CABINET

ECONOMIC SURVEY, 1961

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

The Economic Survey, 1961, has been prepared in the same form as the Economic Survey, 1960. It is divided into two parts: the first an assessment of the economic situation at the beginning of 1961 and of the factors likely to affect developments in the remainder of the year; the second a factual account of developments in 1960.

2. Only the first part of the 1961 Survey is being considered by Ministers collectively. It has been discussed by the Economic Policy Committee, as well as by the Economic Planning Board. The draft which I now circulate incorporates suggestions made by both bodies. I invite the views of my colleagues upon it.

3. In order to save time in discussion I suggest that my colleagues should send me suggested amendments as soon as possible so that I can circulate before the meeting a list of amendments which I should like to accept.

S. L.

Treasury Chambers, S.W. 1,
This Economic Survey is divided into two parts; in the first the main
events in 1960 are briefly described and an assessment is made of the
prospects for 1961; in the second economic developments in 1960 are
reviewed in some detail.

PART ONE

I. THE UNITED KINGDOM ECONOMY IN 1960

1. The rapid expansion of total demand and output which took place in
the United Kingdom in 1959 continued in the early months of 1960 with
few signs of general slackening. At the beginning of the year pressure
on resources was increasing; shortages of labour and materials were re-
appearing; delivery dates tended to lengthen; and imports were rising rapidly.
To check the rise in the pressure of demand a series of restraining measures
was taken by the Government. In January 1960 Bank Rate was increased
from 4 to 5 per cent. In the Budget some increases in taxation were
announced. The net effect of the Budget proposals was to increase revenue
by an estimated £18 million in 1960/61 and by an estimated £87 million
in a full year. At the end of April restrictions on hire purchase were re-
imposed; and for the first time the Bank of England called for special
deposits from the London Clearing and Scottish banks. At the end of June
these measures were reinforced by a further increase in Bank Rate, to 6 per
cent., and by another call for special deposits by the Bank of England.

2. Largely as a result of these measures, the rise in home demand slowed
down considerably after the first quarter of 1960. But fixed investment,
which had already increased by about 9 per cent. during 1959, continued to
rise rapidly during 1960; in the year as a whole the ratio of investment
to gross national product was 19 per cent. compared with 17.6 per cent.
in 1959. There was also some increase in public current expenditure on
defence, health, education and other goods and services. The rate of stock
accumulation rose rapidly in the first half of 1960, as it did throughout 1959,
and flattened out at a very high level in the second half of the year. The
credit restrictions had a damping effect on personal consumption. In 1959
personal incomes had been supplemented by very substantial borrowing; hire
purchase debt and bank advances increased by £450 million, and borrowing
from these two sources continued at a very high rate in the early months of
1960. There was a sharp change of trend after the end of April, when the
hire purchase restrictions and the special deposits were introduced; and in
the second half of 1960 consumers were repaying debt more quickly than
they were borrowing. This, coupled with the long term trend for savings
to increase, brought about a slight fall in total consumption, despite an
increase in the purchasing power of personal incomes (the growth of money
income after tax over and above the rise in prices) which was larger than
in any other post-war year. The counterpart of this was a sharp rise in
the ratio of personal savings to disposable income from an average of 7.6 per
cent. in 1959 to a record figure of 9·4 per cent. in 1960. In 1960 as a whole exports were 6 per cent. higher than in 1959; but, partly because of a general slackening of world trade, they fell during the year from the peak level achieved in the early months and, although there was some recovery later, exports in the last quarter of 1960 were no higher than in the last quarter of 1959.

3. There was no net rise in industrial production in the last three quarters of 1960: some industries continued to increase their output, but the effect of this was offset by a fall in the output of household durable goods and subsequently of passenger cars. The small rise in total demand after the first quarter was met by imports which rose quite rapidly throughout the year. Civil employment went on rising and there was a decline in the number of wholly unemployed. Towards the end of the year there were some signs that the pressure of demand for labour was easing, but these were mainly confined to the motor car industry and other industries producing consumer durable goods. The difficulties in these industries were met in 1960 largely by short-time working rather than by discharges. Thus shortages in other industries were not alleviated by a re-deployment of labour. Unemployment in December 1960 was at a level well below that of a year earlier. Most of the fall took place in those areas where unemployment was greater than the national average (particularly Scotland, Wales and the North-West of England).

