

FILE COPY

**RETURN TO RESTRICTED
REPORTS DESK
WITHIN
ONE WEEK**

Report No. EA-117

This report was prepared for use within the Bank. It may not be published nor may it be quoted as representing the Bank's views. The Bank accepts no responsibility for the accuracy or completeness of the contents of the report.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ECONOMIC POSITION AND PROSPECTS

OF THE

UNITED KINGDOM

February 20, 1961

FILE COPY

Department of Operations
Europe, Africa and Australasia

CURRENCY EQUIVALENTS

£ 1 = U.S. \$2.80

U.S. \$1 = £ .357

TABLE OF CONTENTS

	<u>Page No.</u>
BASIC DATA	
CHARTS	
SUMMARY AND CONCLUSIONS	i
I. INTRODUCTION	1
II. DEVELOPMENTS SINCE 1955	1
III. PRODUCTION, EMPLOYMENT AND INVESTMENT	5
IV. WAGES AND INDUSTRIAL RELATIONS	11
V. PUBLIC FINANCE AND MONETARY POLICY	15
VI. EXTERNAL TRADE AND PAYMENTS	21
Export Trade	24
Sterling Area	27
Economic Relations with Western Europe	28
STATISTICAL APPENDIX	

TABLE OF CONTENTS

	<u>Page No.</u>
BASIC DATA	
CHARTS	
SUMMARY AND CONCLUSIONS	i
I. INTRODUCTION	1
II. DEVELOPMENTS SINCE 1955	1
III. PRODUCTION, EMPLOYMENT AND INVESTMENT	5
IV. WAGES AND INDUSTRIAL RELATIONS	11
V. PUBLIC FINANCE AND MONETARY POLICY	15
VI. EXTERNAL TRADE AND PAYMENTS	21
Export Trade	24
Sterling Area	27
Economic Relations with Western Europe	28
STATISTICAL APPENDIX	

BASIC DATA

United Kingdom

Area: 94,000 square miles

Population: 52 million

Gross National Product (1959): £20.9 billion (\$58.5 billion)
Per Capita £403 (\$1,126)

Domestic Exports as Percentage of Gross National Product, 1959: 16%

Foreign Trade, 1959 (Percent of total)

		<u>Commodity Composition</u>	
		<u>Exports</u>	<u>Imports</u>
Food, drink and tobacco		6	38
Basic materials		4	23
Mineral fuels and lubricants		3	12
Manufactures:			
Machinery & electrical goods	24)		
Road vehicles & parts	12)		
Other metals & engineering)		
products	22)	85	26
Chemicals	9)		
Textiles	7)		
Other manufactures	<u>11)</u>		
Other		<u>2</u>	<u>1</u>
		<u>100</u>	<u>100</u>

		<u>Geographic Distribution</u>	
		<u>Exports</u>	<u>Imports</u>
Sterling area		40	36
Western Europe		28	28
North America		17	17
Other		<u>15</u>	<u>19</u>
		100	100

Reserves of Gold and Convertible Currencies, 31 Dec. 1960: \$3,231 million.

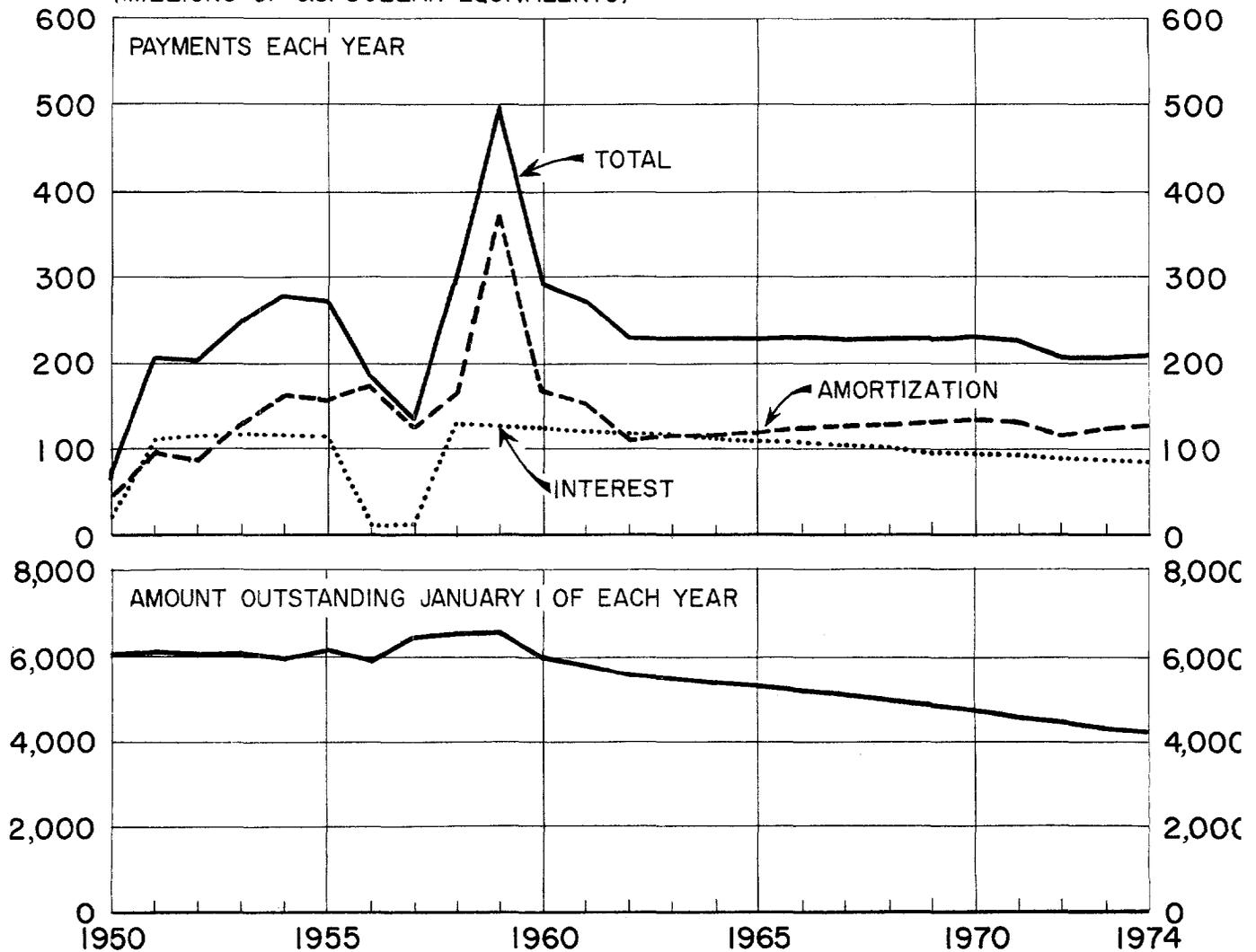
External Public Debt, 31 December 1960: \$5,737 million.

LIST OF CHARTS

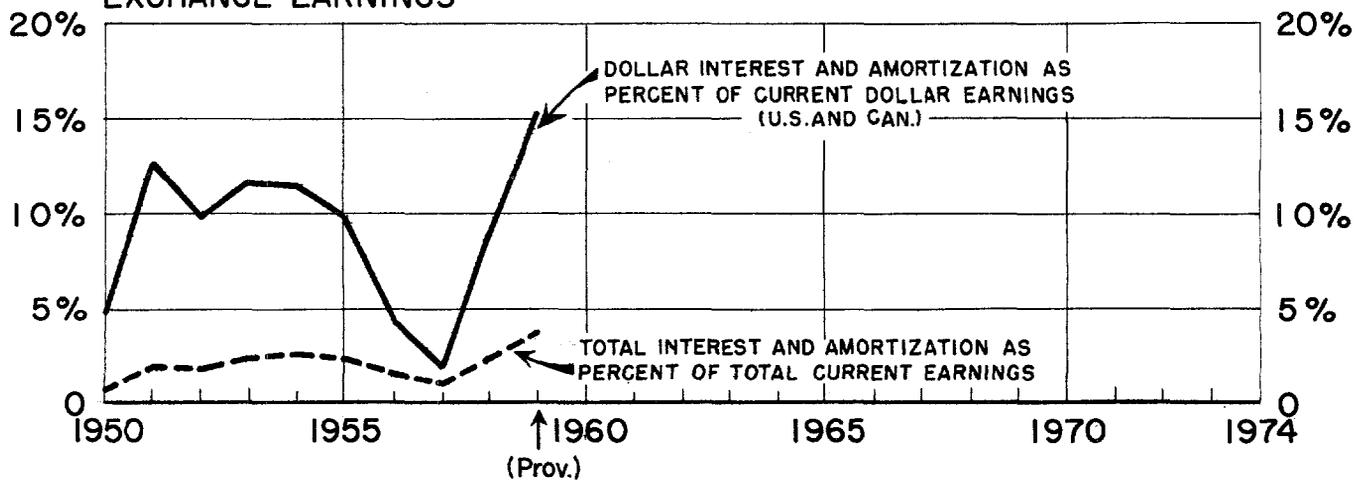
1. External Debt and Debt Service as Percent of Current Foreign Exchange Earnings
2. Indices of Output
3. Gross Fixed Investment; Financing Investment
4. Unemployment
5. Money Supply, Wage Rates and Cost of Living
6. Volume of Trade; Terms of Trade
7. Balance of Payments
8. Exports of Manufactures; External Reserves
9. Regional Balance of Payments on Current Account
10. Sterling Balances

UNITED KINGDOM

EXTERNAL PUBLIC DEBT *
(MILLIONS OF U.S. DOLLAR EQUIVALENTS)



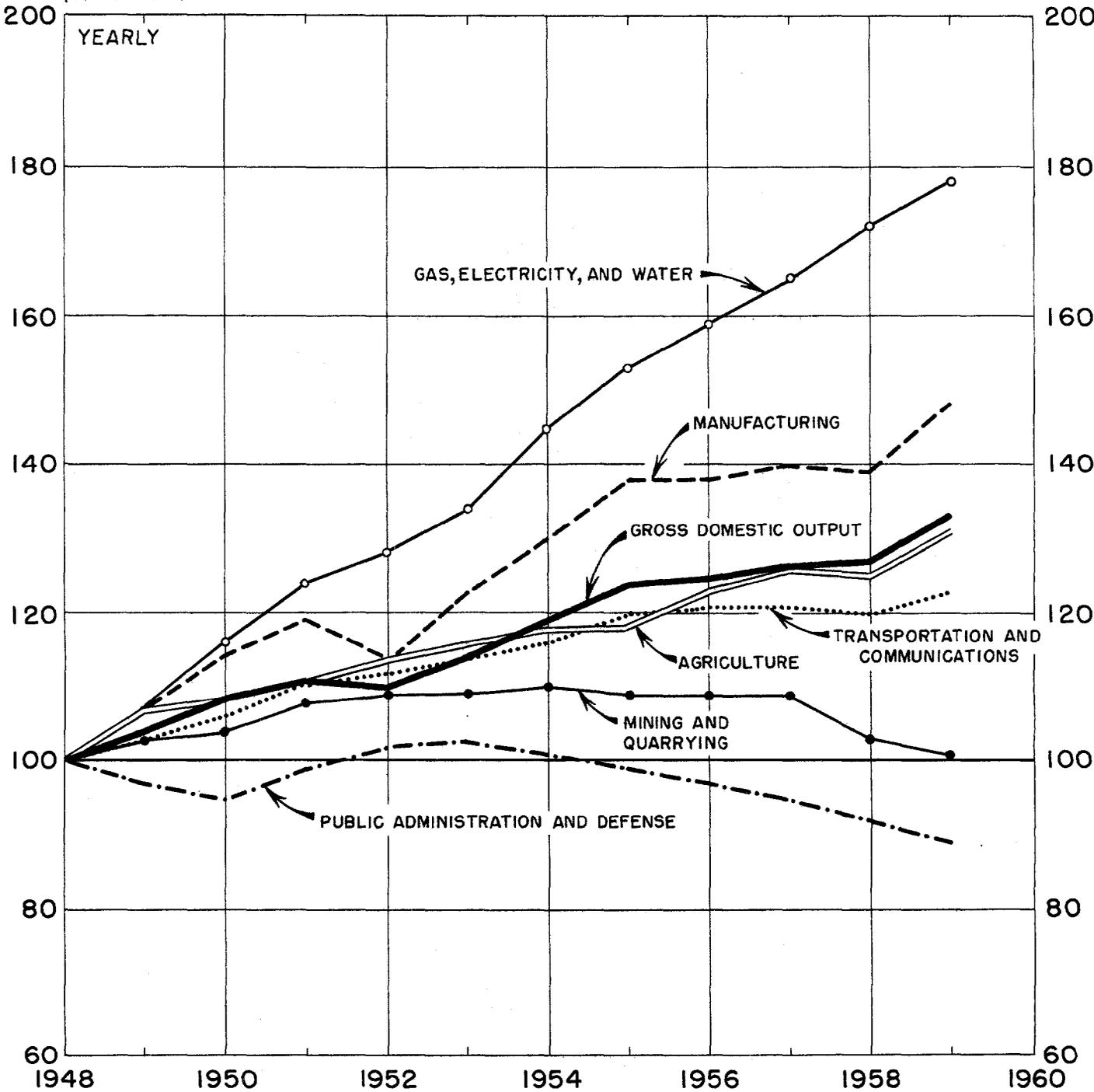
DEBT SERVICE AS PERCENT OF CURRENT FOREIGN EXCHANGE EARNINGS



* Excludes \$250 million Export-Import Bank credit 4 1/2%, 1956-1965, not yet utilized.

UNITED KINGDOM

INDICES OF OUTPUT (AT 1954 FACTOR COST)
(1948=100)

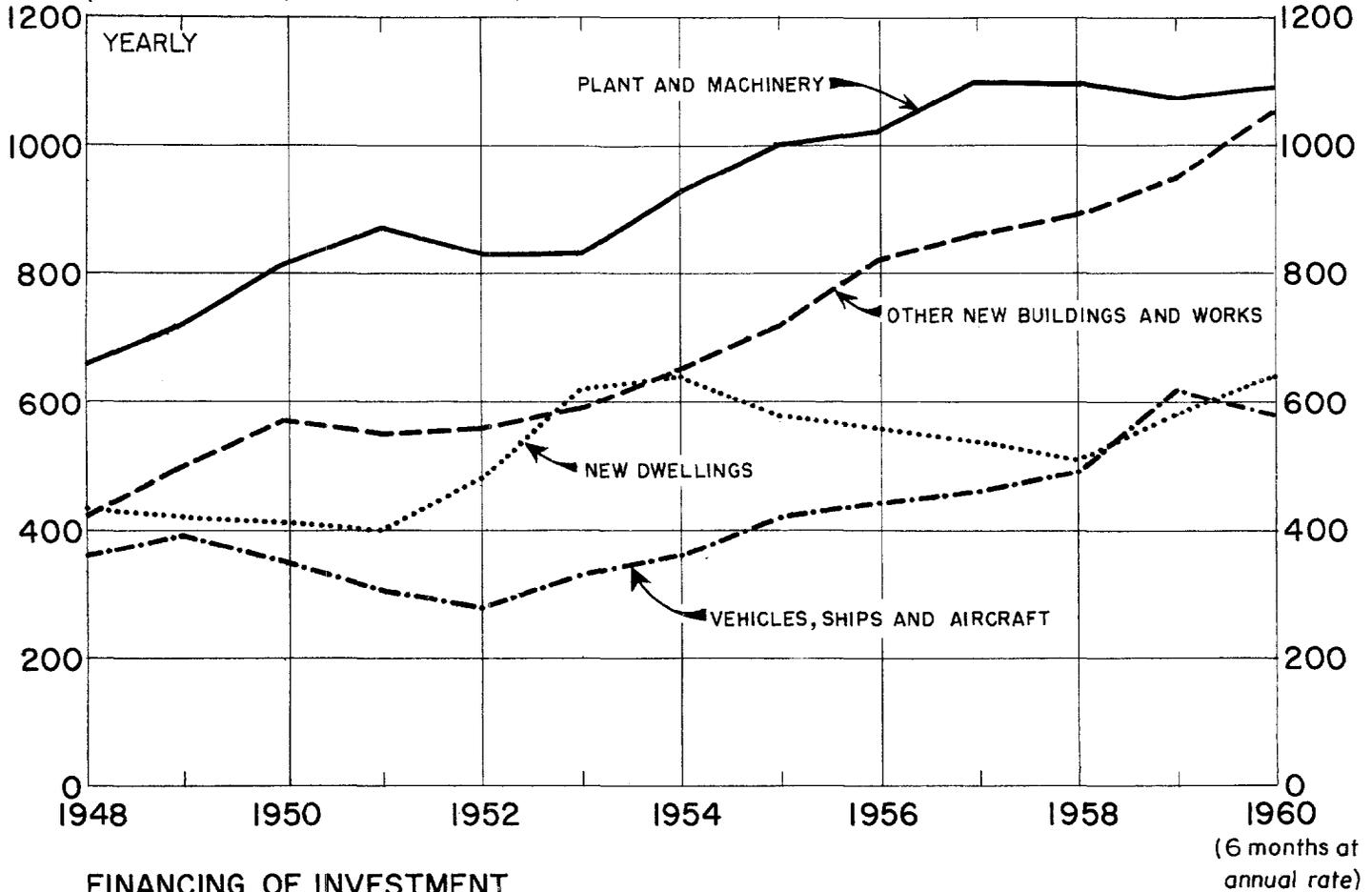


1/4/61
1746

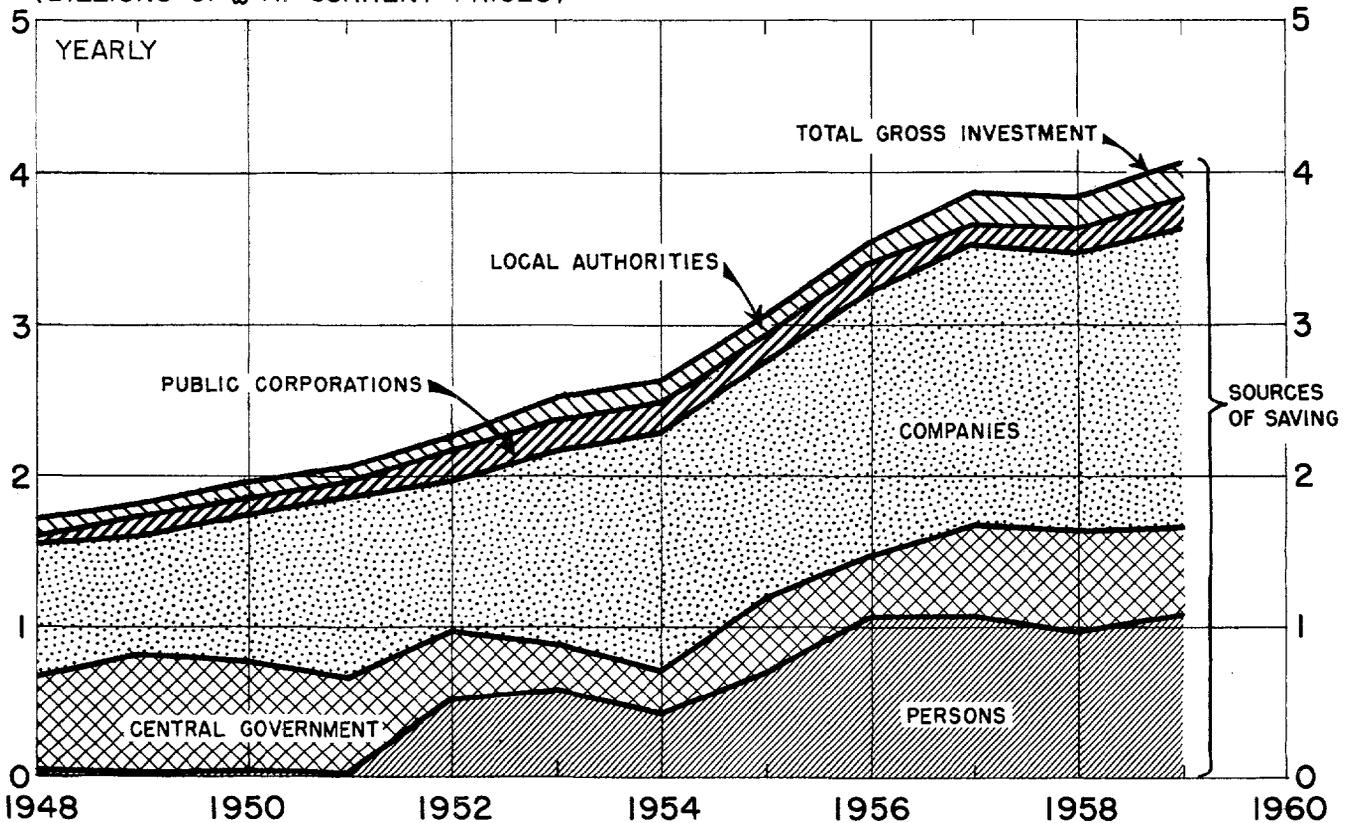
IBRD - Economic Staff

UNITED KINGDOM

GROSS FIXED INVESTMENT
(MILLIONS OF £ AT 1954 PRICES)

