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REVIEW OF FOREIGN DEVELOPMENTS

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Recent Economic Developments in the United Kingdom:
October 1965-January 1966
David G. Hayes

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Summary

During the last half of 1965, Britain's economic resources were further strained by renewed growth of aggregate demand.^{1/} The rising level of total spending was broadly based: growing consumer and private investment purchases were supplemented by increases in exports. However, the trend of industrial output remained flat, suggesting that British industrial plant encountered severe supply bottlenecks.^{2/} Some portion of the increased domestic and export demand was met from existing stocks; but unsatisfied demand levels were also reflected in continued rapid increases in prices and wages. Unemployment remained stable, at very low levels, throughout the period under review. (See Table 1.)

Within the financial sectors, credit extensions to the private economy showed mixed tendencies during the last half of 1965. The growth of bank advances remained appreciably below the 5 per cent ceiling set by the Bank of England in May 1965: for the nine months ending in November, the annual rate of increase was only 2 per cent.

^{1/} For a review of earlier developments, see "Recent Economic Developments in the United Kingdom, July-October 1965" dated October 20, 1965.

^{2/} Unless, of course, subsequent revisions in the index show a rising trend during 1965 as occurred when monthly estimates for 1964 were completely revised in 1965.

Table 1. United Kingdom: Selected Economic Indicators 1965
(monthly or monthly average) a/

	<u>1964</u> <u>Year</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>1965</u> <u>Year</u>
Internal								
Volume indices (1961=100)								
Industrial								
production	113	116	115	115	115	n.a.	n.a.	n.a.
Retail trade	106	108	107	108	108	110	n.a.	n.a.
Investment spend- ing in mfg.	94	106	98	101	--	--	--	n.a.
Unemployment rate	1.6	1.6	1.3	1.4	1.4	1.4	1.4	n.a.
Prices (1962=100)								
Retail prices	106.9	109.6	112.4	112.9	113.1	113.6	114.1	n.a.
Weekly wage rates	110.7	113.6	114.7	116.5	117.0	117.7	n.a.	n.a.
External								
Foreign Trade								
Values (£ m)								
Imports (c.i.f.)	475	458	483	487	484	496	486	479
Exports (f.o.b.)	381	396	393	414	409	426	436	407
Trade deficit b/	-46	-13	-40	-25	-22	-17	+ 5	-23
Volume (1961=100)								
Imports	119	114	120	123	120	123	n.a.	n.a.
Exports	112	115	113	118	116	122	n.a.	n.a.

a/ All data seasonally adjusted except unemployment rate and prices.

b/ Balance of payments basis.

Source: Monthly Digest of Statistics.

Consumer installment debt outstanding declined in August-September and held steady in October, reflecting the curbs placed on hire purchases contracts in June and July. On the other hand, there was a sharp rise in new corporate issues during the third and fourth quarters, and a substantial pick-up in the rate of new mortgage lending by the building societies in October and November.

On the external side, the United Kingdom experienced a continuous reduction in the foreign trade deficit from July through December. As a result, the average monthly trade deficit for 1965 was reduced by one half. (See Table 1.) In value terms, monthly exports were about 7 per cent and imports only 1 per cent above 1964 levels. The rise in exports in the second half of the year was due in large part to a bunching of deliveries of large units of industrial equipment that had been in the pipeline for some time.

In volume terms, Britain's trade performance in 1965 was somewhat less impressive than in value terms. On the export side, average monthly exports through November rose 3.6 per cent in volume compared to 6.8 per cent in value. (See Table 1.) On the import side, both value and volume rose about 1 per cent in 1965 over 1964. Because of the large rise in export prices, therefore, Britain's terms of trade became more favorable during 1965.

The long-term capital account also improved in 1965, despite a net outflow of £108 million in the third quarter. In the first nine months, long-term capital outflow totalled £182 million compared to £250 for the same period in 1964.

With the improved export position the tone of the sterling foreign exchange market remained generally firm. From September to December, the official foreign exchange reserves rose by \$420 million after some repayment of central bank credits.

Because of the continuing inflationary strain, the government took another step in November to strengthen its incomes policy, when it set up an early warning system for price increases on about 100 items. Under this system, firms producing the designated products will give four weeks' notice of intended price increases to a government department along with a justification for the proposed rise. If the government agency decides that the justification should be reviewed, the claim will be submitted to the National Board for Prices and Incomes and the price increase will be postponed until after the Board has made its report. Otherwise, the price rise will go into effect at the end of the four-week period. A chronology of measures taken by the British authorities to establish an incomes policy is found in Appendix I.