4. Between the beginning of 1958 and the autumn of 1960 retail prices were almost stable. For this the fall in import prices in the second half of 1957 was partly responsible. But the main reason why prices rose so little was that the increase in average earnings per head (including salaries) slowed down. Between 1948 and 1958 the average annual increase was $6\frac{1}{2}$ per cent.; but during 1958 and 1959 it was $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent. respectively.

5. During 1960 the rise in earnings per head accelerated: in the second half of the year they were $6\frac{1}{2}$ per cent. higher than in the second half of 1959. National productivity did not rise as much and moreover cannot be expected, on the basis of experience, to rise at so high a rate over a period of years. There has developed in consequence an upward pressure on costs and prices. This has begun to reveal itself in the retail price index which in December 1960 was $1\frac{8}{49}$ higher than a year earlier: this increase would have been greater but for a fall in food import prices and exceptionally large home supplies of fruit and vegetables, which cannot be counted upon to occur again. The rise in labour costs has begun to cause the prices of manufactured products to rise again. If increases in pay continue to outstrip the rise in national productivity, the pressure on costs and prices will be intensified and ability to export will be impaired.

6. Thus during 1960 the Government’s restrictive measures checked total home demand; consumption fell slightly and investment rose strongly; the rate of stockbuilding rose little after the middle of the year. Imports rose throughout the year and this, together with the fall in exports after the first quarter, caused the balance of payments to worsen. There was, however, such a substantial inflow of funds into the United Kingdom, encouraged by the differential between interest rates in London and other financial centres, that the United Kingdom’s reserves of gold and convertible currencies rose
that firms in manufacturing industry are planning to spend 30 per cent. more in 1961 than they did in 1960. A substantial further rise, of about 10 per cent. between 1960 and 1961, is also expected in investment by the distributive and service industries; and a recent enquiry by the Ministry of Works into the intentions of private builders suggests that the number of private houses started, which levelled off between the spring of 1960 and the end of the year, will rise again in 1961.

15. Public investment (the capital expenditures of the Government, local authorities and nationalised industries and other public corporations) will, taken as a whole, probably rise a little this year. As shown in the White Paper Public Investment in Great Britain (Cmnd. 1203) presented to Parliament in November 1960, expenditure in the financial year 1961/62 is expected to be rather higher than in 1960/61.

16. These forward indications suggest that fixed investment demand, which in total has risen rapidly since the beginning of 1959, will continue to rise rapidly in 1961 and will increase the pressure on some industries which are already very fully occupied.

17. Although production did not rise after the first quarter of 1960, stocks were rising in the last three quarters at a rate that was exceptionally high by comparison with previous years. It therefore seems probable that the rate of increase will slow down in 1961. Taken by itself this would reduce demand at home and may lead to a reduction of imports.

18. To sum up, personal and public consumption are expected to rise somewhat in 1961. There is likely to be a further rapid increase in private investment and some increase in public investment. The rate of stockbuilding will probably fall. The increase foreseen in consumption and investment should be sufficiently large to cause a significant increase in total domestic output in 1961; but the size of this increase will depend also on the level of exports and the extent to which total demand is met by imports during the year. The population of working age, which was of the order of 31,650,000 in 1960, is expected to increase by about 60,000 in 1961, which is equivalent to the average increase in recent years; and there should be a further increase in the numbers in civil employment.

**External position**

19. During both 1959 and 1960, the balance of payments on current account has been inadequate to finance net long-term investment and lending overseas. The very small current account* surplus of £30 million in 1959 was followed in 1960 by a large current account deficit of £335 million. The expansion of the economy over the past two years has resulted in a substantial increase in imports; but there has not been an equivalent increase in exports. There has also been a further deterioration in invisible account. At the same time Government lending abroad has increased and private investment has remained at a high level.