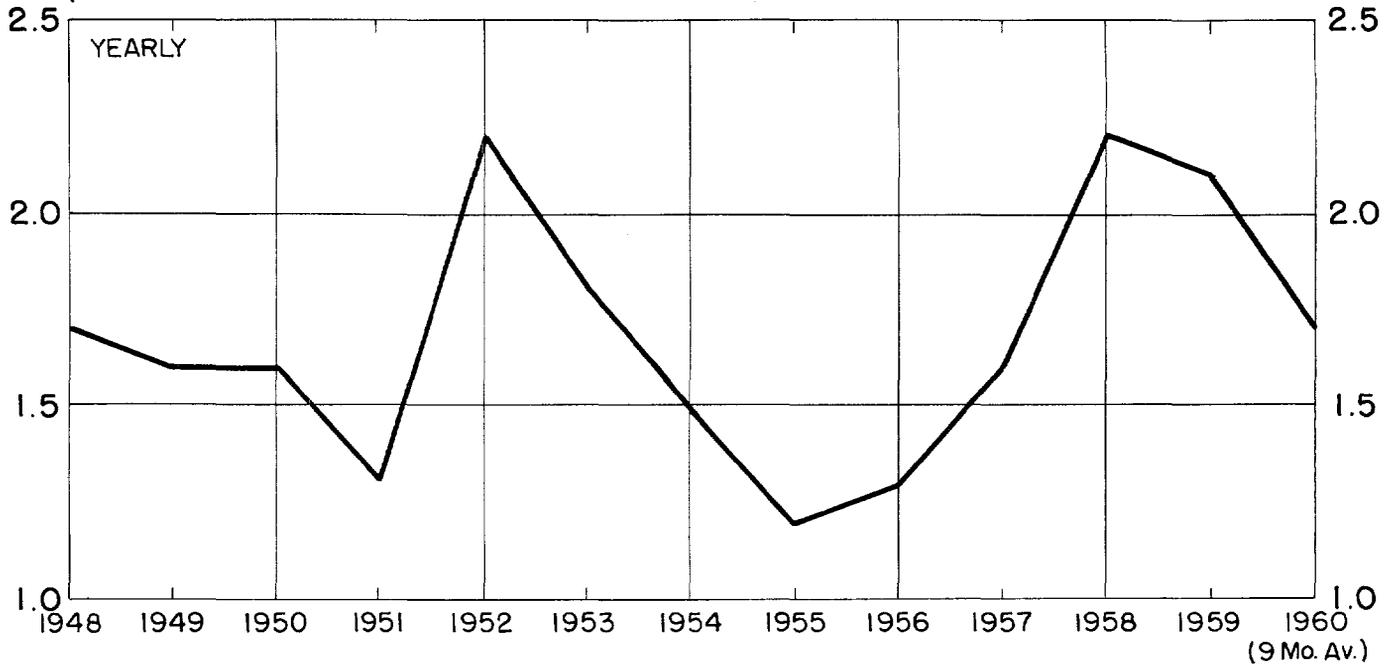


FINANCING OF INVESTMENT
(BILLIONS OF £ AT CURRENT PRICES)

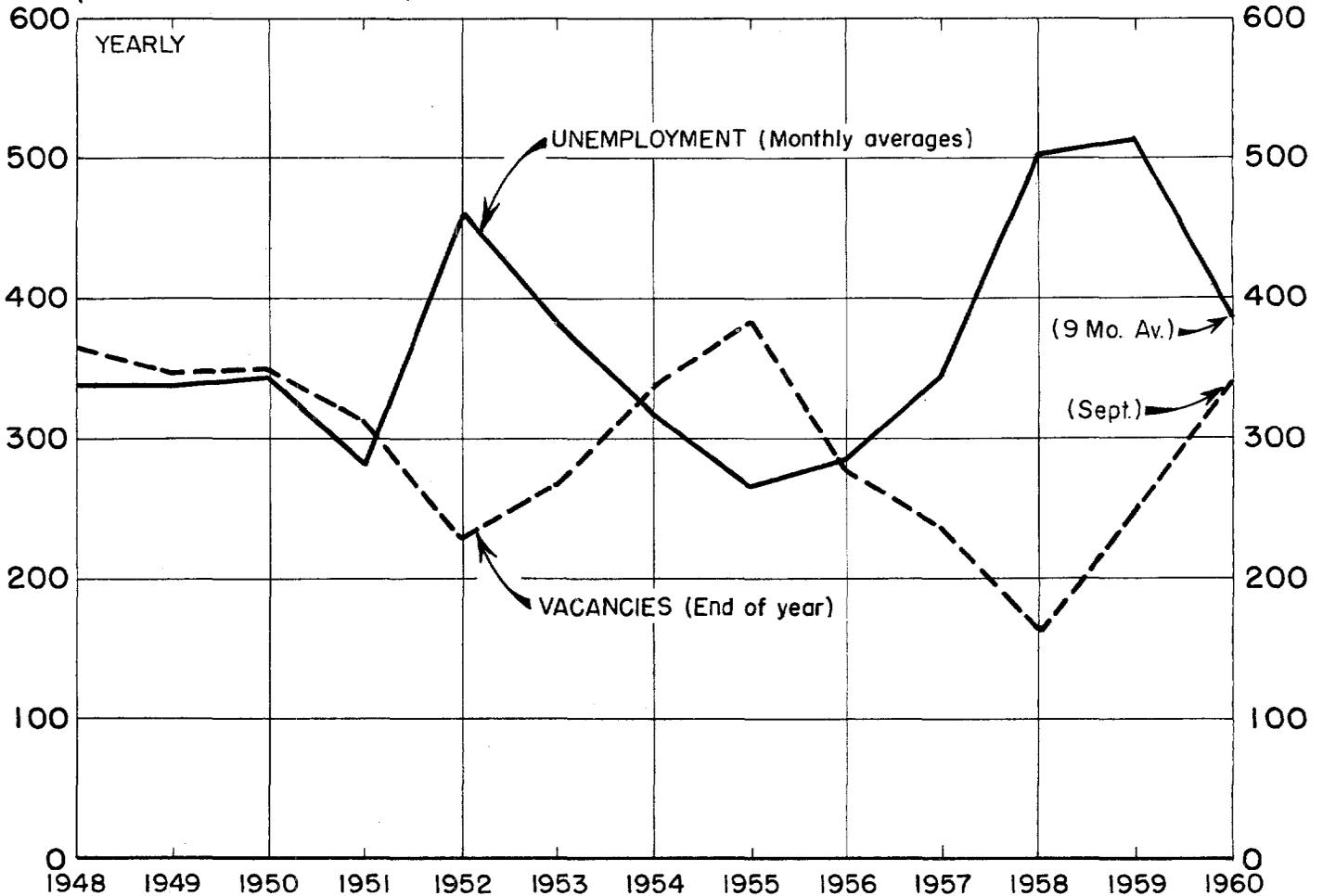


UNITED KINGDOM

UNEMPLOYMENT AS PERCENT OF INSURED WORKERS
(PERCENT)

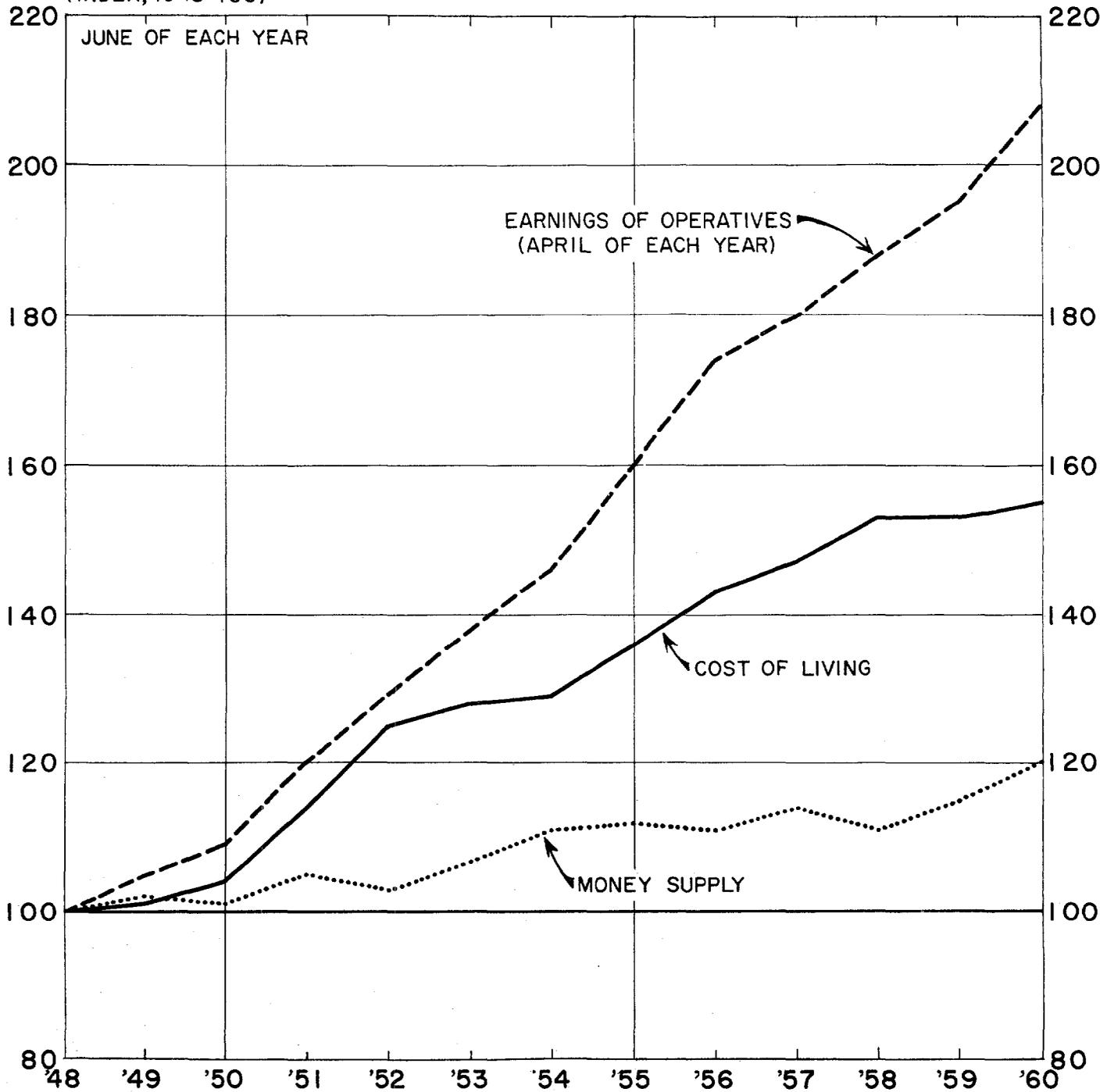


UNEMPLOYMENT AND VACANCIES
(THOUSANDS OF PERSONS)



UNITED KINGDOM

MONEY SUPPLY, COST OF LIVING, AND EARNINGS OF OPERATIVES
(INDEX, 1948=100)

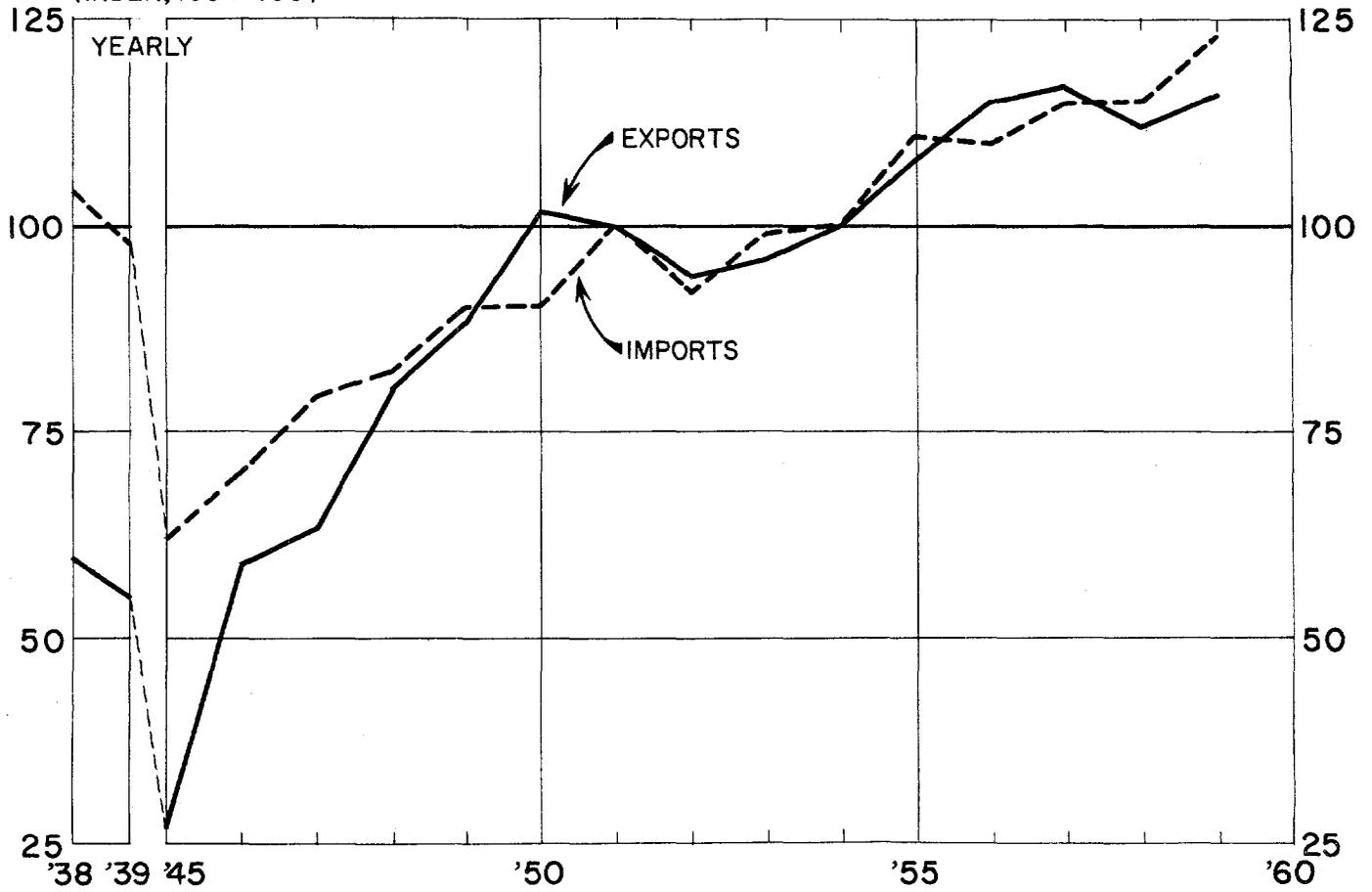


1/4/61
1749

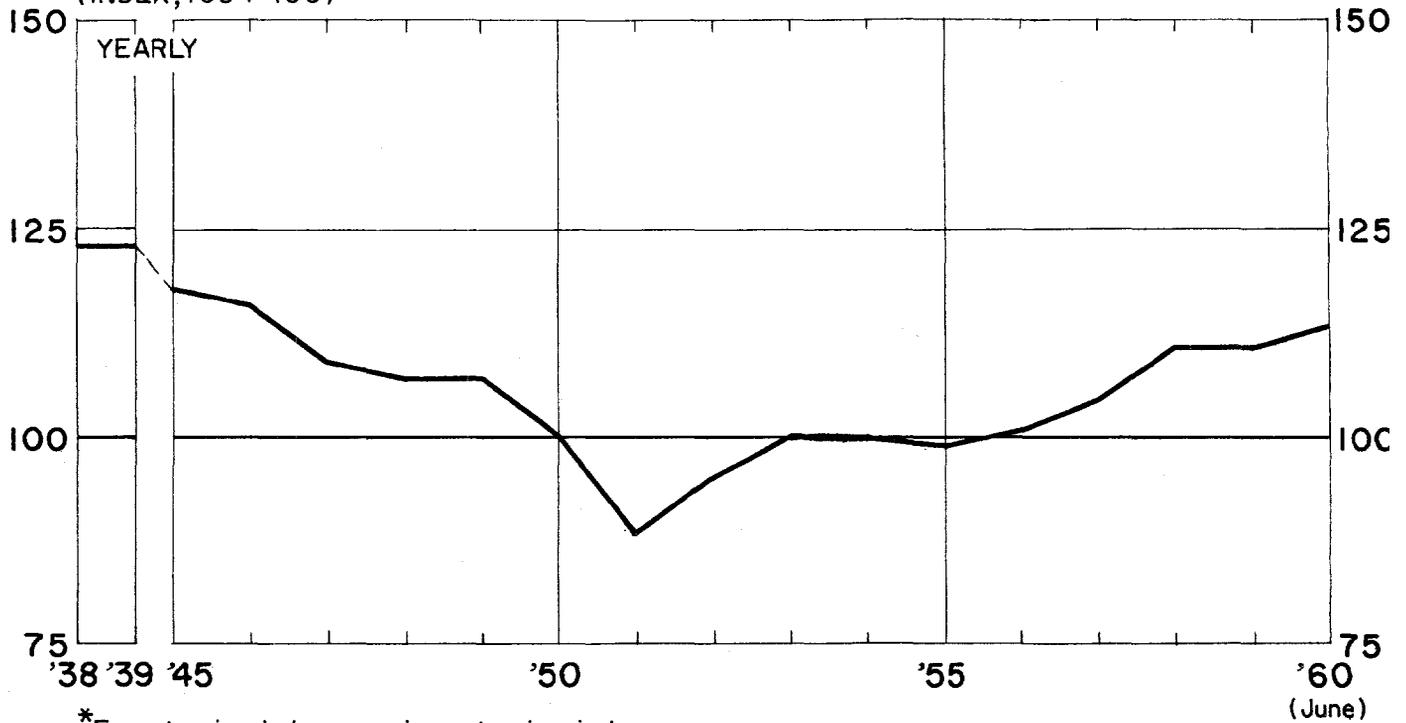
IBRD-Economic Staff

UNITED KINGDOM

VOLUME OF TRADE (1950 WEIGHTS)
(INDEX, 1954=100)