Output trend remains flat between March and October

During the first three months of 1965, British industrial output reached a new peak, but the index receded slightly in the second quarter and remained at this lower level through October. (See Table 2.) However, within the manufacturing sector, output trends were somewhat diverse: production of food, engineering goods, and textiles expanded slightly whereas output of chemicals and metals declined. (See Table 2.)

Table 2. United Kingdom: Indices of Industrial Output 1964-65
(monthly or monthly average; seasonally adjusted; 1961=100)

	1964	1965			
	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.</u>
All industries	115	116	115	115	115
Mining	102	103	97	99	n.a.
Manufacturing	115	116	116	116	116
Food	110	110	108	110	113
Chemicals	122	126	126	127	124
Metals	116	119	118	117	114
Engineering	116	117	116	115	118
Textiles	108	107	108	110	111
Construction	114	116	114	n.a.	n.a.
Gas, electricity, water	122	126	120	122	n.a.

Source: Monthly Digest of Statistics.

The lack of sustained output growth in 1965 seems to be due primarily to supply bottlenecks, especially of labor resources. On the basis of an extensive survey of British firms, the Confederation of British Industries reported in both June and October that increasing numbers of firms were working below capacity because of critical shortages of skilled labor. The October survey also revealed that a large proportion of firms expected labor shortages to restrict output in the months ahead.

Labor market conditions remain tight through December

During the last half of 1965, there was no significant change in basically tight conditions in British labor markets. The number of unemployed remained stable at 1.4 per cent of the work force. However,

there may have been a slight easing in the amount of excess demand for labor services: the ratio of vacancies to unemployed declined steadily from 1.39 in the second quarter to 1.04 in December. The fall in the ratio resulted from both a slight rise in the number of unemployed and a small decline in the number of vacancies. (See Table 3.)

Table 3. United Kingdom: Labor Market Indicators, 1965 ^{a/}
(monthly or monthly average)

	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
Unemployment rate	1.6	1.3	1.4	1.4	1.4	1.4
Total unemployed	372	308	311	317	321	332
Total vacancies	332	429	421	372	355	346
Ratio of vacancies to unemployed	0.89	1.39	1.35	1.17	1.10	1.04
Changes in						
Unemployed: <u>b/</u>						
Actual	+ 1.4	-24.0	+ 6.0	+16.3	+ 9.3	+ 5.0
Seasonal	+ 8.0	-25.0	+ 2.0	+28.3	+17.3	- 2.0
Vacancies:						
Actual	+15.4	+30.3	-19.2	-19.2	-17.0	- 9
Seasonal	+ 1.9	+18.6	- 8.3	-16.5	-14.5	- 5.9
Total working days						
Loss due to indus- trial stoppages	305	365	166	189	n.a.	n.a.

a/ All data in thousands except unemployment rate and ratio of vacancies to unemployed.

b/ Excludes "school-leavers".

Source: Monthly Digest of Statistics.

Seasonal influences contributed to the reduction in the vacancies-unemployed ratio. Typically, the number of unemployed rises and the number of job vacancies falls during the last six months of

each year. In June-December 1965, however, the actual decline in vacancies was slightly larger but the rise in unemployment somewhat less than would be expected on seasonal grounds alone. (See Table 3.)

Prices and wages continue rapid advance

Wages and retail price trends continued to show sustained upward momentum during the period under review. In the last half of 1965, the year-to-year increase in retail prices was about in line with earlier trends, while the rise in wage rates accelerated somewhat. (See Table 4.) The more moderate rise in

Table 4. United Kingdom: Basic Price Indices 1964-1965

	Per cent change:							
	1964/63				1965/64			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Retail prices	1.5	2.8	4.3	4.3	4.5	5.2	4.8	4.9
Wholesale prices								
Manufactured goods (home market)	3.2	3.5	4.1	5.0	4.5	4.3	4.2	3.4
Basic materials	4.8	3.8	5.6	1.7	0.7	1.5	0.0	-0.02
Weekly wage rates	4.4	4.6	5.1	5.1	4.2	4.2	4.6	<u>a/4.8</u>
Export prices	1.9	2.9	2.9	1.9	2.9	1.8	1.9	<u>a/1.9</u>
Import prices	4.9	2.9	2.9	1.9	0.0	0.9	0.0	<u>a/0.0</u>

a/ October-November.

