

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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WORKING PARTY ON UNITED KINGDOM TEMPORARY IMPORT CHARGES

Note by the Secretariat on the Discussion at the Fourth Meeting of the Working Party on 13-14 October 1965

1. As arranged at the meeting of the Council on 12 July, the Working Party met on 13-14 October 1965 to continue the consultation with the United Kingdom concerning the temporary import charge which was imposed in October 1964 and which, though reduced from 15 to 10 per cent in April 1965, is still maintained on all imports except listed foods and raw materials.
2. The United Kingdom representative presented a statement describing recent measures taken in the United Kingdom to reduce the growth of home demand and to operate on the balance of payments directly. He also described the longer-term measures undertaken in the field of wage-price relationships and the growth prospects outlined in the National Plan which give hope that equilibrium in the balance-of-payments position may be achieved through growth. The complete statement is contained in Annex I, but it was noted that the analysis of the trade position contained in the text could not take account of September 1965 trade returns, which were received too late for inclusion there; instead, a press release giving a preliminary analysis of the September data was submitted.
3. On the invitation of the Chairman the representative of the International Monetary Fund then presented a statement (see Annex II) in which he informed the Working Party that the Fund continued to consider that the general level of the temporary import charges did not go beyond the extent necessary at that time to safeguard the United Kingdom's external financial position.
4. After noting the importance of the United Kingdom as a factor in world trade and reiterating the general concern that the surcharge, then nearly a year old, might have serious adverse effects if long maintained, the Working Party undertook a review of the factual position as a whole.
5. Certain clarifications were first sought concerning various points contained in the United Kingdom presentation. The continued rapid expansion of money incomes mentioned in paragraph 8 was explained as a reference to such developments as the increase in wages and salaries by about 7 per cent in the first half of 1965 and a like rate of payment increases in wage settlements negotiated during that period. The distortion in the trend of imports noted in paragraph 11 was explained as the combined result of the dock strike in New York, anticipation

of a reduction in the surcharge itself and lower shipments of foodstuffs, all of which tended to reduce imports in the first quarter and to increase imports in the second.

6. More generally, it was noted by some members that the United Kingdom did face a certain dilemma in its concomitant needs to increase exports and to restrain imports, with the result that investment must, on the one hand, be subjected to general restraint, whilst encouragement was given to expansion in the export industries. Recognizing that it was probably too early to evaluate the measures taken by the United Kingdom Government in July, members nevertheless expressed interest in learning what priorities the Government gave to these various phases of the effort to restore equilibrium. The question was also posed whether the surcharge had been a significant cause of such improvement as had thus far occurred, given the rather uneven performance of imports, which suggested that normal forces of demand and supply rather than the surcharge might have been controlling. However, it was also recognized that it was as yet somewhat risky to formulate views on this point. In reply the representative of the United Kingdom agreed that it was very difficult to achieve the combination of effects necessary in the situation, especially as the measures taken were not all of a kind which had a quick or automatic effect. Pin-pointing the measures responsible for results achieved was even more difficult as it was virtually impossible to disentangle the effects of a single measure. The United Kingdom overall objective was to restore equilibrium in the balance of payments at the earliest moment; from the outset the general strategy was to let the temporary import charge operate as the measure with immediate effect, in order to provide a breathing space within which the slower-operating disinflationary measures might take hold. It might thus be said that as time passes the effects of the disinflationary measures, which are a matter of continuing effort rather than of one-time action, are on a rising curve; in this sense they might be regarded as the more important phase of the corrective action.

7. In response to questions concerning the time period envisaged in various passages of the United Kingdom statement where relative stability in imports and continued strengthening of export demand were foreseen, the representative of the United Kingdom confirmed that these predictions related to the balance of 1965 and to 1966.

8. Interest was expressed in knowing more about the forthcoming legislation described in paragraph 25; in particular the question was asked whether either wage or price control was envisaged, as might be thought if all price and wage increases were to be notified in advance to a National Board for Prices and Incomes. The representative of the United Kingdom explained that although it was not possible to be very precise about legislation not yet introduced, neither price nor wages control was the object. It was hoped that the very existence of the new authority would, in fact, go far to obtain compliance with the Government's

policy without the power being exercised. If, however, the power were used, the Government could require that, whenever they referred a prospective price or wage increase to the Board (and they would not refer every case), the increase should be deferred until the Board had reported. This would create a delay within which adjustment might come about on a voluntary basis. The fact that the Trades Union Congress had promised to co-operate was important, and whenever a case was referred to the Board, public opinion and the recommendations of the Board were expected to help bring about voluntary adjustment.

9. The basis on which the National Plan had been drawn up was also discussed. In particular, inquiry was made as to how the growth target had initially been drawn up, since some understanding of this process would appear essential to evaluating the significance of a finding in the Plan that the target might be achieved by 1970. The representative of the United Kingdom explained that the targets had been drawn up by tripartite consultations between industry (management and labour), Government and the National Economic Development Council. An effort had been made to set targets at a level between the expected and the desirable, so that the targets should be regarded as something beyond sure expectations but still within reach, or as practical but challenging.

