

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2446
24 June 1965

Limited Distribution

UNITED KINGDOM TEMPORARY IMPORT CHARGES

Report of the Working Party on its Meeting of June 1965

1. In accordance with the decision of the CONTRACTING PARTIES of 23 March 1965 the Working Party met on 16, 17 and 18 June to resume its consultation with the United Kingdom concerning the temporary import charges imposed in October 1964. It should be noted that this meeting of the Working Party was one of a series and that the present report should be read in conjunction with the reports on the two meetings of the Working Party which had already taken place (L/2395 and Corr.1 and C/50).
2. A comprehensive statement by the representative of the United Kingdom, which is contained in Annex I of this report, was presented to the Working Party, together with an analysis of trade developments in April and May 1965. In this statement the representative of the United Kingdom described the measures contained in the April Budget designed to contribute towards the solution of the balance-of-payments problem, reviewed recent developments in the balance-of-payments situation and presented a further progress report on the longer term strategy to strengthen the British economy.
3. On the invitation of the Chairman, the representative of the International Monetary Fund made a statement concerning the balance-of-payments position of the United Kingdom. This statement is reproduced in Annex II of this report.
4. Members of the Working Party emphasized that their chief preoccupation was that the balance-of-payments situation should be brought into equilibrium as soon as possible by the use of measures other than the surcharge, so that the surcharge could be removed in the near future. The representative of the United Kingdom reiterated the statement made at previous meetings that the surcharge was strictly temporary in character.
5. The hope was expressed that a further reduction in the surcharge would be made during the course of 1965; measures other than the surcharge should soon have their effect and it would then be reasonable to expect the prompt reduction and elimination of the surcharge. It was stressed that an early reduction was of particular importance as this would have a beneficial effect on the outside world's appreciation of the United Kingdom's economic situation and would respond to the concerns of countries whose trade was being damaged.

6. It was stressed that it was difficult to assess the progress in the United Kingdom's balance-of-payments situation or to form a reliable judgement as to the effectiveness of the measures which had been taken, in view of the continued lack of conclusive evidence on the effect that these measures were having on the balance of payments. Judgements were therefore bound to be fairly arbitrary and, at times, contradictory. The absence of more decisive evidence was disappointing in view of the time that had elapsed since the original imposition of the surcharge.
7. Members of the Working Party stressed the need for the United Kingdom authorities to pay particular attention to the implementation of an effective prices and incomes policy and to the bringing about of a reduction in the pressure of domestic demand so as to free resources for export. These factors would be of fundamental importance in holding imports to a reasonable volume and in enabling the concentration of sufficient resources on the export sector. The danger of the potential protective effect of the surcharge was again stressed.
8. It was recalled that in his opening statement the representative of the United Kingdom had said that it was his Government's aim to get most of the way towards closing the gap in the balance of payments in 1965, and to complete the process in 1966. It was asked whether this did not imply that removal of the surcharge could not really be expected until a date well into 1966 and then only if a certain number of assumptions proved to be correct. It was therefore relevant and essential to consider these assumptions, on which the assessment had been based, and the extent to which they were feasible.
9. In this connexion reference was made to the hoped-for growth in exports of 6 per cent a year and doubts were raised as to whether this figure could be realized. There was the risk that it might not be possible to contain domestic demand, while an increase in government expenditure of 9 per cent was estimated for 1965. There was also the pressure of wage increases.
10. As regards imports it was asked whether the expectation of a slowing-down in imports, and in particular of a slight decline in prices, was soundly based and if so, whether this would not imply reduced economic expansion abroad and, consequently, reduced United Kingdom exports. Thirdly, in view of the fact that exports of public capital were likely to remain more or less the same or even show some growth, a reduction in the outflow of private capital and increased imports of foreign capital seemed essential to meet the United Kingdom's objectives in this sector.
11. In connexion with United Kingdom thinking on the surcharge itself, the question was asked whether the surcharge was an integral part of the overall plan for improving the balance-of-payments situation or whether the other measures in themselves were considered sufficient to attain the equilibrium which was desired. This consideration was important in the context of the duration of the surcharge which, furthermore, had been represented as non-discriminatory in character but the impact of which, in fact, varied considerably as between countries and individual sectors. Delegations quoted figures to indicate the justification for this assertion.

