 [4]	350	13 438	2 932	3 961	8 564	34 730	8 138	6 431	37 930	56 026	210 404	20 960
Net average annual increase	1963 to 1973	%	0.70	1.22	0.77	1.17	1.46	0.77	−0.46	1.06	0.68	1.09	2.49	0.43	1.07	0.95
EMPLOYMENT Total civilian	1972	Thousands	18 140	51 090	151	4 581	1 107	1 649	3 135	12 640	3 863	3 078	(14 438)	23 982	81 702	8 009 [5]
Agriculture		% of total	18.2	14.8	9.3	6.9	12.4	12.2	29.9	27.6	7.4	7.1	67.4	3.1	4.2	49.5
Industry [6]		% of total	44.3	36.3	48.3	36.8	34.1	34.1	33.2	37.7	36.8	46.8	13.1	42.7	31.0	50.5
Other		% of total	37.5	48.9	42.4	56.3	53.5	53.7	36.9	34.7	55.8	46.1	19.5	54.2	64.8	
PRODUCTION GDP [7] per head	1972	$ [8]	2 165	2 778	3 885	3 472	1 820 [9a]	3 860	952	1 303	5 092	4 661	446	2 759	5 643	792
GDP by sector: Agriculture	1972	% of total	8.0	5.4	4.4 [11] [12]	5.3 [11]	18.8 [12]	6.3	15.9 [11]	12.8 [11]	4.2	..	26.1	2.9 [13]	3.0	16.6 [11]
Industry		% of total	41.6	40.6	57.5 [11] [12]	44.9 [11]	28.0 [12]	36.9	43.0 [11]	35.0 [11]	40.3	..	28.6	42.7 [13]	33.6	46.6 [11]
Other		% of total	50.4	54.0	38.1 [11] [12]	49.8 [11]	53.2 [12]	56.8	41.1 [11]	52.2 [11]	55.5	..	45.3	54.4 [13]	63.4	36.8 [11]
GDP [7] [14] annual volume growth	1972	%	3.2	8.6	4.6	4.4	4.8 [9a]	4.3	8.3	7.8	2.5	5.7	6.7	2.3	5.9	..
	1967 to 1972	%	4.3	10.4	4.5	5.7	3.1 [9a]	..	6.6	6.3	3.2	4.6	6.6	2.2	3.4	..
INDICATORS OF LIVING STANDARDS Private consumption per head	1972	$	1 399	1 445	2 187	1 944	1 040 [9a]	2 035	588 [10]	864	2 737	2 681	258 [10]	1 754	3 494	425
Public expenditure on education	1970	% of GNP	4.3	4.1	4.4	7.3 [15]	4.4 [15]	5.9	2.0	2.4	7.8	4.2	2.9	5.5 [15]	5.4 [15]	4.3 [16]
Dwellings completed, per 1 000 inhabitants	1972	Number	4.7	16.8 [17]	5.3 [12]	11.4	9.3	11.1	3.4	9.6	12.8	11.5	2.8	6.1	11.3	6.4
Passenger cars, per 1 000 inhabitants	1971	Number	209	100	296	211	324	206	72	81	290	233	4 [12]	219	443	42
Television sets, per 1 000 inhabitants	1971	Number	202	225	220 [10]	243 [10]	250	241	63	145	333	239	4	305	474	113
Telephones, per 1 000 inhabitants	1972	Number	206	315	361	299	458	320	99	164	576	535	19	314	628	44
Doctors, per 1 000 inhabitants	1971	Number	1.83	1.15	1.07	1.31	1.16	1.45	0.98	1.39	1.36 [12]	1.67	0.45	1.29	1.57 [12]	1.06
GROSS FIXED INVESTMENT [14] Total	1968-72 average	% of GDP [7]	19.8	38.7	23.6	25.3	..	..	19.0	24.2	23.1	27.8 [20]	16.9 [21]	19.6	17.0 [22]	..
Machinery and equipment		% of GDP [7]	8.4	32.1 [23]	..	10.5	..	..	8.8	12.8	8.6	9.5	5.8	9.5	7.0 [22]	..
Residential construction		% of GDP [7]	5.9	6.6	..	5.7	..	..	2.7	3.7	5.0	7.1	3.3	3.5	3.5	..
Other construction		% of GDP [7]	5.5	— [23]	..	9.1	..	..	7.5	7.7	9.5	11.2	7.8	6.6	6.5	..
GROSS SAVING	1968-72 average	% of GDP [7]	22.9	39.3	31.3	26.9	24.9 [9a]	27.8	22.0	23.1	22.8	28.9 [20]	21.5 [21]	19.2	17.5	..
PUBLIC SECTOR [26] Total current revenue	1972	% of GDP [7]	34.7	22.6	39.1	47.6	..	48.1	24.1	23.4	50.1	27.1 [15]	30.9 [10]	37.9	31.4	..
WAGES/PRICES Hourly earnings [27]	Annual increase 1967 to 72	%	11.2 [34]	15.6 [35]	..	10.4 [28]	10.3 [28]	10.0 [31]	10.2 [37]	12.6 [38]	9.9 [39]	6.5 [40]	12.8 [38]	9.6 [41]	6.0 [42]	16.1 [37] [38]
Consumer prices	Annual increase 1967 to 72	%	3.9	5.8	3.9	6.2	6.5	6.1	8.6	5.8	5.0	4.3	10.5	6.6	4.6	11.3
GDP [7] deflator	Annual increase 1967 to 72	%	5.0	4.8	5.9	6.6	6.9 [9a]	..	4.3	6.0	5.2	6.0	10.5	6.6	4.4	..
FOREIGN TRADE Imports [43]	1972	$ million [8]	23 600	24 910	1 050	20 100	1 980	5 810	2 630	7 250	9 590	9 710	1 400 [10]	33 620	74 830	3 820
		% of GDP [7]	20.1	8.5	77.8	43.4	23.1	38.3	32.2	16.2	23.2	32.6	10.9	21.8	6.3	23.2
Exports [43]		$ million [8]	24 040	31 800	1 100	21 320	2 320	6 060	2 220	7 190	10 110	9 720	900 [10]	33 350	62 690	3 480
		% of GDP [7]	20.4	10.8	81.5	46.1	27.1	39.9	27.1	16.1	24.4	32.7	7.0	21.6	5.3	21.2
BALANCE OF PAYMENTS Current balance	1968-72 average	% of GNP	2.1	1.7	—	0.3	1.4	−1.0	3.3	0.5	−0.1	1.3	−0.5	0.8	−0.2	..
Official reserves [44], end-1973: per cent of imports of goods in 1973		%	23.1	32.0	—	26.9	119.8	25.3	99.1	70.3	23.9	69.5	102.8	16.7	20.8	32.9
Change	Nov. 1973 - Nov. 1974	Mill. SDR's	280	444	—	778	−372	368	−255 [46]	−257 [46]	−584	281	42 [47]	1 051	1 214	−213
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [48]	1973	% of GNP	0.46	1.42	— [49]	1.03	0.35	0.49	2.25	— [50]	0.73	0.72	— [50]	0.76	0.58	— [50]
EXPORT PERFORMANCE [51] Growth of markets [52]	1972 to 1973	%	13	14	—	13	10	13	12	13.5	13	14	14	14.5	20	..
	1961-62 to 1971-72 (average)	%	9	9	—	9	..	8	7	8.5	8	9	8.5	8.5	8	..
Gains or losses of market shares [53]	1972 to 1973	%	−8.5	−8	—	5	−2.5	1.5	7	0	2	−5	5	−1	4	..
	1961-62 to 1971-72 (average)	%	3	8	—	1.5	..	2	4	5	−0.5	0	2.5	−3.5	−2.8	..