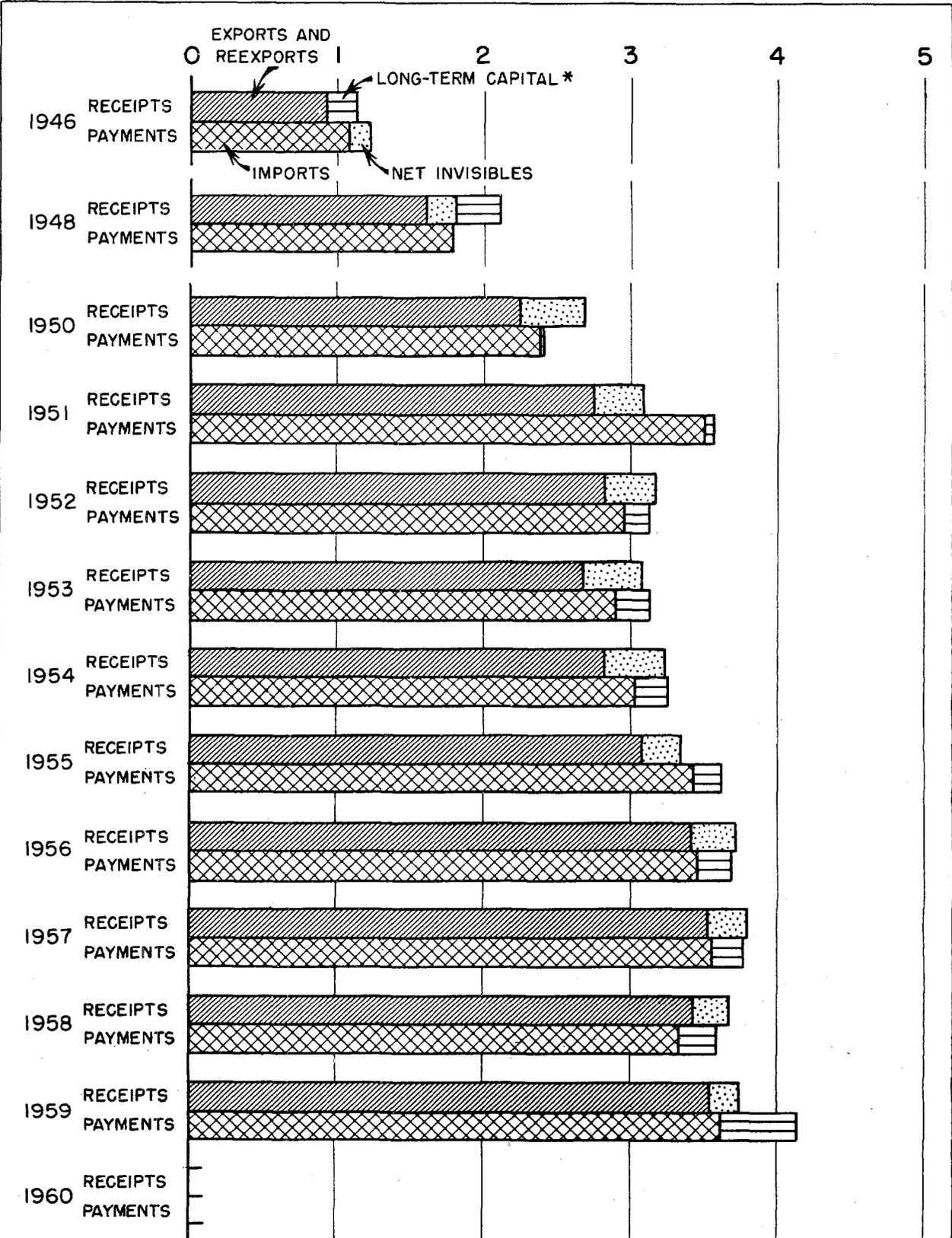
TERMS OF TRADE *
(INDEX, 1954=100)



*Export price index over import price index

UNITED KINGDOM

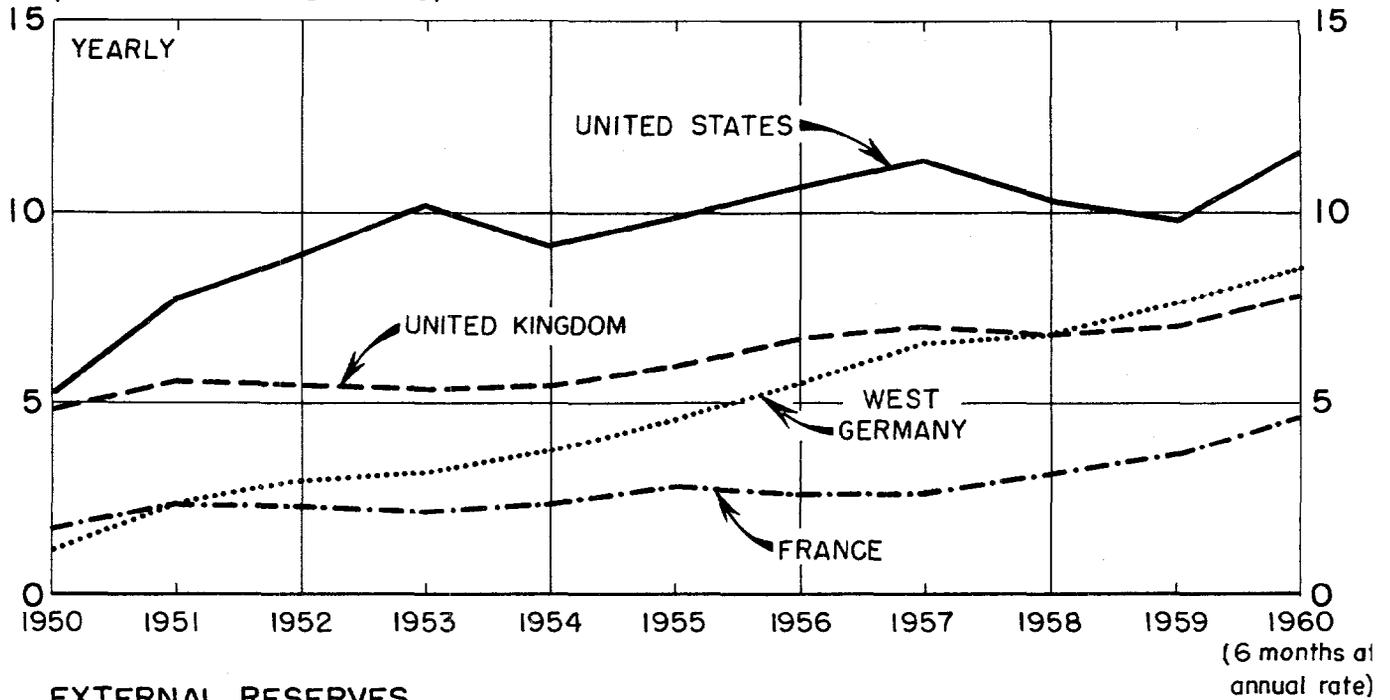
BALANCE OF PAYMENTS ON CURRENT ACCOUNT (BILLIONS OF £)



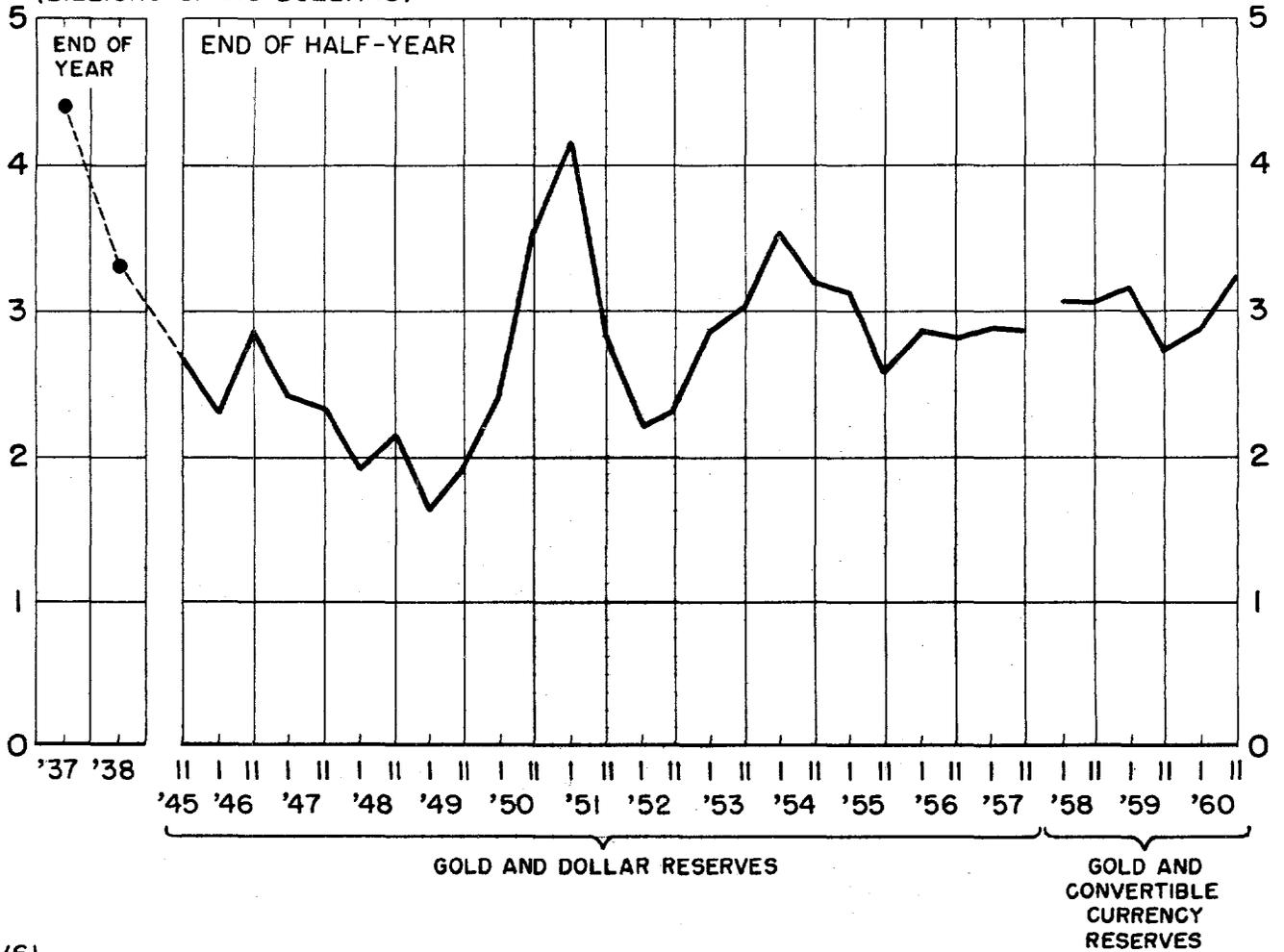
* Government long-term capital only for years 1946-1951, all long-term capital thereafter.

UNITED KINGDOM

EXPORTS OF MANUFACTURES (INCLUDES SITC GROUPS 6,7 AND 8)
 BY MAIN MANUFACTURING COUNTRIES
 (BILLIONS OF U.S. DOLLARS)

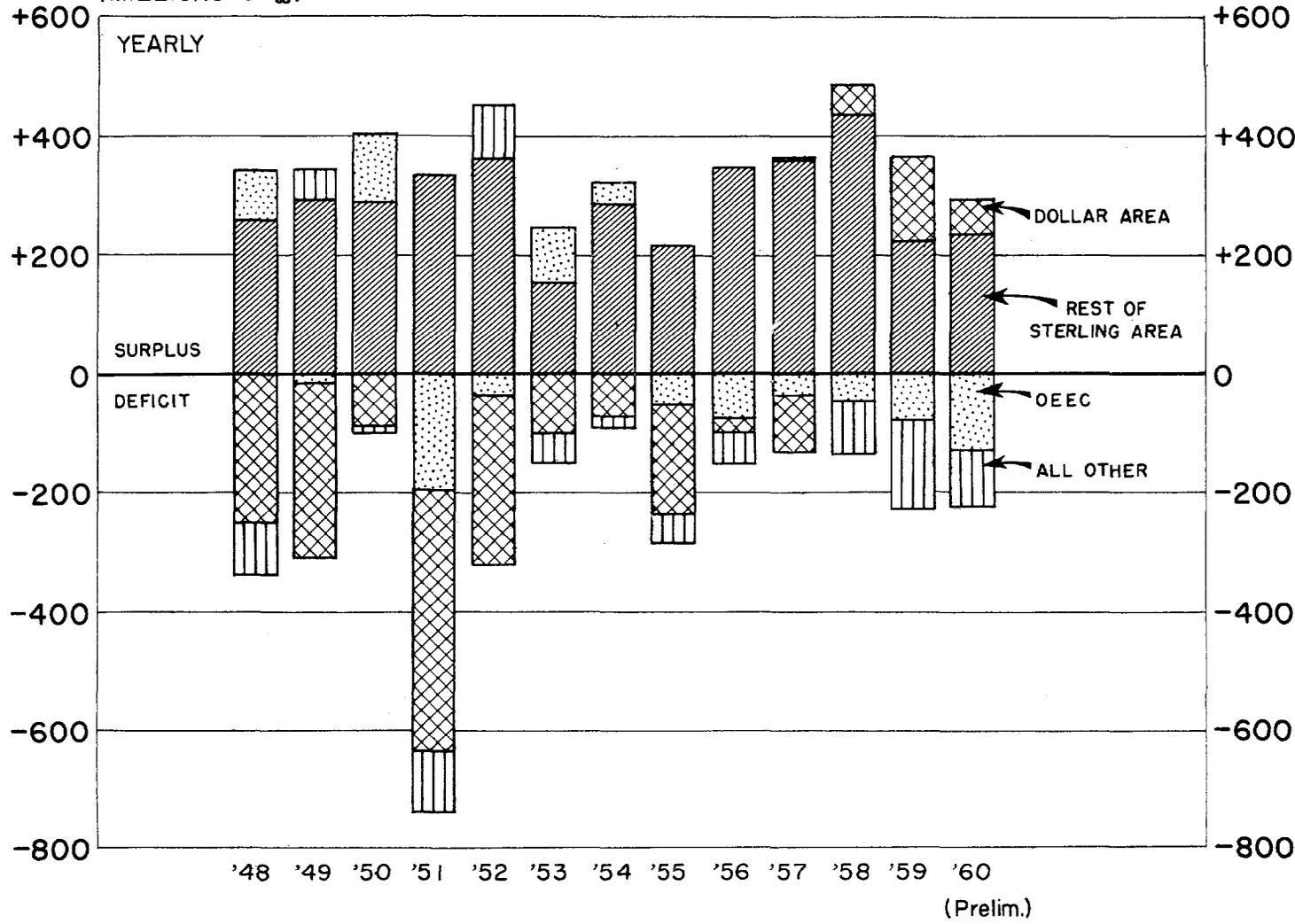


EXTERNAL RESERVES
 (BILLIONS OF U.S. DOLLARS)



UNITED KINGDOM

REGIONAL BALANCE OF PAYMENTS ON CURRENT ACCOUNT (MILLIONS OF £)



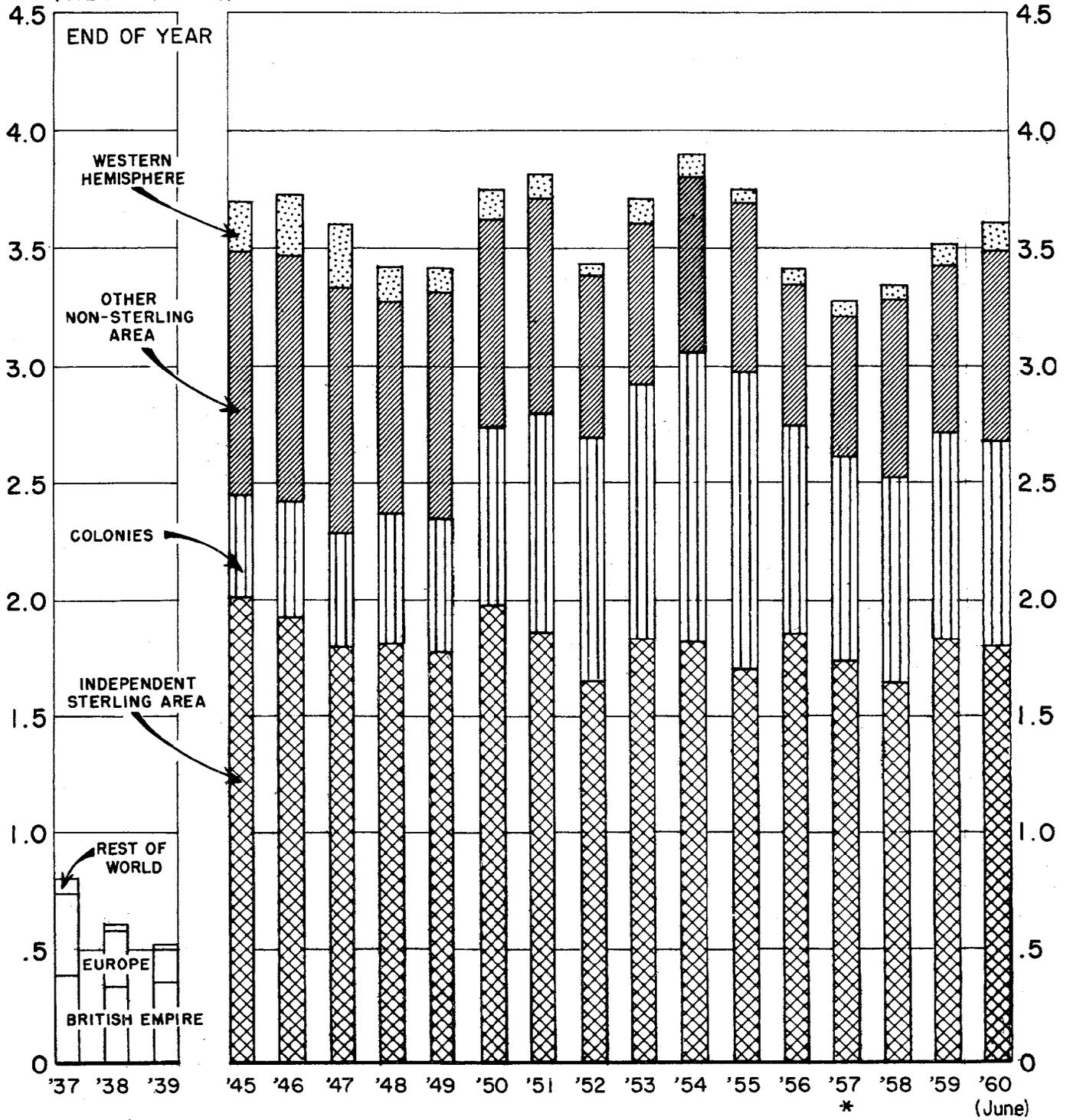
1/4/61
1750

IBRD-Economic Staff

UNITED KINGDOM

STERLING BALANCES

(BILLIONS OF £)



*Ghana, Malaya, and Singapore transferred from Colonies to Independent Sterling Area.