12. In replying, the United Kingdom representative emphasized that progress was in fact being made. As his opening statement had shown, there had already been a significant improvement over 1964. In the export sector there was an encouraging increase in late 1964 which continued into 1965. Despite a slackening in the last two months the trend was favourable. As regards imports, the figures for the four months February/May 1965, averaged 1 per cent less than the monthly average for 1964, in contrast to the strong earlier upward trend. Invisibles should make a welcome contribution toward closing the gap but this was not looked upon as a major element. It was not the intention of the Government to try to reduce the outward flow of funds to the less-developed countries but measures taken in the budget would tend to reduce the overall net outflow of capital to a sustainable level. Imports of foreign capital were welcome, having implications both for the balance of payments and for industry.

13. As regards the surcharge seen in relation to the overall approach of the United Kingdom Government, the aim was to keep down the rise in imports and to achieve a substantial increase in exports. The achievement of a 6 per cent growth a year in exports would be difficult but it was feasible; it was not much higher than the existing long-term trend of 5 per cent a year. The Government had taken measures to restrain the pressure of home demand. It attached great importance to the prices and incomes policy referred to in paragraphs 24 and 25 of the United Kingdom's opening statement. Statistics were not yet available to show the impact of the Budget. If it were decided that further measures were necessary, they would be taken. The regulator described in paragraph 5 of the opening statement was available for use. The aim to achieve balance-of-payments equilibrium in 1966 took account of the need to reduce and remove the surcharge. It was not the intention that balance-of-payments equilibrium should be sustained by the surcharge.

14. Representatives of less-developed countries quoted figures from the statistics provided by the United Kingdom as indicating the adverse effects that the surcharge was having on their export trade and the more severe drop in exports subject to the surcharge which they were experiencing. They expressed their disappointment that the United Kingdom had not been able to give special consideration to reducing the surcharge in respect of products of which less-developed countries are principal or substantial suppliers including products having social implications and thus reduce the burden of the surcharge on those countries least able to bear it. In this connexion they referred to the views of the Working Party expressed in paragraph 17 of its report (L/2395 and Corr.1) on its last meeting. In the light of these views, the less-developed countries had expected that the United Kingdom would have been able to meet their request, which was limited in character.

15. These countries pointed out that there appeared to have been two main considerations which weighed with the United Kingdom Government when considering whether it could take the action which the less-developed countries had requested; first, internal repercussions and, secondly, the interests of other contracting parties. As regards the second of these, it was thought that any preoccupations

on this account had been very adequately covered in paragraph 17 of the Working Party's report on its last meeting, where it was stated that any action taken in favour of less-developed countries should not be taken by the United Kingdom's other trading partners as creating a justification for them to press for special treatment for their own trade. As regards internal considerations, the less-developed countries held the view that compliance with their request would not have the effect of aggravating the balance-of-payments situation of the United Kingdom or of prolonging the duration of the surcharge; this view had also been recorded in the Working Party's previous report. At the same time action in this direction by the United Kingdom would have been action in accordance with the spirit of the new Part IV of the General Agreement. If a developed country could not take action of this sort with respect to a temporary measure, it raised the question as to what developed countries would be able to do with respect to measures of a more permanent character.

16. The representative of the United Kingdom stressed that full and careful consideration had been given by his Government to the views expressed during the last meeting of the Working Party and during the subsequent discussion of this matter by the CONTRACTING PARTIES. Regretfully, the United Kingdom Government had come to the conclusion that it could not take the action requested of it by the less-developed countries and that the 5 per cent reduction in the surcharge, effective 27 April, was, in its considered judgement, the best first step and one which was in the best interests of all contracting parties. It was the view of the United Kingdom Government that to change the coverage of the surcharge would involve a general reconsideration of the coverage and this might tend to prolong the life of the surcharge and increase its intensity as regards the goods to which it would continue to be applied.

17. Recalling the views expressed by the Working Party at its last meeting in connexion with the request of the less-developed countries (L/2395 and Corr.1, paragraph 17) members of the Working Party expressed their disappointment at the explanations which had been given by the United Kingdom representative and strongly urged that, when giving consideration to further reductions in the surcharge, the United Kingdom Government would give full recognition to the spirit of the provisions of the new Part IV of the GATT and to the views which had again been expressed during the present meeting of the Working Party.