Source: Monthly Digest of Statistics.

wholesale prices during the last half of 1965 apparently reflected the stability of import prices rather than any abatement in the pressures of internal demand. (See Table 4.)

Against the background of continued rapid advances in wage rates and consumer prices, the government took another step to strengthen its incomes policy.^{3/} In October, the Confederation of British Industries agreed to give four weeks' advance warning of price increases on items selected by the Government. On November 11, the government published its list--about 100 products--and requested that firms justify the price rise in terms of the conditions set forth last April.^{4/} When notice is received, the government may refer the claim to the National Board for Prices and Incomes for review, whereupon the firm must delay any further action until after the Board has made its report. On the other hand, the price increase can go into effect if the government does not act within the four week period.

Growth of private-sector credit shows mixed tendencies

During the period under review, new credit extended to the private sector displayed a very irregular pattern of development. The growth of installment credit and bank advances remained quite modest; however, the pace of new corporate borrowing and mortgage lending quickened. (See Table 5.)

The growth of installment credit, which had been quite rapid in the first half of 1965, slowed appreciably in the third quarter, and for the two months October-November the amount outstanding actually

^{3/} A chronology of actions to establish the incomes policy taken by the government from December 1964 to date is given in Appendix I, pp. 20-21.

^{4/} See Appendix I.

Table 5. United Kingdom: New Borrowing by the Private Sector 1964-65
(£ million)

	1964				1965			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Bank advances <u>a/</u>								
Actual	231	76	135	105	174	-12	-31	-83
Seasonally adjusted	50	105	210	210	-35	+12	53	25
Installment credit <u>b/</u>	31	57	41	31	24	54	10 <u>d/</u>	- 4
New issues by U.K. corporations <u>c/</u>	175	137	126	71	87	68	134	146
Advances by building societies	227	272	282	274	231	219	218	302

a/ London clearing banks.

b/ Debt owed to finance houses and department stores.

c/ Net of gross redemptions.

d/ October-November.

Source: Financial Statistics.

declined. This development undoubtedly reflects the curbs placed upon consumer credit purchases in June and July.

Bank advances, seasonally adjusted, rose modestly in the final quarter of 1965, bringing the total increase since last March to about £90 million--or 2 per cent at an annual rate. This is well within the 5 per cent annual growth rate set by the Bank of England in May 1965.

On the other hand, net new issues by U.K. corporations were much heavier in the last half of 1965 than during the first six months. The faster growth of corporate issues was partly seasonal, but may have also reflected the squeeze on bank advances. In addition, mortgage lending by the building societies picked up sharply in the last three months of 1965, contrasting with the January-June period when new

lending was held back by a reduced inflow of new funds. The recent up-turn in advances resulted from the very large scale flow of funds to the societies that has been underway since last June. On June 3, the building societies raised their deposit rates in order to attract more funds at the same time that other deposit rates were lowered along with the reduction in Bank rate from 7 to 6 per cent. Currently, the spread between the lending and borrowing rates of the societies is quite small, by traditional standards, and some societies are now considering either a drop in the deposit rate or an increase in lending rates.

Money market conditions continue uneven

Between October 1965 and early January 1966, conditions in British money markets generally remained on the tight side, but were quite uneven, and short-term interest rates showed contradictory movements. (See Table 6.)

During December, call money rates eased from their highs of October-November, but the discount houses raised the yield on new Treasury bills from 5.31 per cent on November 26 to 5.44 per cent on December 17. (See Table 6.) This paradoxical development is largely explained by the December 6 increase in the U.S. discount rate from 4.00 to 4.50 per cent which brought to an end expectations of an early reduction in the U.K. Bank rate.

Table 6. United Kingdom: Selected Money Market Rates
October 1965 to January 1966
 (per cent per annum)

	Oct. <u>1</u>	November <u>5 26</u>		December <u>10 17</u>		January <u>7 14</u>	
Call money	5.44	5.56	5.44	5.38	5.25	5.62	5.50
Local authority deposits							
2-day	5.94	5.94	5.88	6.06	6.00	5.88	n. a.
90-day	6.31	6.19	6.25	6.38	6.44	6.25	n. a.
Euro-\$ deposits							
Call	4.25	4.25	4.25	4.50	4.50	4.75	4.75
90-day	4.88	4.94	5.12	5.56	5.44	5.12	5.25
Treasury bill (market rate)	5.34	5.40	5.31	5.41	5.44	5.44	5.44

Sources: Financial Times and Board of Governors.