* These figures are affected by changes in the basis of computing the statistics which reduce the current balance surplus or increase the deficit, with corresponding offsets in other parts of the balance of payments account. Fuller details of these changes are given in the Balance of Payments White Paper (Cmnd. ). The external monetary position is virtually unaffected by these changes although it showed a substantial deterioration in 1960.
20. Despite the unsatisfactory outturn on current account, the reserves increased by £177 million during 1960. This was mainly due to the very large inflow of funds from abroad. A substantial part of this inflow is recorded in the overseas sterling holdings but there was also a large increase in unrecorded credits, which suggests that there was also some unrecorded inflow of funds. These inflows were encouraged by relatively high interest rates but they do not form a dependable basis for maintaining long term investment and overseas aid at their present levels; this can be provided satisfactorily only by an adequate balance on current account.

21. In 1961 the current account will probably be helped by a decrease in imports, arising in part from the expected reduction in the rate of stockbuilding. But any substantial improvement must rest upon an expansion of exports. This will depend in part on the level of world trade, but much more on competitiveness in prices and the maintenance of deliveries, as well as on initiative in expanding existing and developing new markets. The Government have mounted an intensive campaign to publicise the need for continued expansion of exports, and the range of Government services available to help exporters. They have extended export credit guarantee facilities; and they have supported the action of industry in setting up the Export Council for Europe and in reconstituting the Dollar Exports Council to form the Western Hemisphere Export Council.

The balance of the economy and long term growth

22. The most important factor in the growth of national real income is the rate of growth of total output of goods and services per head of the labour force. In the inter-war period this rate of growth was about 1½ per cent. per annum. During the 1950's there was on average an annual increase of more than 2 per cent., though year-to-year movements are somewhat irregular and hard to interpret. Since 1956/57 the figure may well have risen to 2½ per cent. per annum; and, with the present high level of industrial investment, the capacity for growth is still increasing.

23. It is the Government's policy to encourage growth. The commitment to maintain full employment is an important contribution to this end. It gives an assurance both to capital and to labour that periods of industrial recession and heavy unemployment, such as discouraged capital development in many industries before the war, will not be allowed to recur. Some elements in demand are liable to fluctuate considerably from time to time—above all, exports, fixed investment and investment in stocks. Changes in these could produce serious instability, and the Government is therefore obliged from time to time to influence the level of demand either upwards or downwards. Restrictive measures, such as those taken recently, are designed to check tendencies towards an excessive pressure of demand; as is generally recognised, excess demand damages the internal value of money and the balance of payments.

24. A stimulus has been given in past years to industrial investment by the introduction of the investment allowances, and these were maintained last year notwithstanding the measures taken to restrict other demand. The aim has been to restrain the growth of demand without checking the incentive to invest; and in recent years there has been a remarkable growth in investment.
25. The effect on demand of the Government’s policy of maintaining a high and stable level of employment, together with their policies designed to stimulate investment, have created two of the conditions necessary for sustained growth of the economy. But the motive power for economic growth cannot be created by the Government alone. Much will depend upon the determination of industry to adapt itself to changes in demand, to make greater use of facilities for education and training at all levels and to plan boldly investment for increased production and reduced costs. It will not be possible to expand production, increase exports, and maintain full employment, without the fullest co-operation of employers and workers individually and collectively in the introduction of new plant and methods, and in ensuring that increases in incomes are not such as to raise the general level of costs. Indeed important factors are the ability and willingness of both sides of industry to reduce costs and to share with consumers, in the form of lower prices, part of the fruit of increased productivity, especially in those industries where productivity increases faster than the national average. In all these matters the Government can help and stimulate, but what ultimately happens depends upon the action and attitudes of industry as a whole.

26. Finally, for a country in the international position of the United Kingdom, it is axiomatic that the growth of the economy must be interlocked with the growth of exports—otherwise the balance of payments situation is bound to frustrate growth and force a reversal of direction. Endeavours by Government and industry to foster the growth of the economy will succeed only if they are also designed to improve the country’s competitive power. Growth and competitiveness can never be separated.