18. The United States confirmed its position as regards the request of the less-developed countries as was set out in the previous reports of the Working Party and in the summary record of the discussion by the CONTRACTING PARTIES (C/50, L/2395 and Corr.1 and SR.22/9).

19. The main emphasis in the Working Party's discussion during its present meeting had again been on the need for the speedy removal of the surcharge. In noting the reaffirmation by the representative of the United Kingdom that the surcharge was intended to be strictly temporary in character, the Working Party stressed the particular importance which it attached to the alternative corrective measures

which had been taken by the United Kingdom and to those which it might consider advisable to take in the future. It felt, however, that it was unable to draw any firm conclusions at this stage of its consultations with the United Kingdom as regards the effectiveness of the measures already taken. It, therefore, decided to limit itself on this occasion to reporting to the Council the views and concerns expressed in the Working Party and the explanations given by the United Kingdom representative, as recorded above. It recommends to the Council that the Working Party should continue its consultations with the United Kingdom in the near future.

ANNEX I

STATEMENT BY THE REPRESENTATIVE OF THE UNITED KINGDOM
ON THE UNITED KINGDOM ECONOMIC SITUATION
AND OUTLOOK

1. The United Kingdom Government is continuing to give first priority to the solution of the balance-of-payments problem, by means of a broadly based programme operating simultaneously on many fronts. The scope and variety of those policies have been presented to and discussed in this Working Party in previous meetings.

THE 1965 BUDGET

2. This priority was the dominant theme of the 1965 Budget introduced by the Chancellor of the Exchequer on 6 April. The strategy of the Budget is to achieve a state of balance on our combined current and long-term capital account. Its measures are aimed at continuing the progress already being made, getting most of the way towards closing the gap in 1965, and completing the process in 1966. The Chancellor again made it clear that in doing so he was taking into account the need to reduce and remove the temporary import charge as soon as possible.

3. The Budget accordingly included measures further to contain the prospective growth of home demand, in order to free resources for increased exports and to moderate demand for imports. It also contained measures directly to reduce the outflow of long-term capital and to divert to the official reserves certain foreign exchange accruals that had previously been available for investment overseas.

4. As regards the pressure of demand, action had been taken in the November 1964 Budget, as the Working Party will recall, to offset the net effects on home resources of the temporary import charge and the export rebate by increasing tax on petrol (and DERV fuel). An increase of 6d. in the standard rate of income tax, to come into effect in April, was also announced, coupled with the rise in social security benefits and contributions. The additional tax measures announced in the April Budget were designed to reduce the prospective level of home demand early in 1966 by £250 million at an annual rate (this is equivalent to almost 1 per cent of the gross domestic product) below what it would otherwise be, in order to ensure the freeing of resources to aid the balance of payments. The main tax measures in the Budget were increases in the rate of tax on tobacco and alcoholic drink and an increase in the annual licence duties payable on motor vehicles. In all, the increases are estimated to yield £164 million in the current financial year and £217 million in 1966-67. The Chancellor also announced the cancellation of the TSR-2 aircraft project which will reduce Exchequer expenditure and release some skilled engineering manpower. In making his calculations of

the effect on the level of demand early in 1966 the Chancellor took account of the fact that the initial withdrawal of purchasing power will have consequential second round effects on the growth of money incomes. These multiplier and other indirect effects are expected to be increasingly important.

5. The Budget also provided for the renewal of the regulator - the power to vary revenue duties and purchase tax by certain amounts by administrative order. This is important as an additional means for regulating the economy if circumstances require, in the interval between budgets.

6. The two principal exchange control measures concern the investment currency market and are designed to bring to the official reserves some of the funds hitherto available for reinvestment abroad. First, certain accruals of foreign currency or securities to United Kingdom residents, which hitherto could be sold on the investment currency market, have now to be exchanged for sterling at the official rate. Secondly, 25 per cent of the proceeds of all sales by the United Kingdom residents of non-sterling securities or direct investments must now be surrendered to the authorities. In addition, the criteria for the use of official exchange for direct investment outside the Sterling Area have been further tightened.