The U.S. interest rate action also brought about a sharp rise in long-term Euro-dollar deposit rates. However, these rates subsequently eased in the latter part of December and early January. (See Table 6.)

In the local authority deposit market, rates continued to ease through late November, largely in response to the reflow of foreign funds to London. However, in December interest rates moved to higher levels, as tighter conditions developed in other financial markets. (See Table 6.)

Capital markets weaken after strong recovery

Conditions in British capital markets weakened in November and December after nearly two months of steady improvement. By mid-December,

long-term government bond yields had risen as much as 30 basis points above the levels of late October. However, at the turn of the year, the market displayed a slightly firmer tone, and bond yields eased. (See Table 7.)

Table 7. United Kingdom: Selected Capital Market Yields
October 1965-January 1966
(per cent per annum) a/

	October		Nov.	Dec.	January	
	7	21	18	16	6	13
Government bonds						
3% 1959-69	6.37	6.25	6.27	6.37	6.37	6.37
5% 1971	6.52	6.47	6.41	6.69	6.52	6.54
3-1/2% 1979-81	6.25	6.27	6.30	6.50	6.47	6.47
5-1/2% 2008-12	6.30	6.30	6.40	6.60	6.55	6.57
3-1/2% War loan	6.37	6.34	6.43	6.61	6.55	6.57
Stocks <u>b/</u>						
Price index	108.31	111.27	112.41	110.54	110.73	112.47
Dividend yield	5.52	5.39	5.35	5.44	5.44	5.36

a/ Except stock price index.

b/ Financial Times 500 industrials.

Source: Financial Times.

A combination of external and domestic factors contributed to the advance in gilt-edged yields in November and December. Growing concern about the effectiveness of the government's incomes policy, and the ending of hopes for decrease in the U.K. Bank rate were the main considerations behind this easier tone.

Industrial stock prices also declined between mid-November and mid-December. This was in large measure a reaction to the November 29 statement by Chancellor Callaghan that further restrictive measures

on the demand side might be needed if the strong rise in money incomes in 1965 threatened the restoration of balance in the external accounts by the end of 1966. Conditions in the stock market became much more settled after mid-December, and prices firmed at the lower levels.

(See Table 7.)

Balance of payments weakens in the third quarter

The improvement in Britain's balance of payments during 1965 received a sharp setback in the third quarter when both the current and the long-term capital account deficits widened to roughly their large mid-1964 levels. (See Table 8, items A, B and C.)

Seasonal factors accounted for part of the deterioration in both accounts. The trade deficit on a seasonally-adjusted basis actually showed a modest decline. (See Table 9.) Annual loan repayments to Germany and Portugal accounted for a small part of the total outflow of long-term capital. The rest of the outflow was accounted for by a substantial bulge in outward oil investment, large net sales of overseas holdings of U.K. securities, reduced inflows of direct investment, and reduced sales by U.K. residents of non-sterling securities.

Despite the deterioration on the current and long-term capital accounts, the financing requirement in the third quarter was only £10 million greater than in the second. (See Table 8, item F.) There was a turn-around in the short-term capital account from a £156 million

Table 8. United Kingdom: Balance of Payments, 1964-1965
(£ millions)

	1964				1965		
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>
A. Current account							
Imports	1249	1254	1217	1285	1228	1270	1252
Exports <u>a/</u>	1126	1153	1030	1162	1140	1212	1150
Trade balance	-123	-101	-187	-123	- 88	- 58	-102
Services (net)	+ 67	+ 38	- 5	+ 22	+ 53	+ 50	- 26
Current balance	- 56	- 63	-192	-101	- 35	- 8	-128
B. Long-term capital account	- 86	-107	- 57	- 94	- 63	- 11	-108
C. Current and long-term capital account	-142	-170	-249	-195	- 98	- 19	-236
D. Balancing item	+ 58	+ 7	+ 2	- 32	- 4	+ 33	+ 19
E. Short-term capital account	- 83	+174	+122	-355	- 41	-156	+ 65
F. Overall balance	+ 1	+ 11	-125	-582	-143	-142	-152
G. Financing <u>b/</u>							
Central bank assistance	--	+ 5	+ 66	+127	+148	-207	+139
Swiss loan	--	--	--	+ 28	--	+ 14	--
IMF drawing	--	--	--	+357	--	+500	--
Reserves	- 1	- 16	+ 59	+ 80	- 5	-165	+ 13
Total	- 1	- 11	+125	+582	+143	+142	+152

a/ Includes re-exports.

b/ Assets: increase -; decrease +; Liabilities: increase +; decrease -.