1 National source.
2 Does not include total net migration between Finland and the other Nordic countries.
3 Total resident population.
4 From 1972, including Okinawa prefecture.
5 Private and socialised sector.
6 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
7 GDP in purchasers' values.
8 At current prices and exchange rates.
9 Fiscal year-Beginning July 1st.
9a Fiscal year-Beginning April 1st.
10 1971.
11 GDP at factor cost.
12 1970.
13 Including stock appreciation.
14 At constant (1963) prices.
15 1969.
16 1968.
17 Dwellings started.
18 Excluding transfer costs of land and existing assets.
19 Excluding ships operating overseas.
20 1965-1969.
21 1967-1971.
22 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
23 " Other construction " included under " machinery and equipment ". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
24 " Other construction " included in " residential construction ".
25 Including transfer costs of land.
26 General government.
27 Industry.
28 Manufacturing.
29 Males.
30 Monthly, wage earners.
31 Mining and manufacturing, males.
32 Hourly rates in manufacturing.
33 Hourly wages rates, unskilled workers.
34 Hourly rates in manufacturing, excluding family allowances.
35 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
36 Hourly rates in industry, males.
37 Monthly.
38 Manufacturing, including salaried employees.
39 Mining and manufacturing.
40 Hourly rates.
41 Hourly rates in manufacturing, males.
42 Manufacturing, gross earnings per production worker.
43 Goods and services, excluding factor income.
44 Including reserve position in the IMF and special drawing rights.
45 Including Luxembourg.
46 Oct. 1973 - Oct. 1974.
47 Sept. 1973 - Sept. 1974.
48 According to the DAC definition. Including flows to multilateral agencies and grants by voluntary agencies.
49 Not Development Assistance Committee member.
50 Considered as a developing country for purposes of DAC reporting.
51 Volume, percentage change. Figures are subject to many limiting factors. For an explanation see OECD Economic Outlook, simple definition, December 1970, pp. 65 and 69.
52 The growth which would have occurred in a country's exports if it had exactly maintained its share in total OECD exports to each of 19 broad geographical zones.
53 The difference between the growth rates of markets and exports.

NOTE Figures within brackets are estimates by the OECD Secretariat.

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

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