7. The Budget also contained detailed proposals for the two major tax reform measures foreshadowed in the November 1964 Budget, the introduction of a corporation tax on corporate enterprises, and a long-term capital gains tax. It is expected that the corporation tax, details of which are now being discussed by Parliament, will begin to have an effect on the balance of private overseas investment. Since credit for overseas tax will now only be given against corporation tax, which is unlikely to exceed 40 per cent, instead of, as formerly, against income tax and profit tax combined, companies operating overseas will tend to invest less abroad, depending on their particular circumstances.

8. Since the Budget there have been complementary developments in monetary policy. Late in April the Bank of England called for special deposits from the London Clearing and Scottish banks, payable to the Bank of England in two instalments in May and June; the Governor of the Bank of England also wrote to the banks giving further guidance on their lending policy. They were asked to restrict the growth of advances to the private sector in the year to March 1966 to not more than 5 per cent, and to observe certain other restraints. Other main banking and financial organizations were asked to observe a comparable degree of restraint. Subsequently, in the light of the Budget measures and all the action taken to control credit, and the end-May reserves position, Bank Rate was reduced to 6 per cent from the crisis rate of 7 per cent. At the same time the direct measures on the supply of credit were reinforced by an increase in the statutory minimum down-payment payable on hire purchase and credit sales transactions.

THE GENERAL STATE OF THE ECONOMY

9. It seems clear that the economy continued to expand in the first few months of this year, perhaps at a slower rate than in 1964. Despite the drop, (partly due to strikes) in the industrial production index in March, the index for the first quarter as a whole was 1 per cent higher than in the fourth quarter of last year. This probably gives a measure of the underlying upward trend in that period. The April index is expected to show some increase on March but to remain below January. Unemployment has continued to fall, but much more slowly than last year (when much of the fall reflected the normal result of the previous fast rise in activity). In May the unemployment rate (seasonally adjusted) was 1.4 per cent, little different from the rate at the beginning of the year.

10. The main factors in the rise in demand early this year seem to have been a strong rise in exports, a continued rise in fixed investment, and some increase in consumers' expenditure. Part of the increase in consumption was temporary: there seems to have been anticipatory buying, especially of cars, in the months before the April Budget. The rate of stockbuilding appears to have fallen. Imports were lower in the first few months of the year, partly on account of the temporary import charge, and all the rise in demand was concentrated on home output.

11. It was against this domestic background that the Budget decisions were taken. Few indicators are yet available relating to the period since the Budget. It is reasonable to suppose that the Budget tax increases, reflected in a sharp rise in the retail price index for mid-April, are helping to absorb the rather fast current rise in wage rates and earnings and it is to be expected that the growth of the volume of consumer spending will be severely restrained from now on to a very modest amount. Fixed investment is expected to go on rising, though less fast than it did during 1964. The upward trend in public authorities' consumption will continue, though modified by the decisions to reduce aircraft programmes. The rate of stockbuilding is expected to remain well below the exceptionally high rate of last year.

THE BALANCE OF PAYMENTS

Recent developments

12. Such information as is available about the balance of payments in the first quarter of 1965 supports the view that there has been a significant improvement in the United Kingdom's position compared with 1964. On a seasonally adjusted basis, the current account may well have been about in balance in the first quarter of the year. This result gave too favourable an impression of the underlying trend, as the effects of the dock strike in the United States, which sharply

reduced February imports, were not fully worked through by the end of March. The increases in imports in April and May confirms this view. Exports have shown an encouraging increase. Despite the dip in the May figures, exports in the three months March to May were over 2 per cent higher than in the fourth quarter of 1964 and $4\frac{1}{2}$ per cent higher than the average of 1964. Exports to Western Europe, following a poor performance in 1964, have largely contributed to the high level of recent months. (Recent trends and future prospects in visible trade are discussed in more detail later in this statement.) Net invisible earnings, on a seasonally adjusted basis, in the first quarter of 1965 were about the same as the average level of earnings during 1964. The net outflow of capital may, however, have remained at a high level in the first quarter of the year.

13. In the first quarter of 1965 the reserves rose by £5 million. In April they rose by a further £8 million and in May by £181 million. This latter rise reflects the drawing from the International Monetary Fund of £500 million (and the equivalent of a further £14 million from Switzerland under a parallel arrangement) part of which was used to repay the short-term assistance received under the \$3,000 million credit facilities. The reserves now stand at £1,021 million; in addition there are a number of additional resources which are available, such as the Government's portfolio of non-sterling securities, the Export-Import Bank credit, and the swap arrangements with the Federal Reserve Bank.