Source: Economic Trends.

outflow in the second quarter to a £65 million inflow in the third.

(See Table 8, item E.) According to the Board of Trade, some of this inflow represented the proceeds from the sale of long-term U.K. securities held by non-residents.

The overall deficit of £152 million (see Table 8, item F) was financed by central bank loans (£139 million) and by a net decline in official reserves (£13 million). (See Table 8, item G.) According to the Board of Trade, the central bank assistance was in the form of drawings on the swap facility with the Federal Reserve Bank of New York; by the end of September, the \$750 million facility was fully drawn.

Trade accounts show continued improvement in last half of 1965

Britain's foreign trade outturn--on a seasonally-adjusted basis--showed continuing improvement in the final two quarters of 1965, as exports rose and imports remained close to second quarter levels. As a result, the average monthly trade deficit for 1965 was £23 million--one half the rate for 1964. (See Table 9.)

Table 9. United Kingdom: Foreign Trade, 1964-1965
(£ million; monthly or monthly average; seasonally adjusted)

	1964	1965						
	Year	I	II	III	Oct.	Nov.	Dec.	IV
Imports (c.i.f.)	475	458	483	487	484	496	486	489
Exports and re- exports (f.o.b.)	381	396	393	414	409	426	436	425
Surplus/deficit	-84	-62	-90	-73	-75	-70	-50	-64
Trade balance <u>a/</u>	-46	-13	-40	-26	-22	-17	+ 5	-12

a/ Adjusted to balance of payments basis.

Source: Monthly Digest of Statistics.

Buoyant export sales in the last half of 1965 were due primarily to increasing sales of machinery and transport equipment, representing in part delivery of goods that have been in the industrial pipeline for some months. (See Table 10.) There were also modest increases in foreign sales of chemicals, and, in the fourth quarter, a large spurt in sales of "other manufactured goods." (See Table 10.) Nevertheless, the December issue of the London and Cambridge Economic Bulletin reported that the rise in exports through October "...has not sufficed to maintain Britain's percentage of the world's export trade in manufactures..."^{5/}

The stability of total imports since mid-year reflects primarily the absence of further increases in purchases in the food, beverages and tobacco category (in part because of better U.K. food output), and in the industrial materials grouping. Imports of finished manufactures, however, have continued to rise. (See Table 10.)

Official reserves show big gain in September-December

Britain's official holdings of gold and foreign exchange increased by \$420 million during the four months ending in December, when total holdings exceeded \$3 billion for the first time since 1962. (See Table 11.)

^{5/} London and Cambridge Economic Bulletin, December 1965, p. i.

Table 10. United Kingdom: Foreign Trade by Commodity Classes 1964-65
(£ million; monthly or monthly average; seasonally adjusted)

	1964				1965			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Imports (c.i.f.)								
Food, beverages and tobacco	151	147	152	143	132	144	149	148
Industrial materials	197	206	204	209	200	211	210	208
Finished manufac- tures	68	71	70	69	65	73	77	77
Other	53	53	50	57	61	57	53	56
Total	469	477	476	478	458	485	489	489
Exports (f.o.b.)								
Manufactures								
Machinery and trans. equip.	157	150	148	154	159	157	169	176
Chemicals	33	33	35	35	36	36	37	37
Textiles	22	23	23	24	23	23	23	23
Other manufac- tures	92	99	100	101	104	107	98	110
Other	63	60	57	63	65	56	72	63
Total	367	365	363	377	387	379	399	409

Source: Monthly Digest of Statistics.

Table 11. United Kingdom: Official Reserve Position, 1965
(millions of dollars)

	Changes in:				Total holdings
	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Dec. 31</u>
Official holdings of gold and foreign exchange	+170.8	+117.6	+114.8	+16.8	3004.4

Source: Financial Statistics.