SUMMARY AND CONCLUSIONS

1. Production in the United Kingdom over the last decade has been expanding at constant prices at about 2% per annum in conditions of full employment. Industrial production has, however, expanded more slowly than in other industrial countries of Western Europe. The population is increasing very slowly and, although during the next few years the numbers joining the working force will increase as a result of the higher birth rate after the war, labor supply is likely to continue to limit the growth of output.
2. In these circumstances the rate of growth of output depends primarily on the increased productivity of labor; on the effort exerted by the worker, on the performance of management and organization, on the rate and quality of investment. With the stabilization of defense expenditure since 1956, investment, particularly in the private sector, has run at higher levels. Fixed investment has risen to nearly 17% of gross domestic product. Currently, public investment accounts for two-fifths of the total. Much of it consists of social investment which is not directly productive and doubt has recently been cast on the return from some major projects in industries in the public sector.
3. The average rate of unemployment during the past decade has been very low, mostly between 1% and 2%. The shortage of labor has not been conducive to efficiency and has encouraged a persistent rise in wage rates although real earnings may not have risen more rapidly than output. How to maintain full employment without inflation, however, remains an unresolved problem. During the past decade the United Kingdom has come to rely more and more on monetary measures to adjust the level of demand to productive capacity.
4. The economy remains greatly dependent on international trade. In the years following the war the difficulty was to produce sufficient goods for export. In recent years the problem has been to sustain the growth of British exports in the face of increasing competition from other industrial countries and little expansion in world trade, and since 1956 the rise in export earnings has been small. Many industries producing the more complicated form of products and newer industries employing a high ratio of capital to labor have successfully developed their export trade, but some traditional export industries (coal and cotton textiles) have declined.
5. Since the war the United Kingdom's external reserves have been small in relation to the size of its external transactions and the short-term deterioration in its external payments position produced successive balance of payments crises. Whereas the earlier crises were met primarily by an intensification of import restriction by the United Kingdom and other Sterling Area countries, more indirect measures have been applied since 1952 when a move towards freer trade and payments was initiated. At the end of 1958 sterling became de facto convertible for current transactions and with the exception of a small number of restrictions for protective purposes, imports are now entirely free from quantitative limitations and no resort has been made to protective duties to replace import restrictions.

6. The convertibility of sterling and other principal Western European currencies, together with the deterioration in the external payments position of the United States, has transformed what used to be a dollar problem into one of overall performance of the United Kingdom and the Sterling Area in external transactions. In conditions of convertibility sterling may be more vulnerable to adverse developments in external payments. On the other hand all the external support provided at the time of the last (Suez) crisis has been repaid and, in addition to the United Kingdom's own reserves, support from the enlarged resources of the I.M.F. is now available to meet any future short-term deterioration. More important, perhaps, is the ability the United Kingdom has demonstrated during the last eight years to meet payments difficulties by measures designed to curb demand at home rather than by direct regulation of imports.

7. Reserves of gold and convertible currencies, although they have been built up in recent years, are no higher than they were at the end of 1950 and represent about 3-4 months expenditure on imports. During 1960 external reserves have been increasing, largely it seems due to movements of capital to London in response to higher interest rates. Performance of current external payments has been deteriorating as exports have ceased to increase. Markets in primary producing countries have for some years been weakened by the decline in commodity prices and the recession in North America (together with the expansion of production of European-type cars) and the falling rate of growth in Europe have affected the demand for British exports. Expenditure on imports has been relieved by the fall in import prices but in the last two years has risen ahead of exports.

8. It is difficult to see the direction the economy is going to take in the immediate future. Earlier last year interest rates were raised and other measures were taken to reduce the volume of credit, but there is now pressure for easier monetary conditions in the light of a tendency to falling demand and increasing under-employment in some industries producing consumer durable goods for home and export markets.

9. The total amount of Bank loans guaranteed by the United Kingdom is relatively small. The principal outstanding on existing loans represents less than 1.5% of gross annual receipts from current external transactions. The annual service payments on the external public debt similarly amount to about 2% of gross annual receipts from current external transactions.

I. INTRODUCTION

1. This report has been prepared in the light of the obligations which the United Kingdom incurs as a guarantor of Bank loans to British dependent overseas territories. The total amount of such loans made so far (\$193 million) is small in relation to the external transactions of the United Kingdom. The principal outstanding on these loans represents less than 1.5% of the U.K.'s gross annual receipts from current external transactions.

2. The total of the external public debt of the United Kingdom outstanding at the end of 1960 was \$5,737 million. Annual service payments on this debt amount to about 2% of gross annual receipts from current external transactions. Details of the external public debt and debt service obligations are provided in Tables 1 and 2 in the Appendix.

3. Previous economic reports were prepared over the years 1953 to 1956. These reports tended to be concerned with recent economic developments, particularly in respect of external transactions. They were set against a background of a partly controlled economy particularly in respect of external trade. The reports, however, noted an increasing tendency for government to withdraw from the direct regulation of economic life. In the five years which have elapsed since the last report was written, many changes have come about. The de facto convertibility of non-resident sterling (and other Western European currencies) from the end of 1958 and the dismantling of import restrictions imposed for balance of payments purposes have largely unfettered Britain's overseas trade from controls related to the currency area involved. Similarly the internal economy is mostly free from direct governmental control.

4. In these circumstances it was felt that a rather different type of report from those previously prepared should be submitted. The three previous reports were prepared at times when the short-term balance of payments prospects of the country required special attention. They gave an account of recent economic experience and an assessment of short-term prospects. In the present report consideration is given to recent experience, but much of the report is concerned with developments over the past decade. In looking at the prospects for the economy, attention is devoted more to longer-term problems than to short-term prospects.

II. DEVELOPMENTS SINCE 1955

5. At their meeting at the end of 1952, Commonwealth Prime Ministers decided on a gradual collective approach to the convertibility of sterling and the freeing of external trade and payments. From 1947 until then, post-war practice had been for successive difficulties which were experienced in external payments to be met by the U.K. and countries of the sterling area reducing their imports from the outside world. The 1952 decision constituted a major change of policy and henceforth the intention was gradually to dismantle controls over external trade and payments as progress was made towards a situation in which sterling no longer required artificial support.

6. From the mid-1950's the U.K. has tended to resort increasingly to monetary measures to correct disequilibrium in the balance of payments.

The balance of payments crisis of 1956 was approached in this way. In 1955 the U.K. ran a current account deficit of £92 million as compared with a minimum current account surplus of £139 million during every other year of the 1950's except 1951 when an adverse balance of £419 million was recorded. Short-term support for sterling was obtained from the Fund and the Export-Import Bank and in contrast to behavior in 1951, considerable resort was made to monetary measures. Bank rate was raised from 3% to 4-1/2% in February 1955 and to 5-1/2% in February 1956. The commercial banks were requested by the Chancellor of the Exchequer to reduce their lending, and advances to the private sector declined by 6% in the year ending July 1956. Restrictions on hire purchase transactions were imposed in February 1955 and progressively tightened during the next 12 months. Small savers were offered more attractive terms and the opportunity to invest in prize bonds. Taxes were raised in successive budgets in October 1955 and April 1956. In 1956 a current surplus of £192 million on external transactions was achieved and external reserves which had fallen by \$642 million in 1955 began to rise.

7. Thereafter external reserves rose progressively to \$3 billion at the end of 1958. They fell in 1959 by over \$300 million but the U.K. made special payments by way of its additional subscription to the Fund and advance repayment of the Export-Import Bank credit of \$250 million. External reserves rose in 1960 to \$3.2 billion at the end of the year.

8. In 1957 uncertainty developed in relation to the future of sterling, due partly to ineffective exchange control and speculative pressure in the light of a partial devaluation of the French franc. Monetary measures were again resorted to and the Bank rate was raised in September to 7%, the highest for 37 years, concurrently with a reduction in the German discount rate. New requests were issued to the commercial banks and a ceiling imposed on public investment. The drastic character of these measures impressed foreign financial circles and soon put an end to bearish speculation on the future of sterling.

9. Once confidence had been restored, the U.K. began to ease monetary conditions. Over the last two years, bank credit has expanded remarkably. From a low level early in 1958 bank advances rose by 60% during the next two years. The increase in bank advances was accompanied by falling interest rates. Bank rate was reduced in successive stages in 1958 to 4% and remained at this level until January of this year when it was raised again to 5%. The increase in bank advances was not only very large in itself but much greater than any previous increase since the devaluation of sterling in 1949. The freeing of bank credit was accompanied by the removal of other governmental controls on the money market. The role of the Capital Issues Committee which since the war had regulated capital issues was progressively reduced. Restrictions on hire purchase transactions were removed in September/October 1958.

10. Bank advances to agriculture, engineering and steel, shipping and shipbuilding expanded at more than the average rate but a feature of the last two years has been the great expansion of credit to retail trade,

to hire purchase finance companies, to persons and professions and to stockbrokers. Advances to hire purchase finance companies, which amounted to only £30 million in February 1958, had risen to £126 million two years later. Advances to stockbrokers rose from £9 to £24 million. Advances to the retail trade and to persons and professions both doubled, rising from £167 to £338 million and from £320 to £638 million respectively. Advances to other financial undertakings rose from £172 to £301 million (see table 16 in Appendix).

11. The commercial banks financed the expansion of advances largely by selling investments, principally in government securities. The investment portfolios of the London clearing banks were reduced from £2.1 billion in March 1958 to £1.5 billion in March of this year. The expansion of advances, however, led to some reduction in liquidity and the percentage of liquid assets to gross deposits of the London clearing banks, which was 33.9% in March 1958, fell to 31.5% in March 1960 (see table 15 in Appendix).

12. From 1955 to 1958 the volume of industrial production showed little change. In 1959, however, industrial production rose by nearly 7%. Unemployment rose until early 1959, but at its maximum was still below the 3% figure which at the end of the war had been regarded as a mark of full employment. In the first half of 1959, unemployment fell rapidly from 2.8% to below 2% in July and the numbers of unfilled vacancies rose. With the demand for labor rising and labor resources almost completely taken up, some strain developed in the economy.

13. Externally the situation was becoming unfavorable. Over the period 1956 to 1959 exports showed little tendency to rise, but the volume of imports continued to expand. With the fall in the prices of foodstuffs and imported raw materials, the terms of trade improved by 10% and imports in 1959 were only 4% greater in value than 1956. Imports had, however, fallen in value in 1958, providing for the first time since the war a favorable balance of visible trade. Imports in 1959 rose much more rapidly than exports. Invisible earnings were, however, sufficiently large to yield a surplus on current transactions of £139 million. This was, however, £200 million less than the figure achieved in 1958 and the trend was unfavorable.

14. From the beginning of 1960 the U.K. Government has been taking steps to correct the situation particularly by **restraining** internal demand. The increase in bank rate mentioned above was the first of many monetary measures. Bank rate itself was raised again to 6% in June (and reduced to 5.5% in October and 5% in December). Control of hire purchase of consumer goods was reimposed and for the first time the commercial banks made special deposits with the Bank of England which are not included in their liquid assets. In addition, the government announced that public investment would not be expanded during the next fiscal year. In recent months the government has become increasingly concerned with the disappointing performance of merchandise exports and has been encouraging greater interest in the promotion of British goods overseas.

15. Although internal conditions and external trading experience have become unfavorable, external reserves have tended to rise. This situation is a reflection of the changed external payments situation of the United States in relation to the industrial countries of Western Europe since the closing of the dollar gap. Experience in the first 12 years after the war should, however, be a sufficient reminder of the rapidity with which external confidence in sterling can change, and the attraction of funds to London this year with encouragement of rising interest rates when money rates were falling in New York has not diverted the U.K. Government from measures to correct the unsatisfactory external payments situation.

16. There has already been a slackening of home demand for durable consumers' goods, but with the recent decline in the growth of world trade, the result so far has been a reduction in activity in some industries (particularly the motor industry) rather than the diversion of output from home to overseas markets. Indeed the Government is being pressed to ease restrictions on hire purchase to encourage the revival of demand at home and relieve increasing under-employment in the motor industry. The United Kingdom is again confronted with the familiar problem of achieving both equilibrium of external payments and full employment at home.

III. PRODUCTION, EMPLOYMENT AND INVESTMENT

17. Total output has risen in value in every year since the war. In the 1950's the gross national product rose by 6.5% per annum. Most of this increase was, however, due to price increases and, at constant prices, the gross national product rose on the average by some 2% per annum. Since the last census was taken in 1951 the population is estimated to have grown by less than one-half of one percent per annum so that in real terms gross national product per capita has risen by about 1.5% per annum.

18. Although experience has varied from year to year, consumers expenditure has averaged about two-thirds of gross national product and the current expenditure of government authorities on goods and services about one-fifth. Total gross national savings have risen throughout the past decade, except in 1958, both absolutely and in comparison with the growth in gross national product, and now amount to about 20% of gross national product.

19. Appendix Table 3 shows the contribution made by each group of activity to the gross national product. Manufacturing is by far the most important, providing more than one-third of the gross national product. Both agricultural activities and mining are small in relation to manufacturing. Government services ^{1/}, including defense, health and education, now represent about one-tenth of gross national product.

20. At constant prices the gross domestic product has risen by 33% since 1948. The chart shows the variation in the output of the principal groups in relation to total output and to one another. The fall in public administration and defense since 1953 follows the progressive removal of many direct government controls and the declining importance of military expenditure. The output of mining has declined in recent years due to a reduction in the production of coal. The expansion of agricultural output has moved closely in line with that of total output. The changes in the manufacturing output call for most attention. Over the whole period the output of manufacturing industry has risen by 48%. The rise was particularly rapid from 1952-55 when output rose by nearly 7% per annum. After a period of stagnation until 1959, output rose again by nearly 7%.

21. Although the output of manufacturing industry at constant prices has risen by nearly 50% from 1948 to 1959, not all manufacturing industries have expanded at the same rate. A greater increase has been achieved by oil refining, general chemicals, coke ovens, engineering and electrical goods, vehicles and paper printing and publishing. The increase in this group of industries ranges from 66% in the case of chemicals, to 116% for vehicles and 172% for coke ovens and oil refineries.

22. The output of other manufacturing industries has increased much more slowly. The production of textiles was still slightly above the 1948 figure in 1959 but had fallen throughout the 1950's. The output of drink and tobacco has risen by only 17% during the whole period and the rise has been confined entirely to the last five years. In some other industries, on the other hand, production expanded rapidly until about 1956, but thereafter, in the period covered, output has been static or has declined. Such industries are ferrous metals, shipbuilding and marine engineering, and bricks and cement (see Appendix Table 6).

^{1/} Excluding nationalized industries.

23. Ever since the war an extremely high level of employment has been maintained. This is in great contrast to the situation which existed before the war when a large percentage of the labor force was permanently unemployed even in boom years. The lowest figure for unemployment in the 1930's, about one and a quarter million, was reached in 1937 when the average number of people unemployed was 10.5% of the number of employees.
24. During the war consideration was given to postwar aims and W. H. Beveridge in his "Full Employment in a Free Society" spoke in terms of full employment at a 3% rate of unemployment to allow necessary mobility of labor. The 3% figure came to be the target of postwar Britain, and in fact it has rarely been exceeded during the fifteen years since the end of the war. In the 1950's the annual average rate of unemployment was mostly between 1% and 2%, though in 1958 and 1959 it was slightly higher. The annual average number of unemployed in Great Britain has ranged from 230,000 to 475,000. In the first half of 1959 the number of unemployed at one time exceeded 600,000, but by the middle of 1960 the total was again down to the 300,000 mark.
25. These lower figures of unemployment refer to a working population which at the end of 1959 was nearly one-quarter larger than before the war. Since the end of the war, however, the working population of the United Kingdom has increased very slowly and at 24.6 million in 1958 was less than one million greater than in 1951 when the last population census was taken.
26. Although the fact that the population of the U.K. has continued to rise has confounded prewar prophecies, no spectacular increase in the working population can be expected. An accretion to the working population should, however, occur in the next few years when the first consequences of the higher postwar birth rate are felt. The number of children under the age of 15 in 1959 was 12.1 million as compared with 10.3 million in 1939. The number of live births is again increasing, but only slowly (see Appendix Table 7).
27. Unemployment has not been uniform throughout the country and has also varied from industry to industry. Some areas, notably Northern Ireland, Scotland, Wales and N.E. England, have experienced continuous unemployment much higher than the national average and action has been taken to encourage manufacturers to establish plants in these areas. Some parts of the country have been affected by the decline of highly localized industries, for example, coal mining in South Wales. Appendix Tables 8 and 9 show changes in employment by industrial groups.
28. Industries showing an exceptionally high rate of expansion not only include industries in which the U.K. has long experience and a supply of specialized labor, but also new industries. With a static labor force, industries making a limited call on labor relative to capital may offer the greatest hope for the growth of production.
29. Oil refining has shown the most spectacular growth among the newer industries. Since 1956 oil has been substituted for coal at the average rate of 4.5 million tons (of coal) per annum, and official forecasts envisage a total energy demand of 300 million tons per annum (expressed in terms

of coal equivalent) in the middle 1960's as compared with 246 million tons in 1959.^{1/}

30. A comparison with the rise of industrial production in some of the other leading countries of Western Europe reveals a less satisfactory situation.