Prospects

14. Even before the Budget measures taken by the Government, it was expected that the net outflow of capital would have been reduced from the exceptionally high total in 1964. Investment overseas by the oil industry, which included the Shell/Montecatini deal in 1964, was expected to fall. Given a return of confidence and relatively high interest rates, the balance of portfolio investment, which showed a net outflow in 1964, might have become favourable. Thus the net outflow might have been of the order of £100 million lower than in 1964. The effects of the Budget measures will be superimposed on this downward movement. The exchange control measures are expected to lead to a continuing improvement in the balance of overseas investment of at least £100 million a year and the corporation tax may also begin to have an effect on net investment abroad. Invisible earnings are also expected to reach a higher level than in 1964. The rise in Government expenditure should be restrained over the period by the stringent review which is at present being conducted. Earnings from civil aviation should continue to improve and net income from overseas assets, including oil earnings, should go on increasing.

15. There are a number of reasons for believing that imports will not rise very fast over the coming period. The effect of the import charge, while retained, will be to reduce the import bill although when the charge is removed there may be some

upsurge. But imports in 1964 were exceptionally high, on account partly of the high level of stockbuilding and partly of the rapid increase in consumption and fixed investment. The failure of imports to expand further in the second half of 1964 suggests that the previous strongly rising trend may already have begun at least to slow down. After the first impact of a rapid expansion in demand such as occurred in 1964, some moderation in the rate of increase of imports was probable and a period of less rapid growth seemed likely. A small decline in the prices of food and basic materials imported into the United Kingdom is also to be expected in the coming months.

16. Thus, with imports rising at a low rate and with the net outflow of capital reduced by the Exchange Control measures and the effects of the corporation tax, the aim of the Budget could be achieved with a rate of growth in exports of 6 per cent a year. Although this is higher than the long-term trend of 5 per cent, it is believed to be possible. With a moderated growth of home demand an increasing margin of resources should become available for exports. In particular, the pressure of industrial investment is expected to slacken, which should make it easier for the engineering industry to fill its export orders and to improve its delivery dates. Exports of aircraft in fulfilment of existing orders are expected to increase. Energetic steps have already been taken to stimulate exports. The Government is continuing its studies of measures to foster them. Measures introduced since the last meeting of the Working Party include further detailed improvements in our export credit guarantee arrangements. Though it may take some time for these measures to have their full effect, they should be making a contribution in 1966.

MORE DETAILED APPRAISAL OF THE TRADE POSITION

Imports

17. Imports were a good deal lower in the first quarter of 1965, but rose in April and further in May. After rising strongly in 1963 and again in the first half of last year, imports had continued at a very high level in the second half of 1964. The fluctuations in recent months have been largely due to special factors. Early in the year food imports were low and imports from North America were delayed by dock strikes in the United States. There was also the effect of the import charge. More recently there has been a recovery of food imports and a recovery in arrivals from the United States. Following the reduction of the temporary charge, imports of semi- and finished manufactures rose sharply in May and included shipments held back to take advantage of the reduction in the rate of charge. Factors of this kind in all accounted for more than the total rise in imports between April and May.

18. Taking the four months February-May together, a period which helps to smooth some of the monthly distortions, imports average 1 per cent less than the rate in the three months November-January, and also 1 per cent less than the average for 1964. In the last four months imports of foodstuffs average 4 per cent less than in the preceding three months, though the fall appears to have stopped in recent months. Imports of basic materials were slightly lower, but imports of many semi- and finished manufactures increased. Imports of fuels and chemicals continued to rise. The pattern of imports by area reflects the recent special character of the composition of imports. Most of the sharp rise in the last month or two came from the principal manufacturing countries in Western Europe and North America. Even so, imports from North America in February-May averaged less than in the preceding three months. Imports from the European Economic Community rose nearly 4 per cent on average between November-January and February-May, and imports from EFTA increased by nearly 8 per cent. Imports from primary producing countries were lower.