Sterling strengthens after recent set-backs

The spot pound, which had been weakening since late November, owing to the Rhodesian crisis, dropped further just after the rise in the U.S. discount rate. By December 7 it reached 280.15 (U.S. cents), after which market conditions became more settled, and a growing demand pushed the rate up to 280.44 on January 14. (See Table 12.)

Between October and early December, the discount on forward sterling steadily narrowed, reaching 1.02 per cent per annum on December 17. Since then, it has fluctuated very slightly. (See Table 12.)

The strengthening of the forward rate during the period under review had very little impact upon covered interest rate differentials. In both the short-term deposit and Treasury bill markets, covered spreads fluctuated modestly around interest parity. By contract, the differential between London Euro-dollar and New York CD. rates widened until mid-December when this trend was reversed. By mid-January 1966, the spread was only 40 basis points--about one-half the amount of a month earlier. (See Table 12.)

Table 12. United Kingdom: Exchange Rates and Arbitrage Calculations
October 1965-January 1966

	October		Nov.	December		January	
	<u>1</u>	<u>29</u>	<u>26</u>	<u>3</u>	<u>17</u>	<u>7</u>	<u>14</u>
Exchange rates							
Spot (U.S. cents)	280.27	280.40	280.36	280.22	280.24	280.37	280.44
Fwd. (p.c. p.a.)	-1.38	-1.29	-1.10	-1.07	-1.02	-1.03	-1.03
3-month yields and yield spreads							
Treasury bills							
U.K. covered	3.89	3.98	4.14	4.17	4.34	4.33	4.33
U.S.	3.99	4.03	4.09	4.10	4.40	4.52	4.58
Spread	-0.10	-0.05	+0.05	+0.07	-0.06	-0.19	-0.25
Deposit rates							
Local authority (covered)	4.93	4.90	5.15	5.31	5.42	5.22	n. a.
Euro-dollar	4.88	5.00	5.12	5.25	5.44	5.12	5.25
Spread	+0.05	-0.10	+0.03	+0.06	-0.02	+0.10	n. a.
Euro-dollar a/ New York C.D.'s a/b/	4.88	5.00	5.00	5.25	5.50	5.18	5.25
Spread	+0.51	+0.54	+0.51	+0.76	+0.74	+0.31	+0.38

a/ For dates preceeding ones shown.

b/ Negotiable New York time certificates of deposit.

Source: Board of Governors.

APPENDIX I

Incomes Policy in the United Kingdom

Chronology

1. Representatives of labor and employer organizations signed a Declaration of Intent, in December 1964, and accepted that major objectives of government policy should be:
 - a. to insure that British industry is dynamic and that its prices are competitive;
 - b. to raise productivity and efficiency so that real national output can increase, and to keep increases in wages, salaries, and other forms of incomes in line with this increase; and
 - c. to keep the general level of prices stable.
2. White paper, Machinery of Prices and Incomes Policy, published February 1965, proposed the establishment of a National Board for Prices and Incomes which would study and make recommendations relating to instances of price and wage increases referred to it by the Government.
3. White paper, Prices and Incomes Policy, published April 1965, announcing the establishment of the National Board for Prices and Incomes, and specifying the conditions under which it would be permissible for prices and incomes to rise at a more rapid rate than the norm of 3-1/2 per cent per year established by the Government.
4. In September 1965, government announced plans to introduce legislation for a "compulsory early warning system" on price and wage increases, which would give the Government power:
 - a. to require notification of intended price advances and of claims relating to pay, hours or other major improvements and prospective terms of settlement;
 - b. to refer such proposed price and wage increases to the National Board for Prices and Incomes for review; and

- c. to require that such proposed price and wage increases be deferred until after the Board had reported its findings. The proposed legislation would also place the Board on a statutory basis, with powers to subpoena information relating to prices and wages.
5. Also in September 1965, the Trades Union Council established a committee to examine wage claims before they are submitted to employer groups.
6. In October 1965, the Confederation of British Industries agreed to give four weeks' notice of price increases on items designated as strategic by the Government.
7. White paper, Prices and Incomes Policy: an "Early Warning" System, published November 1965, designating about 100 items as pertaining to the previous industry agreement to give advance notification of price increases. In addition, the white paper provided that each firm intending to raise the price of its product would furnish justification for the action under the conditions set forth in the white paper Prices and Incomes Policy, published April 1965. The Government may refer the claim to the National Board on Prices and Incomes, and the firm must delay any action until the Board has made its report. If the Government does not act within four weeks, the price increases can go into effect.