Industrial Production

Manufacturing

1953=100	United Kingdom	Federal German Republic (excl. W. Berlin)	France	Italy
1948	82	36	77	61
1957	115	149	148	137
1958	114	154	154	143
1959	121	165	162	159
1960				
April	131	182	181	181
May	137	188	187	191
June	131	189	184	183

Source: United Nations Monthly Bulletin of Statistics.

The great rise in production in Western Germany from 1948 to 1958 reflects in part the later reestablishment of German industry after the war. Comparisons of this kind are also affected by statistical differences, but the figures indicate that since 1953 the expansion of production in France, Germany and Italy has been much greater than in Britain.

31. Since the early 1950's the U.K. has been progressively freeing its economy from physical controls. Import control is now confined to measures to assist agriculture and the jute industry. Imports of cotton textiles from eastern countries are also limited by agreement as the cotton industry, with government assistance, removes redundant plant and reequips itself on a smaller scale with modern machinery. Generally the removal of import control has not been accompanied by increases in import duties.

32. In conditions of full or over-full employment, with the working population increasing almost imperceptibly, increases in production since the war have depended primarily on the better use of labor and the greater and better application of capital. The U.K.'s target has been a 3% increase in industrial production per annum. This rate of increase was broadly achieved up to 1955. Since then, however, the average annual rate of increase has been less than 2% and with unemployment now at a very low level, it will be difficult to attain a 3% rate over a term of years. Indeed one of the problems of the U.K. seems to be that of achieving a sufficient expansion of production at present levels of consumption. An important factor in this respect is the performance of investment.

^{1/} National Institute Economic Review, September 1960.

33. Total fixed investment since 1948 has varied between 13% and 17% of gross domestic product at market prices. Investment has been rising without interruption throughout the period in absolute terms and, for much of the time, in relation to gross domestic product.

Investment

(At current prices)

£ Billion

<u>Year</u>	<u>Gross Domestic Product at Market Prices</u> 1	<u>Total Gross Investment</u> 2	<u>Total Gross Fixed Capital Formation</u>			
			<u>Total</u> 3	<u>Public Sector</u> 4	<u>Private Sector</u> 5	<u>Column 3 1</u> %
1949	11.6	1.9	1.6	.8	.8	13.8
1950	12.0	2.0	1.7	.8	.9	14.1
1951	13.4	2.1	1.9	1.0	.9	14.2
1952	14.7	2.4	2.1	1.2	1.0	15.3
1953	15.7	2.7	2.4	1.3	1.1	16.3
1954	16.7	2.8	2.7	1.3	1.3	16.2
1955	17.9	3.1	2.8	1.3	1.5	15.6
1956	19.4	3.6	3.1	1.4	1.8	16.0
1957	20.5	3.9	3.4	1.5	1.9	16.6
1958	21.4	4.0	3.5	1.5	2.1	16.4
1959	22.1	3.9	3.7	1.6	2.1	16.7

Source: National Income and Expenditure 1960 - Central Statistical Office.

34. Since the war, the tendency has been for investment in the public sector to remain at a high level. For several years, gross fixed capital formation in the public sector was greater than in the private sector. The emphasis immediately following the war was on the transfer of basic industries from private to government ownership. Coal, gas, electricity and transport (and iron and steel for a time) were nationalized and became the subject of large investment programs. An investment program of £635 million was planned for coal mining for fifteen years starting 1950 (now £511 million over the years 1960-65). More recently, a £1,200 million railway modernization program commencing in 1955 and an electricity investment program of £1,250 million over the years 1956 to 1962 (now £3,350 million, 1956-1966) were adopted. Nationalized industries are required to earn sufficient revenue to enable them at least to break even taking one year with another. Some have incurred persistent losses (notably the British Transport Commission) which have also had to be financed largely by borrowing. Major legislation was also introduced to expand the social services, and fixed investment by government on education has expanded more rapidly than total fixed capital formation. Fixed investment in housing rose by nearly 100% between 1949 and 1954 but no further increase was recorded until 1959.

35. Investment in manufacturing is the main element in investment in the private sector. As a whole it has kept pace with the growth in total fixed investment but has lagged behind the expansion in the private sector during the postwar period. In most years, investment in manufacturing has accounted

for more than 25% of total fixed investment but its part in fixed private investment has fallen from about 50% up to 1953 to around 40% in the last two years. Investment in some manufacturing industries, particularly chemicals, iron and steel, vehicles and aircraft, and the engineering, electrical goods and shipbuilding group rose rapidly from year to year during most of the past decade, but even in these industries the growth in investment was not uninterrupted. Appendix Table 4 shows the distribution of gross fixed capital formation between industries.

36. Investment in the public sector may not always have been directed to the most advantageous use of capital and recently, for instance, there has been much discussion of the economic justification of part of the railway investment program. This problem is not, however, confined to the public sector. Although investment in the private sector since 1955 has exceeded investment in the public sector, the capital/output ratio has risen. It has been suggested that this may have been due to a greater proportion of investment being made in service activities which have a particularly high capital/output ratio. With improved standards of living the demand for such activities has increased, producing a greater than average increase in investment.

37. A recent report^{1/} described the yield from investment as "disappointingly low" and stated that present trends in output and productivity would "leave Britain with a lower standard of living than several other European countries within a few years". The following table compares the share of investment in output and the rate of growth of output of the leading industrial countries.

	Gross Fixed Capital Formation as a Percentage of Gross <u>National</u> Product at <u>Current</u> Prices		Percentage Annual Increase in Gross <u>Domestic</u> Product at Constant Prices	
	1923-29	1950-58	1923-29	1950-58
United Kingdom	9.8	14.0	2.9	2.2
United States	15.0*	14.2*	3.3	3.3
France	9.8	17.2	2.3	4.3
Federal German Republic	17.8	20.8	2.8	7.4
Japan	17.4	21.7	5.1	7.9

* Gross private domestic fixed capital formation.

Source: World Economic Survey, 1959 - United Nations.

^{1/} Political and Economic Planning, "Growth in the British Economy".

The table indicates that while, relative to output, investment in the U.K. has been running at a much higher level than in the 1920's, investment has assumed a smaller share in output than in the other industrial countries listed. The rate of growth of output in the 1950's is also seen not only to be lower than in the 1920's, but also by far the lowest of all the industrial countries included in the table.

IV. WAGES AND INDUSTRIAL RELATIONS

38. There has been much discussion of industrial relations in Britain through the postwar years. Immediately after the war the principal need was to bring about a smooth transition from wartime to peacetime forms of production. Very soon, however, two major problems emerged, neither of which was found to be readily susceptible to solution. Firstly, how, in conditions of full employment, which all political parties were pledged to maintain, increases in the earnings of labor could be confined within the limits set by growth in output and how a greater and increasing productivity of labor could be attained. Secondly, how to secure forms of organization of labor and management and of relations between them more appropriate to the postwar economic situation than to prewar conditions of persistent excess of supply of labor.

39. It was appreciated that in the changed situation of the U.K. in respect of international payments a higher level of export earnings was required. Plant and equipment had, however, been run down during the war and increasing output and improved productivity of labor depended greatly on a sufficiently high level of investment or abstinence from consumption. The position was further complicated by the nationalization of certain industries, particularly of coal mining which had a long history of labor troubles and low earnings.

40. In the first postwar years the tendency was to attempt to do too much at once. Although after the privations of the war British industry was neither in a physical state nor the mood to expand output rapidly, workers expected improved conditions. The result was a tendency to inflation which in itself adversely affected the external payments situation. The U.K. Government endeavored to restrain the growth of wage rates, to discourage absenteeism and to encourage a greater effort while at work.

41. After 1950, however, average weekly earnings rose rapidly. From 1954 average real earnings also began to rise and, although comparison is hazardous, and is made even more difficult by the introduction of a new index of consumer prices, real earnings on average may have continued to rise for the remainder of the period. Column 5 in the table below indicates that the rise in real earnings since 1948 may have been of similar proportions to the increase in productivity.

Earnings and Productivity

	<u>Col. 1</u>	<u>Col. 2</u>	<u>Col. 3</u>	<u>Col. 4</u>	<u>Col. 5</u>
	Average Weekly	Index of Retail	Crude Index of	Index of Gross	Index of Gross
	Earnings of All	Prices, Monthly	Average Weekly	Domestic Product at	Domestic Product at
	Operatives ^{1/}	Averages ^{2/}	Real Earnings of	1954 Factor Cost Per	Capita of Total in
			All Operatives	Civil Employment ^{3/}	
	s.d.	Index			
				<u>Col. 2</u> %	
				<u>Col. 3</u>	
1938	53/3	45	58		
1948	117/4	100	100	100	100
1950	124/1	106	106	100	106
1952	147/3	126	126	100	108
1954	166/6	142	132	109	114
1956	197/9	168	144	117	117
1958	214/2	183	154	118	119
1959	222/6	190	155	123	127

^{1/} 1948 figure is for October, the remainder for April.

^{2/} New index from 1956

^{3/} End of June

Source: Annual Abstract of Statistics and National Income and Expenditure, Central Statistical Office.

42 With some exceptions the percentage increase in the average weekly earnings in individual industries from 1950 to 1959 conformed closely to the overall rate of increase (see Table 12 in Appendix). Only textiles and clothing show a rate of increase of more than 10% less than the average, and earnings in those industries in 1959 were less than those in most others. Docks, coal mining, railways and agriculture are not included in the calculation of the aggregate position. The levels of earnings of dock labor and coal miners are higher than those of workers in most other industries. Earnings in British railways are relatively low but have recently increased following wage awards. Agricultural wages have risen at not much less than the average rate of increase and remain well below those in industry.

43. The rise in earnings is in part the result of the working out of natural economic forces. The vehicle industry, which had the highest average earnings in 1959, was expanding rapidly and seeking to attract new workers during most of the 1950s. In contracting industries such as coal mining, non-economic forces have promoted a rapid rise in wage rates. Wage rates are generally the subject of frequent bargaining by trades unions and in the nationalized industries organized labor tends to be strong. With output rising slowly the outcome of wage negotiations is generally a matter for concern. Usually, however, there has been a tendency for wage increments to be smaller than foreseen at the time. Increments, however, seem often to be negotiated irrespective of the prevailing economic climate and agreements to one group of workers tend to have repercussions throughout industry.

44. Most wage negotiations have been concluded without strike action, but the number of working days lost through strikes has shown a rising trend in postwar years. Appendix Table 11 gives a summary of the incidence of strikes. There has been no nation-wide stoppage of work during the postwar period but a strike of most railway locomotive crews in 1955 and dock strikes, for example, in 1958 and again in 1960 have for a time hampered external trade.

45. The number of hours worked in manufacturing industries has fluctuated within narrow limits during the past decade. In April of each year from 1950-1960 the average number of hours worked weekly by adult male workers varied between 46.9 and 48.6. Working hours rose to a maximum of 48.6 in April 1955, since when they have fallen year by year to 47.4 this year.

46. The number of hours worked per week depends, amongst other factors, on the extent to which employees decide to stay away from work. In postwar conditions of a general shortage of labor, more favorable wage rates and a greater resort to more highly paid overtime working, absenteeism has added to the difficulties of British industry. Information is most readily available for the coal mining industry. Absenteeism has been high throughout the postwar period and since 1954 the percentage of absences in relation to the possible number of appearances during the normal five-day week (i.e., excluding Saturday working which has been regarded as overtime) of workers at the coal face has risen steadily year by year to an average of nearly 17% in 1959 and the average number of shifts worked per wage-earner has fallen to below four per week.

47. Nearly 10 million workers, or less than half of the total number of employees in the United Kingdom, are members of registered trades unions, but the importance of trades unions is much greater than their numerical strength would indicate. Negotiations in respect of conditions of work in most industries are conducted directly with trades union representatives and employment is often dependent on union membership. Since the war the number of unions has been declining and the larger unions have been increasing their membership. There are in all more than 600 unions, but the 36 largest unions have a combined membership of about 8 million. The size and ramifications of some of the larger unions have made it difficult for officials to keep in contact with the feelings of members and action has been taken from time to time by groups of members rather than officially by their trades union.

48. In recent years the aim of successive governments has been to keep increases in wages within the growth of productivity. The Chancellor of the Exchequer said recently:

"I am not saying that every wage rate and every price should be frozen in perpetuity. But if they move ahead in advance of increased productivity, there is bound to be trouble and any real advantage to the wage-earner from increases in wages will either be lessened or disappear. We have a chronic dilemma how to expand the economy. We want expansion without inflation, stability without stagnation."

This analysis has yet to be widely accepted for the purpose of wage negotiations. As in many other countries, trades unions still tend to adhere to their traditional role of pressing for such progressive improvement in working conditions as can be secured from employers, and postwar conditions of full employment and extended national ownership have fortified their bargaining strength.

V. PUBLIC FINANCE AND MONETARY POLICY

49. The greater part played by the public sector in capital investment since the war has already been referred to. For six years after 1948 the public sector accounted for more than half of gross fixed capital formation at home, as compared with less than one-third in 1938. Since then, investment in the private sector has surged and in 1958 and 1959 gross fixed capital formation in the public sector fell to 43% of the total.

50. Current expenditure as well as capital formation in the public sector has been more important than before the war. Excluding the activities of public corporations the total expenditure of central government and local authorities, for both current and capital purposes, has risen from £4,600 million in 1950 to £7,800 million in 1959 and now amounts to about 36% of gross domestic product. The central government accounts for the greater part of this expenditure but the expenditure of local authorities rose much more rapidly, from £1,100 million to nearly £2,200 million.

51. The largest individual items in the total of local and central government expenditure are defense, national insurance and pensions, and education. Expenditure on defense at over £1,600 million in 1956 was twice the 1950 figure. This great rise in defense expenditure followed a change of policy which had started at the time of the Korean War. Defense expenditure had been greatly reduced from the end of the war down to some £800 million per annum, or about 7% of gross domestic product. From 1951 expenditure on this account rose rapidly and in the five years from 1951 amounted to about 10% of gross domestic product. Since 1956 defense expenditure has been stabilized at about £1,600 million per annum and has fallen to about 7.5% of gross domestic product. Defense expenditure, however, has tended to be higher in Britain than in some of the other principal countries of Europe. In 1958, the share of defense expenditure in gross national product amounted to 7.7% in the United Kingdom, 7% in France, 4.3% in Italy and 3.2% in Germany.

52. Expenditure on social security, insofar as it is represented by outgoings for national insurance, pensions, etc., and total expenditure of the central government and the local authorities on education and child care, have risen by 120% and 128% respectively between 1950 and 1959 (see table 13 in Appendix). General government capital formation (i.e. excluding public enterprises) in the United Kingdom has, however, taken a smaller share of gross domestic product than in most industrial countries. 1/

53. The current budget accounts of the United Kingdom Government for three years during the past decade are summarized in the following table.

1/ United Kingdom 1.5%, Germany 2.6%, Italy 2.5%, France 1.8%, Belgium 1.5%, Japan 3.2%, Netherlands 3.5%. The percentages refer to the years 1950-58. For 1950-59 the United States figure is 2.3%. Source: United Nations World Economic Survey, 1959.

Summary of United Kingdom Current Budget Accounts

£ Million

	<u>1951/52</u>	<u>1955/56</u>	<u>1959/60</u>
<u>Ordinary Revenue</u>			
Direct Taxation	2,362	2,543	3,010
Indirect Taxation	<u>1,752</u>	<u>2,013</u>	<u>2,282</u>
Total, Including Other Items	4,433	4,893	5,630
<u>Ordinary Expenditure</u>			
Consolidated Fund Services (principally service of national debt)	592	744	742
Supply Services	<u>3,461</u>	<u>3,752</u>	<u>4,502</u>
Total	<u>4,053</u>	<u>4,496</u>	<u>5,244</u>
Above the line surplus ^{1/}	380	397	386

^{1/} "Above the line" items include all receipts from taxation, current and capital expenditure of government departments and the service of the national debt. "Below the line" items include repayments of past loans to nationalized industries and payments made by the Exchequer by way of loans to nationalized industries and other statutory bodies, and to colonial governments.

54. Receipts from direct taxation provide more than half of total revenue. Income tax is the most important item in this category and contributed more than two-thirds of the total revenue from direct taxes. The aim has been to reduce income tax to increase the incentive to production and to lower the burden on small incomes. During the 1950's the standard rate of income tax has been reduced from 9s/6d in the £1 (47½%) to 7s/9d (38-3/4%) and allowances for small incomes, married persons and dependents and earned income allowances have been increased. Surtax is chargeable in addition to income tax on incomes exceeding £2,000 at a rate rising to 10/- in the £1 (50%) on incomes exceeding £15,000.

55. Customs and excise duties are imposed principally for revenue purposes, protective duties yielding only about £100 million per annum. The principal sources of revenue from indirect taxation are duties on tobacco, alcoholic drinks and petroleum fuels and purchase tax on consumer durables. More details of revenues from taxation are given in Table 14 in the Appendix.

56. The central government has resorted to the budget as a major instrument to give effect to its short-term economic policies. Changes in taxation and in ordinary expenditure from year to year have in part been made for the purpose of influencing economic activity. Adjustments to rates of income tax, profits taxes and purchase tax have been most noteworthy in this respect.

57. A principal objective of fiscal policy has been to secure sufficient revenue to provide for a large part of capital expenditure in the central government sector and to supply local authorities with grants in aid. In seven of the nine financial years from 1951 to 1960, there was a substantial surplus of ordinary revenue, usually of around £400 million. The exceptions were the years 1952-53 and 1953-54 when the "above-the-line" surplus fell to below £100 million. In every year the "below-the-line" deficit exceeded this surplus and, including the requirements of the nationalized industries, substantial resort was made to the public for Exchequer financing. The total requirements of the Exchequer in this way ranged from a minimum of £163 million in 1958-59 to a maximum of £700 in 1952-53. These amounts were financed to a small extent from extra-budgetary funds (e.g. the National Insurance Funds) and from increases in the fiduciary note issue. External resources were also important in 1951-52, but over the period the net external finance received by the Exchequer was small. Small savings and the purchase of non-marketable securities in the earlier years represented a net drain on the Exchequer but in 1958-59 and 1959-60 small savings were a major source of government financing, amounting to over £300 million in each year.

58. The principal means of raising loans funds have been the issue of marketable stocks and the increase of the floating debt. Changes from year to year in the relative importance of these two sources are a reflection of both government policy and the absorptive capacity of the market.