19. For the future there are signs that the recent decline in food imports may be ending, but much will depend on factors such as world prices and crops in the United Kingdom. Fuel imports normally rise from one year to another. Imports of basic materials may also be expected to rise. Import prices of food and basic materials are also expected to be lower. These imports are not subject to the temporary import charge. For semi- and finished manufactures, some further growth in consumption would be expected as a result of the growth in the economy, but the import charge has a restraining effect and stock-building will be lower. Over the whole field of imports, and allowing for lower import prices, we expect a reduction in the total import bill compared with 1964.

Exports

20. Exports by the United Kingdom have recovered in recent months, after some slackening in the middle of last year. There was a marked slowing-down in the growth of demand in EEC countries during last year, partly because of disinflationary measures in some of them. The United Kingdom was affected particularly sharply in a fall in exports to Italy (though by the end of the year they were no longer falling) while some weakening in exports to other EEC countries developed in the course of the year. The recovery in exports to EEC countries towards the end of last year continued in the early months of 1965 and this has contributed to the overall recovery in United Kingdom exports. Further strong growth in exports to EFTA countries has occurred in recent months, after the pause in the second half of 1964.

21. Exports to the Overseas Sterling Area continued to grow in the second half of 1964 against a background of continued growth in those countries' export earnings and were still strongly upwards in the early months of 1965. Exports to North America also increased strongly in the second half of last year but have since paused. Exports to the Soviet Union and Eastern Europe were falling back throughout last year, and the total for 1964 was considerably down on 1963, but they have recovered sharply in recent months.

22. The general outlook for world trade seems to remain reasonably favourable. We expect to see continued recovery in exports to Western Europe, with improving demand from EEC and continued growth to EFTA. Exports to North America are expected to increase further against a background of continued economic expansion in the United States and including an increase in United Kingdom exports of aircraft to the United States. Imports of primary producing countries should continue to rise.

LONGER TERM MEASURES

23. The Working Party will also wish to have a further progress report on the longer-term strategy to strengthen the foundations of the United Kingdom economy and its balance of payments.

Prices and incomes policy

24. Last December representatives of the Government, the trade unions and management reached agreement on the objectives of the United Kingdom's prices and incomes policy. In February they agreed on the form of machinery which would be needed to help achieve the objectives. This included the setting-up of a National Board for Prices and Incomes to examine the behaviour of prices, wages, salaries or other money incomes in particular cases. The third stage in the development of the policy came in April when agreement was reached on the general criteria relating to prices and incomes which, in the national interest, should guide both the National Board in its investigations of individual cases and all others concerned with these matters. As regards prices, it was agreed that increases should be avoided where possible and that reductions should be made where circumstances permit. As regards incomes, it was agreed that a "norm" was necessary to indicate the average rate of annual increase of money incomes per head which was consistent with stability in the general level of prices and that the figure for the present norm should be 3-3 1/2 per cent; this corresponds to the underlying rate of growth in output per head to be expected in the next few years. The circumstances which would justify an increase in prices, or a pay rise above the norm, have also been defined.

25. The Government have already referred to the National Board for Prices and Incomes three-price cases (bread, soap and detergents, road haulage rates) and two wage cases (a settlement in the printing industry and a dispute over pay in the electricity supply industry). The new policy is however likely to have only a limited impact this year. Part of the increase in costs which has already taken place since 1964, or which is due to take place as a result of forward wage commitments, has still to work through to prices; and it would be unrealistic to expect the agreed norm to be observed immediately in all cases. We expect it to have an increasing influence on the wage settlements that are due later this year and on both price and wage decisions in 1966. This is a field in which success can only be expected to come gradually.

Productivity and efficiency

26. Closely allied to our policy for prices and incomes are the measures that are being taken to improve efficiency in industry and to raise productivity. At the last meeting of the Working Party reference was made to the determination expressed by the unions, by management and by the Government in their Joint Statement of Intent "to encourage and lead a sustained attack on the obstacles to efficiency, whether on the part of management or of workers and to strive for the adoption of more vigorous standards of performance at all levels". The task of identifying and removing obstacles to efficiency and expansion is particularly that of the Economic Development Committees for different industries (the "Little Neddies"). There are at present nine such Committees and a further four are in the process of formation. By the end of the year we hope to have increased the total number to about twenty, to cover most of private industry.