59. At the beginning of the war the floating debt of the United Kingdom amounted to just over £1,000 million. By 1946 it was approaching £6,000 million. Immediately after the war the government of the day resorted to a cheap money policy. The Treasury bill rate had for long been kept at around 1/2%. The government in addition sought to establish a long-term borrowing rate of 2-1/2% for gilt-edged securities and in October 1946 issued Treasury stock for redemption in 1975 or thereafter at that rate. At the same time the intention was to reduce the floating debt by funding operations. By the beginning of 1949 the attempt to establish a 2-1/2% long-term rate was abandoned and yields on gilt-edged securities gradually rose. The floating debt was reduced to £5,000 million in 1951. Throughout this period the Treasury bill rate remained pegged at 1/2%.

60. In November 1951 a major change of government policy was made. Bank rate was raised from 2% to 2-1/2%, the Treasury bill rate rose to 1-1/2% and it was announced that the Bank of England no longer intended to retain a fixed Treasury bill rate. For 20 years, except at the outbreak of the war, the variation of Bank rate, traditionally a major instrument of the Bank of England in influencing the money market, had been discarded. In 1951 the extent to which reliance would be placed on Bank rate changes as opposed to other methods, particularly open market operations, to influence monetary conditions, was by no means clear. The Annual Report of the Bank of England for 1952 referred to the changes in these terms: "The change in the Bank rate marked a return to flexible (as well as higher) short-term interest rates and indicated that the Bank would no longer be prepared to adjust the cash available to the market ... to maintain the extreme stability of rates previously ruling".

61. Although Bank rate was raised from $2\frac{1}{2}\%$ to 4% in March 1952, the tendency for some years thereafter was to resort to only marginal changes in interest rates. As experience was gained, however, the authorities resorted more and more to the use of Bank rate as a major instrument of economic policy. In 1957 changes in Bank rate were made more frequently than in the difficult years of 1929-31. In September of that year Bank rate was raised by 2% to the record level of 7% as an anti-inflationary measure and in 1958 it was reduced five times, down to 4% , to encourage the revival of bank advances to the private sector. Thereafter Bank rate remained stationary until 1960 when two increases each of 1% to bring it to 6% were made to discourage the further growth of Bank credit which had risen greatly since the middle of 1958. Treasury bill rates moved in sympathy and yields on gilt-edged securities moved within narrower limits, largely between $4\frac{1}{2}\%$ and 6% . Action since 1951, and especially during the last three years, suggests that variation in the price of money has come to be regarded as an important factor to influence its volume.

62. After such a long period of cheap money, the rise of both short and long-term interest rates brought difficulties to the authorities. Falling prices for gilt-edged securities discouraged traditional purchasers of government securities, and led them to resort to other forms of investment which, while not gilt-edged, offered better protection against rising prices.

63. Throughout the 1950's, great interest was shown in the market for industrial equities and yields fell to levels which since September 1959 have been below those currently obtainable for gilt-edged. In this situation the authorities have been presented with a narrowing market for new issues.

64. The state of the gilt-edged market has been further affected by the behavior of the commercial banks during the credit expansion in the last two years. To maintain their liquidity the commercial banks have reduced their holdings of gilt-edged investments while expanding their advances. In 1958-59 the public disposed of some £400 million of marketable securities and in no one of the last three fiscal years was there a positive figure of net issues of government securities to the public. In these circumstances the requirements of the Exchequer have tended to be met by increasing the floating debt and in 1960 the increase in Treasury bills held in the market amounted to some £460 million. From 1952-53 the floating debt rose by about £1 billion to nearly £6 billion at the end of 1959.

65. The table of Exchequer financing on the next page has been adapted from the Radcliffe Report and more recent information. It will be seen that no breakdown is available of the destination of net issues of marketable stocks of the government before 1957-58. Over the whole period since 1947 total net national debt rose from £25.6 billion to £27.4 billion at the end of 1959.

Exchequer Financing

£ Million

Years Ended 31st March

	<u>1951/2</u>	<u>1952/3</u>	<u>1953/4</u>	<u>1954/5</u>	<u>1955/6</u>	<u>1956/7</u>	<u>1957/8</u>	<u>1958/9</u>	<u>1959/60</u>
<u>Requirements</u>									
Ordinary Revenue	4,433	4,439	4,368	4,738	4,893	5,158	5,343	5,480	5,630
Ordinary Expenditure (incl. sinking funds)	4,053	4,351	4,274	4,305	4,496	4,868	4,920	5,103	5,244
Above the line surplus	380	88	94	433	397	290	423	377	386
Below the line deficit	529	524	391	501	538	621	635	559	700
Overall deficit	149	436	297	68	141	331	212	182	314
Total Requirements (incl. nationalized industries issue of guaranteed stock) ^{1/}	280	711	607	239	457	316	192	163	296
<u>Financing</u>									
Extra Budgetary Funds, etc.	27	108	146	170	98	122	87	191	-6
External (incl. Exchange Equalization Account)	1,063	-127	-341	-175	120	201	-139	-250	-81
Increase in fiduciary issue	50	150	75	100	150	50	125	50	100
Borrowing:									
Non-marketable securities	-369	-159	-16	78	-112	127	-6	347	305
Marketable stocks:									
Total Net Issues	1,107	400	618	200	731	225	-69	-423	-42
Increase (-) or decrease (+) in holdings of Bank of England & National Debt Commissioners	-273	+33	-159	-182	-499	-45	-41	+359	-470
Increase in Market Treasury Bills	-1,325	306	284	48	-31	-364	235	-111	490

^{1/} Replaced in 1956 by advances from the Exchequer.

Source: Report of Committee on the Working of the Monetary System, 1959 and Annual Abstract of Statistics, 1960.

66. Throughout the 1950's government policy was moving progressively away from direct control of the economy. Initially investment was controlled to determine its direction and to limit demand. Control of capital issues remained, but during the last two years, the powers of the Capital Issues Committee have been drastically curtailed. Physical control of the economy has mostly disappeared and has been replaced by monetary measures. For many years the commercial banks were advised by the government in respect of the volume and direction of bank credit. The removal of this control two years ago enabled the commercial banks not only to expand credit but also to increase remarkably the level of advances outstanding for developing forms of credit, particularly for hire purchase transactions (see Section II - Developments Since 1955).

67. Apart from the reintroduction of hire purchase restrictions earlier this year, the authorities have therefore come to rely primarily on traditional monetary measures. When restrictions on credit were lifted in 1958, however, the commercial banks agreed with the Bank of England that the conventional 30% minimum relationship of liquid assets to deposits would be maintained but in addition the Bank of England introduced a new requirement of special deposits which it would call when necessary for mopping up excess liquidity. The calling of special deposits has already been resorted to in 1960.

VI. EXTERNAL TRADE AND PAYMENTS

68. Britain is more dependent on the supply of foodstuffs and raw materials from abroad than the other major industrial countries of the world. The total value of its import trade is now exceeded by that of the United States, but imports of goods are still equivalent to about 20% of gross national product. The United Kingdom has traditionally been a major exporter of manufactured goods, a supplier of shipping and financial services and a source of capital.

69. Since the end of the war successive governments in the U.K. have been beset by problems of external payments. The disposal of external assets in the early years of the war left a situation in which new export earnings were required to replace the lost income from investment. The country still needed to be able to maintain command over imports and wished to continue to invest abroad, particularly in the sterling Commonwealth.

70. After the war the annual net income from investments overseas declined from more than £200 million to between £80-£100 million, and efforts to overcome this reduction of overseas income encountered a further factor, a deterioration in the terms of trade.

71. For some time after the war, and particularly during the Korean War, the U.K. found prices in international trade moving unfavorably. These were years of shortages of basic materials and foodstuffs supplied largely by the primary producing countries of the world. By 1952 the U.K. needed to supply nearly 25% more exports to command the same amount of imports as in 1947. Most of the deterioration occurred after the devaluation of sterling in 1949, and particularly in the year 1951. Since the Korean War prices of raw materials and foodstuffs have fallen as supply has risen to meet or overtake demand. Conditions have favored the industrial countries importing primary products and exporting manufactured goods and by 1959 the index of the United Kingdom's terms of trade was almost back to its 1947 level.

72. Though the performance of the Sterling Area as a whole was mitigated somewhat by the surplus position of other sterling countries in transactions with the rest of the world, the movement in the terms of trade is of some importance in relation to the recurrence of periods of extreme difficulty for sterling during much of the postwar period and the more favorable position which has been achieved in recent years. The adverse balance of the United Kingdom on current payments of £419 million in 1951, for instance, can be attributed to the deterioration in the terms of trade in that year.

73. The following table gives in summary form the experience of the U.K. in respect of external payments since 1946.

Balance of Payments
United Kingdom

	Imports	Exports & Reexports	Visible Balance	Net Invisibles	Current Account Balance	Long-term Capital*	Holdings of Gold & Convertible Currency
	£ Million						End of Period**
							\$ Billion
1946	1,082	920	-162	-133	-295	+214	2.7
1948	1,794	1,604	-190	+197	+ 7	+304	1.9
1950	2,390	2,254	-136	+433	+297	- 14	3.3
1951	3,501	2,752	-749	+330	-419	- 68	2.3
1952	2,959	2,831	-128	+355	+227	-180	1.8
1953	2,896	2,677	-219	+398	+179	-241	2.5
1954	3,020	2,825	-195	+399	+204	-240	2.8
1955	3,432	3,076	-356	+264	- 92	-183	2.1
1956	3,466	3,402	- 64	+256	+192	-241	2.2
1957	3,570	3,543	- 27	+256	+229	-183	2.3
1958	3,341	3,432	+ 91	+254	+345	-259	3.1
1959	3,616	3,556	- 60	+199	+139	-553	2.7
1960							
(1st half)	1,968	1,941	- 27	+ 62	+ 35	-138	2.9

* Government long-term capital only for years 1946-1951, all long-term capital thereafter.

** Before 1959 "gold and dollar reserves".

Source: United Kingdom Balance of Payments 1946-1957 and 1957-1959. H.M.Treasury.

74. Immediately after the war the U.K.'s aim in international trade was to build up as rapidly as possible its production and exports of manufactured goods. It will be seen that exports rose rapidly until 1951. Thereafter they remained at about their 1951 level until 1955-1956 when another rise occurred. Since then, exports have made little further progress. After their very sharp rise in 1951, imports were much lower for the next three years rising again in 1955 to 1951 levels which have since been surpassed. With the exception of 1958, when imports sagged temporarily, the country has failed to achieve a favorable balance of payments on visible account.

75. Net receipts from invisible transactions rose rapidly after the war to a postwar peak figure of £433 million in 1950. The U.K. quickly resumed her peacetime position as a major supplier of shipping and other services and net income from overseas investments, though at a lower level than prewar, tended to rise. Due to military expenditure abroad, government transactions have shown large net payments on invisible account throughout the period. With the exception of the years 1951 and 1955, however, the surplus from other invisible transactions was sufficient to cover the adverse visible balance and the balance of government transactions and at the same time to have a surplus of varying magnitude on all current transactions. The surplus, however, has generally been insufficient to provide for the twin aims of government policies on capital account of building up external reserves and of investing overseas on a large scale.

76. The U.K. has in recent years set a target of £450 million net per annum for all overseas investment and improvement of the monetary position. At no time in the postwar period has the surplus on current account approached this figure and even in favorable years the surplus has usually been nearer to half that amount. The U.K., however, has endeavored to rebuild its investments overseas particularly in the sterling area. The capital demands of developing countries far exceeded what the U.K. itself could contemplate and for many years access to the London market by both governments and private undertakings was strictly controlled. No restrictions were, however, placed on the transfer of funds by residents from London to countries in the sterling area. In addition, since 1946 the United Kingdom has supplied more than £450 million in grants to dependent territories.

77. The United Kingdom is progressively transferring governmental responsibilities to its overseas territories but has decided to assist them financially to the extent of £12-16 million per annum to retain the services of expatriate civil servants. As they become independent members of the Commonwealth, they will be eligible for Commonwealth Assistance loans if they are unable to raise funds in the market. Much of the present outflow of capital is to former dependencies and the transfer of power in itself may have little effect on the overall rate of British overseas investment.

78. Initially the postwar recovery of the U.K. was assisted by large long-term loans from the U.S. and Canada, but these were soon used up and (except for resort to the International Monetary Fund and to short-term credits from the Export-Import Bank in 1957), the U.K. has since become a large net exporter of capital. Capital exports in some years, taken in conjunction with performance on current account, led to a considerable decline in external reserves. The largest net export of capital (£553 million) occurred in 1959, but was accounted for by payments to the Fund and the repayment of the short-term credits referred to above. Otherwise during the last eight years the net long-term export of capital ranged between £180 and £260 million per annum. This persistent capital export has, it is said, reestablished the value of the U.K.'s foreign investments at about its prewar level and has made it once again a creditor country.* From 1962 onwards performance of external transactions on current account will be assisted by a reduction in payments on the external debt of £23 million per annum (as compared with 1960, see Appendix Table 2). But, to attain an outflow of capital and an improvement in external reserves together totaling around £450 million annually, a current surplus persistently larger by some £200 million than that which has been achieved on average in recent years will be required.

79. The total of overseas holdings of sterling amounted to £3.9 million in 1947. These holdings have shown very little change in total over the postwar period as a whole, but fluctuations from year to year presented problems and for a time some control was exercised over withdrawals to avoid pressure on external reserves.

80. Table 1 in the Appendix lists in detail the external public debt of the United Kingdom at the end of 1959, including

* A. R. Conan - Westminster Bank Review, August 1960.

amounts undisbursed. Table 2 gives an estimate of annual contractual payments required to be made on this debt up to 1974. These vary between 2.2% and 1.5% of current earnings (gross) in 1959. Unfortunately information is not readily available to enable comparable tables to be prepared in respect of loans made by the United Kingdom to other governments.

81. Over the period since the war external reserves have been low and have shown considerable fluctuations. A progressive fall from 1946 to 1949 was followed by a rapid build-up of reserves after the devaluation of sterling in September 1949 to a peak figure of \$3.3 billion at the end of 1950. Since then, reserves have continued to fluctuate and are now once again above \$3 billion. They are supported by the enlarged resources of the Fund. The recent build-up of external reserves from \$2.1 billion at the end of 1955 has, however, been accompanied by a favorable movement of the terms of trade and at the current level of imports, a rise of only 1% in import prices would increase annual external payments by about \$100 million.

82. External reserves of \$3 billion are the equivalent of less than four months imports at the 1959 level. In addition there is the possibility of a call on the reserves to meet the requirements of the countries of the sterling area which keep their external reserves in sterling. Including sales of gold in London, these countries taken together tend, however, to be in a position of surplus in respect of transactions outside the sterling area. Further reference to the Sterling Area is made later in this chapter.

Export Trade

83. Some account has already been given of the growth in exports since the war. Total exports (including reexports) have risen in value by nearly 60% since 1950. The increase in volume has, however, been less spectacular, domestic exports having risen by some 20% between 1950 and 1959 largely as a result of expansion in the years 1954-57.

Volume of Exports of United Kingdom Produce and Manufactures

1950 = 100

<u>1938</u>	<u>1947</u>	<u>1949</u>	<u>1951</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
63*	62	86	101	104	108	118	120	116	121

* Using 1947 prices as weights.

Source: United Kingdom Annual Abstracts of Statistics.

84. After recovering in 1959, exports in 1960 again became static in value and the U.K. Government has been increasing its endeavors to encourage manufacturers to take a greater interest in the export trade. The sluggish behavior of British exports in recent years has been a matter of some disappointment in that exports have been languishing at a time when the export trade of some other industrial nations has been rising rapidly. The following table shows the comparative performance of British exports and those of some other industrial countries of Western Europe.

Value of Domestic Exports, f.o.b.

(Millions of U.S. dollars)

<u>Monthly Averages</u>	<u>United Kingdom</u>	<u>Federal German Republic</u>	<u>France</u>	<u>Italy</u>	<u>Netherlands</u>
1953	596	366	315	127	180
1955	670	511	409	155	224
1956	732	613	378	179	239
1957	768	715	421	213	258
1958	740	733	427	215	268
1959	777	814	468	241	301
1959 Jan.--June	764	752	434	214	281
1960 Jan.--June	846	910	582	299	324

Source: United Nations Monthly Bulletin of Statistics.

85. Experience since 1957 shows a much more rapid rate of growth in the exports of the continental countries than of the United Kingdom and in 1959 for the first time Western Germany's exports exceeded British exports in value. Not only is the U.K.'s share in world trade in manufactured goods tending to diminish, but her ability to provide for a continuing build-up of investments overseas as well as for higher levels of consumption at home is being affected.

Exports of United Kingdom Produce and Manufactures

By Destination

Monthly Averages

£ Million

	<u>1953</u>	<u>1955</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960 1st Half</u>
Australia, New Zealand & South Africa	39	49	46	46	39	42
India, Pakistan & Ceylon	14	16	20	18	20	(75
Other Sterling Area	51	50	54	52	53)
Total Sterling Area	104	115	120	116	112	117
Western Europe	58	65	75	69	76	87
North America	26	27	36	38	47	49
Latin America	9	9	14	13	13	14
Other	18	23	29	28	29	34
Total All Countries	215	239	274	264	277	303

Source: Annual Abstract of Statistics and Monthly Digest of Statistics, Central Statistical Office.

86. Before the war the countries which now form the Sterling Area took more than 40% of the United Kingdom's exports and supplied about 30% of its imports. During most of the postwar period Britain and many of the countries of the Sterling Area restricted imports from non-sterling sources while admitting sterling goods freely or subject to less severe restrictions and maintaining Commonwealth preferences. The proportion of the United Kingdom's total external trade conducted with the Sterling Area therefore tended to rise. Over the years from 1948 to 1953 the proportion of total imports originating in the sterling area rose from 35% to 45% and about 50% of domestic exports went to countries in that group. Since 1953 the importance of the Sterling Area both as a source of imports and as a market for British goods has declined and in 1959 some 36% of the United Kingdom's import trade and 40% of its export trade was conducted with the Sterling Area.

87. This decline can partly be attributed to the progressive removal of discriminatory import restrictions by the United Kingdom and other countries of the Sterling Area and the greater availability of manufactured goods from countries of Western Europe. It is also a reflection of the decline in the prices of primary products which has affected the export earnings of other countries of the sterling area and in consequence their ability to import. This change is particularly noticeable during the years from 1957 to 1959 when the total imports of countries of the sterling area outside Europe from all sources fell by about 5% while the imports of the industrial countries of the world, after falling in the recession of 1958, reached a record figure in 1959.

88. British exports to North America have risen rapidly but this advance may be short-lived. Exports to Western Europe have risen rapidly and until prices of primary products recover, the expansion of British exports may depend more on ability to market in that area.

89. Since the war, major changes have occurred in the composition of British exports. The following table gives an indication of the principal changes.