27. These Committees are already producing useful results. Action Programmes agreed by the Machine Tools, Chemicals and Mechanical Engineering Economic Development Committees include specific recommendations to bring about improvements in design, increases in productive capacity, better links between suppliers and customers, a more efficient industrial structure and Government action to encourage investment. They are also undertaking detailed studies of manpower problems which include ways of extending productivity agreements, on the lines of recent agreements in a number of industries. At the same time they are giving urgent attention to standardization and specialization in order to achieve economic production runs. Other subjects under consideration include ways of improving market research, technical research, and development, design, training and stock control.

The national plan

28. The Government's long-term measures for strengthening the British economy, and hence the balance of payments, are all being brought together in the national economic plan for 1964 to 1970. The plan is not regarded as a rigid blueprint for the future but it will be a useful yardstick against which progress can be

measured and difficulties diagnosed. It will provide a framework within which resources can be made available for increases in exports and in investment. It will also enable the Government to see whether the programmes for different sectors are likely to be mutually compatible so that public services and private industry can develop together in a mixed economy. Similarly by means of the regional plans it is intended to spread economic development more evenly over the country as a whole and to make use of the unemployed men and resources which exist in particular areas.

29. Work on the plan is making good progress. The general aim is to increase the gross national product by 25 per cent by 1970 or by nearly 4 per cent a year - a higher rate than in the past. This of course will only be realistic if industry's programmes for output, exports, investment, manpower etc., like those of the Government, are designed to bring about such an expansion. In order to find out their intentions, in February the Government addressed a questionnaire to fifty different sections of private and public industry, covering 85-90 per cent of the total. The replies to this enquiry have been collated and analyzed and each reply discussed with representatives of the industry concerned. Further reports on each industry revised in the light of this examination will be discussed later this month.

30. Meanwhile, the review of public expenditure, which is a central part of the plan, is also in progress. Forecasts of expenditure up to 1970, on present policies, have been assembled and are being considered in the light of the Government's declared intention of limiting the average annual growth in the public sector to $4\frac{1}{4}$ per cent in real terms. Similarly the forecasts of the other main constituents of demand - private consumption, investment, exports - and of output are being compared and checked against each other. This is being done both for consistency and to see whether they provide the basis for restoring equilibrium to the balance of payments and for achieving a more rapid and steady rate of growth in the economy.

31. The Government have recently announced that, despite the complications and the detailed discussions involved, they are determined to have the plan ready by the end of the summer so that everyone concerned can be aware of the aim and the means proposed for achieving it.

ANNEX II

STATEMENT BY THE REPRESENTATIVE OF THE INTERNATIONAL
MONETARY FUND

The Fund invites the attention of the CONTRACTING PARTIES to the background material dated April 29, 1965 which it has transmitted for their information and use. The recent budget measures described therein are expected to reduce the pressure on domestic resources by an estimated £250 million, at an annual rate, by the early months of 1966; changes in the exchange control system were announced at the same time to reduce the net outflow of long-term capital by at least £100 million at an annual rate. The budget statement emphasized that the first priority of current economic policy was the correction of the balance of payments position.

Monetary policy is also being used to help overcome the external imbalance. Special deposits by the commercial banks with the Bank of England have been reintroduced and the Governor of the Bank has called for a limit of 5 per cent on the expansion of bank credit to the private sector in the 12 months to March 1966. Bank rate was reduced from 7 per cent to 6 per cent on June 3, but it was emphasized that this did not imply a relaxation of credit policy. Also on June 3, regulations affecting hire purchase transactions were tightened.

Complete balance of payments data since the fourth quarter of 1964 are not available, but the foreign trade figures in the first four months of 1965 were consistent with only a slight current account deficit. In May, the United Kingdom drew from the Fund the equivalent of \$1,400 million, which was mainly used to repay foreign central bank assistance; the United Kingdom's reserves of gold and convertible currencies as published at the end of May were \$543 million higher than in December 1964.

The United Kingdom authorities expect that the corrective measures taken will reduce substantially the deficit in the balance of payments for 1965, as compared with 1964, and help bring about the restoration of a balance in the course of 1966. The Fund has been informed of the United Kingdom Government's determination to take such further action as may be necessary to ensure the success of its policies. While the corrective measures take hold, the general level of the temporary import charges does not go beyond the extent necessary at the present time to safeguard the United Kingdom's external financial position.