Leading Exports

	<u>Percentage of Total Exports by Value</u>		
	<u>1938</u>	<u>1957</u>	<u>1959</u>
Machinery other than electric	11	17	19
Cotton goods	10	3	2
Coal	9	(under 1)	(under 1)
Iron and steel	6	6	6
Chemicals	6	8	9
Manufacture of metals	5	5	5
Vehicles and aircraft	5	12	16
Miscellaneous textiles	5	3	2
Electrical machinery & apparatus	5	7	7
Woolen goods	4	3	3
Petroleum & petroleum products	-	3	3
Total	66	67	72

The outstanding developments during the period have been the relative decline in exports of coal and textiles and the increasing importance of machinery of all kinds, electrical equipment, vehicles and aircraft.

90. Before the war, coal was one of the leading exports of the U.K. After the war, difficulties were at first encountered in producing sufficient coal to meet internal demand and at times imports had to be arranged. In recent years exports of coal have dwindled as world production has expanded and countries have turned increasingly to other fuels. In Britain itself the growth of production as well as consumption of petroleum products has been rapid and a substantial export trade in petroleum products has been built up. The industry, however, is based on imported crude oil and whereas before the war the value of coal exports was equal to the value of imports of all fuels, net imports of fuel are rising rapidly, and amounted in 1959 to nearly £350 million or more than one-tenth of the value of all domestic exports.

91. The experience of the textile industry is mentioned in Section III. The chief decline has been in cotton goods and, with increasing competition from Far Eastern sources and the expansion of domestic production in major markets, a reversal of the trend of cotton exports cannot be expected.

92. The expansion of exports of vehicles and aircraft has been remarkable particularly in recent years, but a pause in the growth of this export trade is to be seen at present as North American producers turn to compact cars and the growth of markets in many developing countries is affected by stagnation in export incomes and declining rates of investment. Another factor is the increasing tendency of developing countries to establish their own vehicle assembly plants, which may change the form in which British vehicles are exported. In general, the prospects for growth of motor vehicles and aircraft exports are favorable. Exports of electrical machinery and apparatus have also risen remarkably, but recent figures have shown a decline. Exports of chemicals have also risen more than proportionately and machinery other than electric has become by far the most important export.

Sterling Area

93. The sterling area consists of the United Kingdom and a group of countries whose trade is financed mainly in sterling and whose reserves are mainly held in sterling. It came to be recognized as such after Britain's departure from the gold standard in 1931, but membership of the Sterling Area was not defined until the beginning of the war when it began to operate as a single unit for exchange control purposes. Formally the Sterling Area consists of the "Scheduled Territories" in terms of the Exchange Control Act. The Scheduled Territories include all the members of the British Commonwealth, except Canada, together with a number of countries outside the Commonwealth.

94. The control aspect was of greatest significance in the difficult years during the war, and after the abandonment of the convertibility of sterling in 1947, when common policies of direct control of external

transactions were adopted to preserve the stability of sterling in which the member countries had a mutual interest. Although many of their exchange control practices were similar, they were by no means uniform. Many member countries like the U.K. and its dependencies adopted policies of discriminatory import control favoring other members and restricting imports from the non-sterling and, in particular, from the dollar world. Others did not practice discrimination, but restricted imports irrespective of source.

95. Successive balance of payments crises marked by a running down of gold and dollar reserves were overcome primarily by an intensification of restrictions on payments outside the sterling area. From the time of the Commonwealth Economic Conference in 1952, however, the countries of the sterling area have been gradually and progressively liberalizing their restrictions on trade and payments. Since non-resident sterling was made convertible at the end of 1958 countries of the sterling area have almost entirely dismantled their discriminatory import controls. Some, however, have retained overall import control for their own domestic economic purposes and capital transactions with non-sterling countries are still subject to exchange control.

96. About 60% of the sterling balances in London referred to in paragraph 11 is held by sterling area countries. Many of these countries conduct a major portion of their external trade within the sterling area. Thus in 1957 the rest of the sterling area acquired 31% of its total imports in value from the U.K. and another 17% from other members of the area. Similarly the rest of the sterling area sent 31% of its exports to the United Kingdom and 20% to other members of the sterling area.

97. Some of the traditional factors influencing the growth of trade within the sterling area are, however, becoming less important. The United Kingdom and many of the independent and dependent countries of the Commonwealth apply preferential customs tariffs to goods of Commonwealth origin. Article 1 of GATT placed a ceiling on preferences and though the matter has been discussed from time to time no comprehensive effort has been made to secure a revalorization of preferences expressed in specific terms. Specific preferences applied by the United Kingdom have, therefore, declined in significance as prices rise and its ad valorem preferences are small. In the outer sterling area preferences have either tended to be reduced for political reasons or as part of economic policies designed to foster the growth of domestic industry. Nevertheless, Commonwealth preferences in the United Kingdom and the preferential position of Britain in many Commonwealth countries presented a major stumbling block when the subject of closer economic association of the United Kingdom with Western Europe came to be given serious consideration.

Economic Relations with Western Europe

98. In the mid-1950's, six countries in Western Europe - Belgium, France, Western Germany, Italy, Luxembourg and the Netherlands - decided to establish the European Economic Community and provide for a customs union and other forms of economic cooperation among themselves, and special trade relations with associated overseas territories of metropolitan countries. While discussions were proceeding, the U.K. proposed an industrial free trade area consisting of the members of the OEEC. A free trade area rather than a wider customs union was proposed to retain the ability of individual members

to vary tariffs on imports from outside the area and to enable Commonwealth imports into the U.K. to retain their preferences in relation to imports from outside Europe and to be placed on a parity with imports from members of the free trade area. To maintain the preferential position of Commonwealth suppliers in the U.K. market and to leave the position of British agriculture undisturbed, agricultural products were excluded from the proposal.

99. A lengthy series of negotiations within OEEC failed to produce agreement and certain members of OEEC outside the Six then reconsidered their trade relations and decided early in 1959 to establish an industrial free trade area among themselves. In the course of negotiations bilateral arrangements were made in respect of certain agricultural products and the European Free Trade Association of the Seven (Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the U.K.) emerged. Commonwealth preferences in the United Kingdom were retained except for imports of industrial products from the Seven and a small number of foodstuffs. Apart from a tariff agreement with Denmark on pig products, British agriculture was not affected.

100. The U.K.'s interest in closer economic association with Western Europe is manifold. Both economic and political factors are of great importance. About 27% of the United Kingdom's exports go to countries of Western Europe. Furthermore, trade between industrial nations has been increasing at a greater rate than trade between industrial and primary producing countries, and the U.K. was attracted by the possibilities of expanding trade in a Europe free from protective barriers. It was thought that a wider trading area in Europe would progress at a greater rate and achieve more stability than one confined to the Six. Politically a wider free trade area would be of greater benefit to the Western world. On the other hand, an economic association confined to the Six could detract from the long-term economic growth of the U.K.

101. An aim of the Seven in forming the European Free Trade Association was to assist the conclusion of arrangements for closer association with the European Economic Community. In 1960 the U.K. had further discussions with members of the Six, but no indications of progress or of the form which such an association might take have been reported.

STATISTICAL APPENDIX

Table

- 1 External Public Debt
- 2 Estimated Contractual Interest and Amortization Payments on External Public Debt
- 3 National Income and Expenditure and Gross National Product by Industry
- 4 Gross Fixed Capital Formation in Selected Industries
- 5 Index of Industrial Production
- 6 Index of Production of Manufacturing Industries
- 7 Population
- 8 Distribution of Manpower
- 9 Distribution of Manpower - Manufacturing Industries
- 10 Registered Unemployed
- 11 Industrial Stoppages
- 12 Average Weekly Earnings of Adult Male Operatives
- 13 Combined Current and Capital Expenditure of Public Authorities
- 14 Exchequer Revenue
- 15 London Clearing Banks Balance Sheet
- 16 Bank Advances

Table 1: UNITED KINGDOM - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1960

(In thousands)

Page 1

Item	Debt outstanding December 31, 1960	
	In currency of payment	In U.S. dollar equivalents
TOTAL EXTERNAL PUBLIC DEBT /a		<u>5,736,681</u>
U.S. Government loans		<u>4,372,288</u>
\$3,750,000,000 loan of 1945, 2%, - 2001 /b	\$ 3,314,460 /c	<u>3,314,460</u> /c
\$139,791,879 interest arrears 2%, 1956-2002 /d	\$ 139,792	139,792
\$650,000,000 Surplus property and Lend- lease 2%, 1945-2001 /b /e	\$ 523,714 /f	<u>523,714</u> /f
\$22,274,915 interest arrears 2%, 1956-2002 /g	\$ 22,275	22,275
\$322,700,000 ERP loan 2½%, 1948-1983 /h	\$ 310,599	310,599
\$14,200,000 ERP loan 2½%, 1950-1983 /h	\$ 13,668	13,668
\$47,900,000 MSA loan 2½%, 1952-1987 /h	\$ 47,780	47,780
Canadian Government loan		<u>1,095,926</u>
Can\$ 1,185,000,000 loan 2%, 1946-2001 /i	Can\$ 1,047,369 /j	<u>1,051,575</u> /j
Can\$ 44,174,234 interest arrears 2%, 1956-2002 /k	Can\$ 44,174	44,351
Intergovernmental debt arising from liquidation of European Payments Union		<u>268,467</u>
BF 3,305,499,500 to Government of Belgium 2¾ and 3%, 1958-1961	BF 1,125,116	22,502
DM 1,125,236,175 to Government of Federal Rep. of Germany 3%, 1958-1971	DM 948,836	225,913
Lit 12,632,041,974 to Government of Italy 2¾%, 1958-1961	Lit 4,200,000	6,720
f. 51,261,579 to Government of the Netherlands 2¾%, 1958-1961	f. 17,087	4,497
SKr 123,799,897 to Government of Sweden 2¾ and 3%, 1958-1961	SKr 45,704	8,835

Exchange rates - The following exchange rates have been used:

Par values: BF 1 = \$0.02; DM 1 = \$0.238095; f.1 = \$0.263158;

SKr 1 = \$0.193304; Lit 1 = \$0.0016.

Current market values: Can\$ 1 = \$1.004016 as of December 31, 1960.

/a Does not include the following:

1) Miscellaneous loans about which no detailed information is available:

Indian pensions annuity, £ 2,000,000 estimated outstanding
June 30, 1959.

Indian railway annuity, due 1959, £ 184,000 outstanding
December 31, 1958.

Pakistan pensions annuity, £ 5,213,000 outstanding
December 31, 1958.

Portugal sterling bond, £ 63,385,000 outstanding
December 31, 1958.

Ceylon War Loans, Cey Rs 9,608,450 outstanding
June 30, 1959.

/a (Cont.)

1) Cont.

Debt to individuals, ¥ 18,094 outstanding, June 30, 1959.

Debt in various colonial currencies equivalent to \$3,270,000 outstanding December 31, 1958.

2) Loans made by the International Bank for Reconstruction and Development, guaranteed by the United Kingdom:

	Debt outstanding December 31, 1960	
	Outstanding including undisbursed	Un- disbursed
\$28,000,000 to Southern Rhodesia	\$ 22,000,000	-
\$14,000,000 to Northern Rhodesia	10,834,000	-
\$24,000,000 to East Africa High Commission	21,027,000	-
\$80,000,000 to Federal Power Board, Rhodesia & Nyasaland	80,000,000	\$ 3,571,983
\$28,000,000 to Nigeria	28,000,000	4,071,458
\$19,000,000 to Rhodesia and Nyasaland	19,000,000	1,649,378
\$ 5,600,000 to Rhodesia and Nyasaland	5,600,000	4,130,450
\$ 5,600,000 to Kenya	5,600,000	5,317,976

3) £ 5,000,000 ERP loan to Northern and Southern Rhodesia, 2½%, 1951-1965; equivalent of \$5,907,773 outstanding June 30, 1960. Guaranteed by United Kingdom.

4) Other loans guaranteed by the United Kingdom. Some of these loans are guaranteed as to interest only and some are guaranteed jointly and severally with other countries:

£ 3,763,400 Sudan 4½%, 1923-1973
 £ 1,500,000 Sudan 4%, 1924-1974
 £13,649,690 Irish land purchase 2¾%, 1892
 £58,328,369 Irish land purchase 2¾%, 1904
 £71,861,470 Irish land purchase 3%, 1910
 £25,297,463 Irish Free State land purchase 4½%, 1924-2004
 £ 3,600,000 Palestine 3%, 1942-1967
 £ 500,000 Tanganyika 4%, 1932-1972
 £ 1,570,000 Nyasaland 3%, 1934-1974
 £17,797,532 Newfoundland 3%, 1934-1963
 £ 5,000,000 Turkey 4%, 1855.

5) \$232,500,000 portion of the \$500,000,000 Export-Import Bank loan 4½%, 1956-1965 which has not yet been utilized. The balance of this loan has been repaid or cancelled.

6) £ 2,390,000 MSA loan repayable in local currency, equivalent of \$5,237,218 outstanding December 31, 1960.

/b The agreement on this loan contains the following provisions:

"In any year in which the Government of the United Kingdom requests the Government of the United States to waive the amount of the interest due in the instalment of that year, the Government of the United States will grant the waiver if:-

b (Cont.)

- (1) The Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves, and
- (2) the International Monetary Fund certifies that the income of the United Kingdom from home-produced exports plus its net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936-8 fixed at £ 866,000,000, as such figure may be adjusted for changes in the price level of these imports. Any amount in excess of £ 43,750,000 released or paid in any year on account of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks before the effective date of this Agreement shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

Waiver of interest will not be requested or allowed under section 5 in any year unless the aggregate of the releases or payments in that year of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks (except in the case of colonial dependencies) before the effective date of this Agreement is reduced proportionately, and unless interest payments due in that year on loans referred to above are waived. The proportionate reduction of the releases or payments of sterling balances shall be calculated in relation to the aggregate released and paid in the most recent year in which waiver of interest was not requested.

The application of the principles set forth in this section shall be the subject of full consultation between the two governments as occasion may arise."

The provisions of this loan were revised on March 6, 1957 as follows:-

- (1) "In any calendar year after December 31, 1956, in which the Government of the United Kingdom advises the Government of the United States that it finds that a deferment is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves, the Government of the United Kingdom may defer the payment of the annual instalment for that year of principal repayment and interest specified under Section 4. Not more than seven (7) annual instalments may be so deferred. The first of any such deferred instalments shall be paid on December 31, 2001, and the others shall be paid annually thereafter, in order.

b (Cont.)

- (2) In addition, the instalment of interest in respect of the year 1956 is hereby deferred, in lieu of any right of waiver hitherto existing. This instalment shall be paid on December 31 of the year following that in which the last of all other instalments, including instalments deferred under the preceding paragraph, is due.
- (3) Deferred instalments shall bear interest at the rate of 2 per cent per annum, payable annually on December 31 of each year following that in which deferment occurs.
- (4) Payment of deferred instalments may be accelerated, in whole or in part, at the option of the Government of the United Kingdom."

The Government of the United Kingdom undertakes not to defer an instalment in any year unless it also defers the instalment due in that year under the Financial Agreement between the Government of Canada and the Government of the United Kingdom, dated March 6, 1946.

- c Includes \$49,929,819 instalment of principal deferred in December 1957.
- d Consists of \$70,385,447 deferred in December 1956, and \$69,406,431 deferred in December 1957.
- e The agreement on these loans contains the same clauses as are quoted in footnote b above. In addition it contains the following provision:

"The Government of the United Kingdom agrees that, when requested by the Government of the United States from time to time prior to December 31, 1951, it will transfer, in cash, pounds sterling to an aggregate dollar value not in excess of \$50,000,000, at the exchange rates prevailing at the time of transfer, to be credited against the dollar payments due to the Government of the United States as principal under this settlement. The Government of the United States will use these pounds sterling exclusively to acquire land or to acquire or construct buildings in the United Kingdom and the colonial dependencies for the use of the Government of the United States, and for carrying out educational programs in accordance with agreements to be concluded between the two Governments."

A subsequent exchange of notes between the Government of the United Kingdom and the Government of the United States increased the amount by \$14,250,000 to \$64,250,000, and extended the effective date from December 31, 1951 to such time as the additional amounts are expended.

- f Includes \$ 6,372,932.35 instalment of principal deferred in December 1957.
- g \$11,230,808.63 deferred in December 1956, and \$11,044,105.93 deferred in December 1957.
- h The agreement on this loan contains the following provision:

"If at any time or from time to time the parties hereto determine that it would be in their common interest, because of adverse economic conditions or for any other reason, to postpone or provide for the postponement of any instalments of interest or principal, or to alter or provide for the alteration of any provisions of the aforesaid

h (Cont.) promissory note relating to payment of interest and principal, or to modify the aforesaid promissory note in any other respect, they may by mutual agreement in writing provide for any such postponement or alteration or other modification."

i The agreement on this loan contains the following provisions:

"In any year in which the Government of the United Kingdom requests the Government of Canada to waive the amount of the interest due in the instalment of that year, the Government of Canada will grant the waiver if:

- (1) The Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves; and
- (2) The International Monetary Fund certifies that the income of the United Kingdom from home-produced exports plus its net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936-1938, fixed at 866 million pounds as such figure may be adjusted for changes in the price level of these imports. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made; and
- (3) Interest payments due in that year on any credit made available to the Government of the United Kingdom to which a similar provision for waiver of interest applies are also waived."

The provisions of this loan were revised on March 6, 1957 as follows:

- (1) "In any calendar year after December 31, 1956, in which the Government of the United Kingdom advises the Government of Canada that it finds that a deferment is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves the Government of the United Kingdom may defer the payment of the annual instalment for that year of principal and interest required to be made under Article 3. No more than seven such annual instalments may be so deferred. The first of any such deferred instalment shall be paid on December 31, 2001, and the others shall be paid annually thereafter, in order.
- (2) In addition to the foregoing, the instalment of interest, in respect of the year 1956, is hereby deferred in lieu of any right of waiver hitherto existing. This instalment of interest shall be paid on December 31 of the year immediately following the year in which the last of all other instalments, including instalments deferred under the preceding paragraph, is due.

/i (Cont.)

- (3) Deferred instalments shall bear interest at the rate of 2 per cent per annum payable annually on December 31 of each year following that in which deferment occurs.
- (4) Payment of deferred instalments may be accelerated, in whole or in part, at the option of the Government of the United Kingdom."

The Government of the United Kingdom undertakes not to defer an instalment in any year unless it also defers the instalment due in that year under the Financial Agreement between the Government of the United Kingdom and the Government of the United States, dated December 6, 1945.

/j Includes Can\$ 15,777,822.67 installment of principal deferred in December 1957.

/k Can\$ 22,241,801.41 deferred in December 1956 and Can\$ 21,932,432.33 deferred in December 1957.

IBRD - Economic Staff
February 17, 1961

Table 2: UNITED KINGDOM - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING AS OF
DECEMBER 31, 1960 /a

(In thousands of U.S. dollar equivalents)

Year	Debt out- standing plus un- disbursed January 1	Payments during year			Debt out- standing plus un- disbursed January 1	Payments during year		
		Amorti- zation	In- terest	Total		Amorti- zation	In- terest	Total
Total debt				U.S. Government loans				
1961	5,736,681	149,623	118,900	268,523	4,372,288	68,926	89,274	158,200
1962	5,587,058	109,647	115,586	225,233	4,303,362	71,161	87,863	159,024
1963	5,477,411	112,258	113,145	225,403	4,232,201	73,422	86,402	159,824
1964	5,365,153	114,903	110,648	225,551	4,158,779	75,710	84,892	160,602
1965	5,250,250	117,576	108,094	225,670	4,083,069	78,020	83,331	161,351
1966	5,132,674	120,288	105,480	225,768	4,005,049	80,360	81,719	162,079
1967	5,012,386	123,054	102,803	225,862	3,924,689	82,748	80,055	162,803
1968	4,889,332	125,814	100,076	225,890	3,841,941	85,122	78,339	163,461
1969	4,763,518	128,633	97,282	225,915	3,756,819	87,547	76,569	164,116
1970	4,634,885	131,488	94,423	225,916	3,669,272	90,000	74,747	164,747
1971	4,503,397	129,294	91,514	220,808	3,579,272	92,483	72,873	165,356
1972	4,374,103	116,314	88,687	205,001	3,486,789	94,998	70,941	165,939
1973	4,257,782	119,282	86,278	205,560	3,391,791	97,540	68,958	166,498
1974	4,138,507	122,293	83,801	206,094	3,294,251	100,116	66,916	167,032
1975	4,016,214	125,344	81,261	206,605	3,194,135	102,724	64,819	167,543
Canadian Government loan				EPU liquidation debt				
1961	1,095,926	17,143	21,919	39,062	268,467	63,554	7,707	71,261
1962	1,078,783	17,486	21,576	39,062	204,913	21,000	6,147	27,147
1963	1,061,297	17,836	21,226	39,062	183,913	21,000	5,517	26,517
1964	1,043,461	18,193	20,869	39,062	162,913	21,000	4,887	25,887
1965	1,025,268	18,556	20,506	39,062	141,913	21,000	4,257	25,257
1966	1,006,712	18,928	20,134	39,062	120,913	21,000	3,627	24,627
1967	987,784	19,306	19,756	39,062	99,913	21,000	2,997	23,997
1968	968,478	19,692	19,370	39,062	78,913	21,000	2,367	23,367
1969	948,786	20,086	18,976	39,062	57,913	21,000	1,737	22,737
1970	928,700	20,488	18,574	39,062	36,913	21,000	1,107	22,107
1971	908,212	20,898	18,164	39,062	15,913	15,913	477	16,390
1972	887,314	21,316	17,746	39,062				
1973	865,998	21,742	17,320	39,062				
1974	844,256	22,177	16,885	39,062				
1975	822,079	22,620	16,442	39,062				

/a Includes service on all debt included in Table-1 prepared on February 17, 1961.

TABLE 3

NATIONAL INCOME AND EXPENDITURE
(at current prices)

	£ billions				
	<u>1949</u>	<u>1952</u>	<u>1955</u>	<u>1958</u>	<u>1959</u>
<u>Incomes</u>					
Income from employment	7.2	9.1	11.2	13.4	13.9
Income from self-employment	1.4	1.5	1.7	1.8	1.9
Gross trading profits of companies	1.8	2.2	2.9	3.1	3.4
Gross trading profits of public corporations and other public enterprises	.3	.3	.4	.5	.5
Rent	.4	.6	.7	1.0	1.1
	<u>11.1</u>	<u>13.7</u>	<u>17.0</u>	<u>19.8</u>	<u>20.9</u>
Stock changes and residual error	- .2	+ .2	- .2	+ .2	- .2
Gross domestic product at factor cost	10.9	13.9	16.8	20.0	20.7
Net income from abroad	.2	.1	.1	.2	.2
Gross National Product	<u>11.1</u>	<u>14.0</u>	<u>16.9</u>	<u>20.2</u>	<u>20.9</u>
<u>Expenditure</u>					
Consumers' expenditure	8.9	10.6	12.9	15.1	15.7
Public authorities current expenditure	2.0	2.9	3.2	3.7	4.0
Gross fixed capital formation at home	1.6	2.1	2.8	3.5	3.7
Change in stocks and work in progress	.1	.1	.3	.1	.1
Total domestic expenditure at market prices	<u>12.5</u>	<u>15.7</u>	<u>19.3</u>	<u>22.4</u>	<u>23.5</u>
Exports and income from abroad	2.7	4.1	4.6	5.2	5.3
Less Imports and income paid abroad	2.6	3.9	4.7	4.8	5.0
Less Taxes on expenditure	2.0	2.3	2.6	3.0	3.2
Subsidies	.5	.4	.3	.4	.4
Gross National Product	<u>11.1</u>	<u>14.0</u>	<u>16.9</u>	<u>20.2</u>	<u>20.9</u>
Less Capital consumption	.9	1.3	1.5	1.9	2.0
National Income	<u>10.2</u>	<u>12.7</u>	<u>15.4</u>	<u>18.3</u>	<u>18.9</u>

TABLE 3
(Continued)

GROSS NATIONAL PRODUCT BY INDUSTRY ^{1/}
(at current prices)

£ Billions

	<u>1949</u>	<u>1952</u>	<u>1955</u>	<u>1958</u>	<u>1959</u>
Agricultural forestry & fishing	.7	.8	.8	.9	.9
Mining and quarrying	.4	.5	.6	.7	.7
Manufacturing	3.7	4.7	6.1	7.0	7.5
Construction	.6	.8	1.0	1.2	1.2
Power, water, transport and communication	1.1	1.5	1.8	2.1	2.2
Distribution trades	1.5	1.7	2.2	2.5	2.6
Other services	1.6	1.8	2.3	2.7	2.8
Total production and trade	9.7	11.7	14.7	17.0	17.8
Public administration, defense	.7	.9	1.0	1.2	1.3
Public health and education	.3	.4	.5	.7	.8
Gross domestic product at factor cost ^{2/}	10.9	13.9	16.8	20.0	20.7
Net income from abroad	.2	.1	.1	.2	.2
Gross National Product	<u>11.1</u>	<u>14.0</u>	<u>16.9</u>	<u>20.2</u>	<u>20.9</u>

^{1/} The contribution of each industry includes provision for depreciation and stock appreciation.

^{2/} Includes other services and deduction for stock appreciation.

Source: National Income and Expenditure, Central Statistical Office.

TABLE 4

GROSS FIXED CAPITAL FORMATION IN SELECTED INDUSTRIES

(At current prices)

£ Million

	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Agriculture	87	87	91	93	90	96	104	95	106	125	134
Manufacturing	377	444	514	549	547	581	678	817	903	893	820
Of which:											
Food, drink & tobacco	45	53	58	57	56	60	73	84	91	95	92
Oil refining	18	32	34	40	33	16	13	22	42	40	28
Chemicals, etc.	43	57	75	81	92	96	103	140	153	165	126
Iron and steel	42	49	54	55	52	69	69	83	107	126	118
Engineering, electrical goods, ship- building & marine engineering	58	62	77	95	96	106	130	151	159	159	248
Vehicles and aircraft	21	33	54	70	67	51	68	83	83	72	
Textiles, clothing & leather	64	64	63	54	53	65	75	70	73	60	67
Coal Mining	28	26	28	40	55	70	77	82	91	95	105
Gas, electricity and water	171	195	227	239	265	304	344	340	357	385	425
Railways	42	44	44	40	54	65	69	89	124	138	167
Shipping	72	66	54	53	85	83	76	103	131	149	160
Posts, telephones, etc.	40	41	48	59	68	69	82	94	96	90	89
Distribution, road transport, etc.	239	254	269	282	297	355	450	490	517	575	592
Dwellings	332	331	376	494	630	644	614	626	610	582	646
Education & child care	44	58	69	78	80	82	90	114	136	142	148
Total (including other)	1,610	1,733	1,920	2,137	2,392	2,588	2,849	3,147	3,409	3,532	3,673

Source: National Income and Expenditure: Central Statistical Office.

TABLE 5
INDEX OF INDUSTRIAL PRODUCTION
(1954=100)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Mining and quarrying	91	94	95	98	99	99	100	99	99	99	94	92
Construction	87	91	91	87	90	96	100	100	106	106	105	111
Gas, electricity & water	69	74	80	86	88	93	100	105	110	114	119	123
Manufacturing	77	82	88	92	88	94	100	106	106	108	107	114
All Industries	79	84	88	91	89	94	100	105	106	107	106	113

Source: Annual Abstract of Statistics: Central Statistical Office.

TABLE 6

INDEX OF PRODUCTION OF MANUFACTURING INDUSTRIES

(Average 1954 = 100)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
<u>ALL MANUFACTURING INDUSTRIES</u>	77	82	88	92	88	94	100	106	106	108	107	114
<u>Industries Increasing Output at Greater than Average Rate</u>												
Coke ovens, oil refineries, etc.	47	57	58	70	80	86	100	105	112	110	116	127
General chemicals, etc.	72	74	84	86	80	90	100	106	110	116	115	132
Engineering & electrical goods	69	76	86	91	92	94	100	107	107	110	112	120
Vehicles	61	71	76	80	80	90	100	115	107	115	118	131
Paper, printing & publishing	66	75	87	91	77	86	100	108	106	109	111	117
Timber, furniture, etc.	70	80	84	91	80	89	100	100	94	96	94	101
<u>Industries Increasing Output at Less than Average Rate</u>												
Food	79	84	85	89	92	98	100	101	104	104	108	110
Drink & tobacco	103	103	99	100	100	100	100	106	108	112	113	120
Ferrous metals	82	85	88	92	95	96	100	108	111	113	100	104
Non-ferrous metals	87	80	87	98	98	85	100	111	108	107	106	113
Shipbuilding & mechanical eng.	117	106	94	96	99	105	100	109	117	108	109	101
Other metal goods	93	93	95	101	98	92	100	112	108	109	106	114
Textiles	86	92	100	100	82	97	100	98	96	97	87	92
Clothing & footwear	88	97	101	96	92	100	100	104	106	105	102	112
Leather and fur	108	109	110	107	94	102	100	100	94	93	88	91
Bricks, cement, etc.	75	78	83	87	91	97	100	101	101	97	94	100
China & earthenware	92	95	100	105	99	98	100	100	90	90	92	97
Glass	86	92	98	105	91	96	100	114	114	111	115	122

Source Annual Abstract of Statistics.

TABLE 7

POPULATION

1. Age Distribution of the de facto Population
(As at 30 June each year)

	<u>1939</u>	<u>1951</u>	<u>1959</u>
	Millions		
Under 15	10.4	11.3	12.1
15-64	33.1	33.4	33.8
65 and over	<u>4.3</u>	<u>5.5</u>	<u>6.0</u>
Total Population	<u>47.8</u>	<u>50.2</u>	<u>52.0</u>

2. Birth Rate

<u>1939</u>	<u>1946-1949</u>	<u>1950-1956</u>	<u>1957-1959</u>
	(Live births per 1,000 total population)		
15.2	Between 16.7 and 20.5	Between 15.0 and 15.9	Between 16.1 and 16.8

Source: Annual Abstract of Statistics, Central Statistical Office.

TABLE 8
DISTRIBUTION OF MANPOWER

United Kingdom

(Millions)

	End of June						
	1948	1951	1954	1957	1958	1959 <u>1/</u>	1960 <u>1/</u>
H.M. Forces	.9	.8	.8	.7	.6	.6	.5
Agriculture, forestry and fishing	1.3	1.2	1.2	1.1	1.1	1.0	1.0
Mining and quarrying	.9	.9	.9	.9	.9	.8	.8
Manufacturing industries	8.3	8.9	9.2	9.5	9.3	8.5	8.8
Building and contracting	1.5	1.5	1.5	1.6	1.5	1.5	1.5
Gas, electricity and water	.3	.4	.4	.4	.4	.4	.4
Transport and communications	1.8	1.8	1.7	1.8	1.7	1.7	1.7
Distributive trades	2.5	2.7	2.8	3.0	3.0	3.2	3.3
Public administration	1.4	1.4	1.4	1.3	1.3	1.2	1.2
Insurance, banking & finance	.4	.5	.5	.5	.5	{ 4.9	5.0
Professional services	1.5	1.7	1.8	1.9	2.0		
Miscellaneous services	2.1	1.9	1.9	1.8	1.8	{	
Registered unemployed	.3	.2	.3	.3	.5	.4	.3
Total Working Population	<u>23.3</u>	<u>23.8</u>	<u>24.2</u>	<u>24.8</u>	<u>24.6</u>	<u>24.2</u>	<u>24.4</u>

1/ Figures exclude Northern Ireland.

Standard Industrial Classification 1958, previous years 1948 classification.

Sources: Annual Abstract of Statistics, 1959 and Monthly Digest of Statistics.

TABLE 9
DISTRIBUTION OF MANPOWER
Manufacturing Industries
(In thousands)

End of June:	<u>1948</u>	<u>1954</u>	<u>1958</u>	<u>1959^{1/}</u>	<u>1960^{1/}</u>
<u>Industries showing the largest percentage increases 1958:1948</u>					
Chemicals, etc.	442	503	538	518	530
Engineering, shipbuilding and electrical goods	1,834	2,014	2,177	2,175	2,281
Vehicles	983	1,195	1,253	862	911
Food, drink and tobacco	771	911	954	803	815
Paper and printing	478	546	591	568	600
<u>Industries registering decreases in manpower since 1948 or 1954</u>					
Textiles	1,002	1,066	927	842	854
Clothing and footwear	681	723	676	545	558
Leather goods and fur	83	77	68	63	63
<u>Other Manufacturing Industries</u>	<u>2,065</u>	<u>2,154</u>	<u>2,163</u>	<u>2,101</u>	<u>2,122</u>
Total	<u>8,339</u>	<u>9,189</u>	<u>9,347</u>	<u>8,477</u>	<u>8,834</u>

^{1/} Figures exclude Northern Ireland.
Standard Industrial Classification 1958; earlier years 1948 classification.

Sources: Annual Abstract of Statistics 1959 and Monthly Digest of Statistics.
Central Statistical Office.

TABLE 10

REGISTERED UNEMPLOYED

	<u>1938</u>	<u>1948</u>	<u>1951</u>	<u>1954</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1959</u>			<u>1960</u>		
	<u>Monthly Averages</u>							<u>Jan.</u>	<u>May</u>	<u>Aug.</u>	<u>Jan.</u>	<u>May</u>	<u>Aug.</u>
<u>Numbers in Thousands</u>													
Great Britain	1,791	282	253	285	313	457	475	621	481	427	461	341	321
Northern Ireland	91	28	29	33	35	44	37	46	38	34	37	32	29
United Kingdom	1,882	310	282	318	348	501	512	667	519	461	498	373	350
<u>Percentage of Total Number of Employees</u>													
Great Britain	11.6	1.4	1.2	1.3	1.4	2.1	2.2	2.8	2.2	2.0	2.1	1.5	1.4
Northern Ireland	26.1	6.1	6.1	7.0	7.3	9.3	7.8	9.7	8.0	7.2	7.8	6.7	6.1

Source: Annual Statistical Abstract and Monthly Digest of Statistics, Central Statistical Office.

TABLE 11

INDUSTRIAL STOPPAGESAll Industries and Services

(Millions)

	<u>1938</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Number of Workers Involved	.3	.4	.3	.4	.4	1.4	.4	.7	.5	1.4	.5	.6
Total Working Days Lost	1.3	1.8	1.4	1.7	1.8	2.2	2.5	3.8	2.1	8.4	3.5	5.3
Of which:												
Mining and quarrying	.7	.8	.4	.4	.7	.4	.5	1.1	.5	.5	.5	.4
Metals, engineering, ship- building & vehicles	.2	.3	.3	.5	.8	1.5	.7	.7	1.0	6.6	.6	1.0
Transport & communications	*	.5	.2	.6	*	.1	.9	1.7	*	1.0	2.1	.1

* Negligible.

Note: Total number of man-working days per annum exceeds 5,500 million.Source: Annual Abstract of Statistics, Central Statistical Office.

TABLE 12

AVERAGE WEEKLY EARNINGS OF ADULT MALE OPERATIVES IN CERTAIN INDUSTRIES

	1950	1959	
	(Earnings to nearest shilling in April of each year)		<u>Percentage Increase</u>
All Industries ^{1/}	146	263	80
Vehicles	163	297	82
Metal manufacture	166	289	74
Chemicals & allied trades	148	268	81
Engineering, shipbuilding & electrical goods	151	274	81
Textiles	142	240	69
Clothing	141	234	69
Food, drink and tobacco	134	243	81
Building and contracting	140	255	82
Gas, electricity and water	137	246	80
Government service	117	205	75
Dock labor (all wage earners)	156	291	78
Coal mining	182	315 ^{2/}	71
British Railways	139	235	69
Agriculture ^{3/}	111	194	75

^{1/} Excludes dock labor, coal mining, nationalized surface transport and agriculture.

^{2/} 1958 - comparing 1958 with 1950 the percentage increase in average earnings per manshift worked was 81.

^{3/} Average weekly earnings of agricultural workers in six-month period ending 31st March of each year.

Source: Annual Abstract of Statistics, Central Statistical Office.

TABLE 13

COMBINED CURRENT AND CAPITAL EXPENDITURE OF PUBLIC AUTHORITIES

£ Millions

	<u>1950</u>	<u>1955</u>	<u>1959</u>
Debt interest	551	771	920
Defense	863	1,620	1,610
Housing	340	422	369
Education and child care	442	676	1,008
Health services	478	585	797
National insurance, pensions & assistance	<u>674</u>	<u>1,016</u>	<u>1,482</u>
Total (including other items)	4,588	6,243	7,833

Source: National Income and Expenditure: Central Statistical Office.

TABLE 14

EXCHEQUER REVENUE

£ Millions

Years Ended 31 March

	<u>1950</u>	<u>1952</u>	<u>1954</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>
<u>Principal Items of Inland Revenue</u>						
Income tax	1,438	1,669	1,731	1,943	2,208	2,322
(Standard rate	9s0d	9s6d	9s0d	8s6d	8s6d	7s9d)
Surtax	115	130	133	139	157	167
Death duties	190	183	165	176	171	187
Profits tax	261	321	195	196	252	272
Excess profits tax and levy	36	--	59	16	3	3
<u>Principal Items of Customs and Excess Revenue</u>						
Beer	277	261	255	259	261	253
Wines and spirits	117	118	128	150	160	157
Tobacco	601	614	627	669	713	737
Hydrocarbon oils	63	201	290	323	322	346
Protective duties	65	116	67	87	104	110
Purchase tax	292	338	300	419	494	498
Total Ordinary Revenue	<u>3,924</u>	<u>4,433</u>	<u>4,368</u>	<u>4,893</u>	<u>5,342</u>	<u>5,480</u>

Source: Annual Abstract of Statistics: Central Statistical Office.