10. Representatives of less-developed countries then expressed their disappointment that no date for removal of the surcharge had yet been set and that removal might perhaps not take place until the latter part of 1966. Moreover, it was noted that there had been thus far no response to the pleas of less-developed countries, even though their requests had been narrowed down to very precise points at earlier meetings of the Working Party. This seemed especially unfortunate now that statistics of trade were available for a considerable period, as these seemed to show that the reduction in United Kingdom imports effected by the temporary charge on less-developed countries was quite severe. In reply, the United Kingdom representative referred again to the difficulty of forecasting and emphasized that removal of the surcharge would take place as soon as the balance of payments permitted. On the other hand, he held out no hope that special concessions would be made to less-developed countries, for reasons which the Working Party had already examined in detail.

11. Further questions were put to the representative of the United Kingdom concerning the precise conditions which would have to be fulfilled before the surcharge could be removed. What, it was asked, would be the criteria which would satisfy the United Kingdom that the balance-of-payments situation did permit removal of the surcharge? The representative of the United Kingdom considered that it would be unwise to attempt to specify in detail the characteristics of such a situation. Were he to do so, he would undoubtedly be asked about the relative emphasis to be given to different factors and whether the emphasis would remain unchanged by the passage of time. In short, there might be no end to a reply along these lines, and all this could serve no good purpose since, he reiterated, his Government would in any case remove the charge at the earliest possible moment.

12. The representatives of the developing countries pointed out that though the import of items subject to the surcharge had shown a slight increase, the increase in imports had come solely from developed countries; on the other hand imports from the developing countries had shown a marked decline. The trend in imports proved that the surcharge had affected the trade of the developing countries much more than the trade of the developed countries. The representative of the United Kingdom could not agree. First, he recalled, some 90 per cent of the imports subject to surcharge are the goods of developed countries; and, as it happened less than 10 per cent of the exports of less-developed countries taken together to the United Kingdom were subject to the surcharge. In addition, it was not possible to know precisely what trade would have been in the absence of the surcharge. Quite possibly other factors might be operating to reduce demand for goods of less-developed countries while the reverse might be true for some of the goods supplied by the developed countries.

13. Less-developed countries could not accept this reasoning. If the choice of commodities to be subject to the surcharge had been made for the purpose of helping the less-developed countries, the logic of the situation would be for the United Kingdom now to continue in the same direction by exempting the balance of less-developed country trade. The disproportionately high effect on trade of less-developed countries, as shown by decreases in their trade compared with a year ago, while developed countries' trade had improved, should indicate the need to restore equilibrium by action in favour of the less-developed countries. As the United Kingdom's balance-of-payments position had improved they should take steps to remove the surcharge. The first step in this direction should be taken by the removal of the surcharge on items of interest to less-developed countries. Moreover, at an earlier meeting of the Working Party it had been explicitly agreed that action to favour the less-developed countries should not be invoked by others as a precedent for additional exemptions. The representative of the United States recalled that his Government had been unable to associate itself with the view of the Working Party referred to above and continued to hold the view (see paragraph 17, L/2395) that the remaining surcharge should be eliminated on a non-discriminatory basis at the earliest possible date.

14. The representative of the United Kingdom referred again to the impossibility of knowing what trade might have been in absence of the surcharge. It is possible to compare trade before and after, or one might compare trends in goods subject to surcharge with trends in other goods. Finally one might speculate on what would have happened if there had been no surcharge. This last approach would lead into examination of conditions of demand and supply for individual commodities, and to endless uncertainties. In historical fact the selection of commodities to be exempted from surcharge was based on the need to expedite recovery of United Kingdom exports. The United Kingdom would be only too happy to see the day when it could remove the surcharge from all of the products to which it does apply.

15. The Working Party thanked the United Kingdom for the full and frank discussion which had been made possible by the material presented and hoped that the Working Party's comments would encourage the United Kingdom to take the steps needed to ameliorate the balance of payments so that the surcharge could be eliminated. Particular sympathy was expressed for the United Kingdom's efforts to curb spending effectively and to raise productivity.

16. The Chairman noted that the Working Party had had a useful debate on the factual situation, all the more so as it had not been necessary to go over all of the ground in detail again. He noted some expressions of guarded optimism and increased confidence indicating that the end might be nearly in sight. Perhaps it was precisely because of the transitional character of the developing situation that members of the Working Party hesitated to formulate conclusions at this stage. He therefore suggested that it would not be appropriate to attempt a deeper examination of the matter now or to attempt to formulate recommendations which might be more fruitful at a slightly later date. Equally, he felt that it would be an advantage not to fix a date for a next meeting. Instead, he proposed that the Working Party leave to the Chairman, in collaboration with delegates, the fixing of a time for a next meeting and that the Working Party content itself with a cleared record of the proceedings which would be available for later use when the Working Party would continue the consultations with the United Kingdom. The Working Party agreed.

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

1. Our statement to the Working Party last June emphasized that the strengthening of the balance of payments was the first priority of the United Kingdom Government and that, accordingly, the overriding strategy of the Budget of April 1965 was the attainment of balance on external account in the second half of 1966. We reminded the Working Party that in setting this objective the need to reduce and remove the temporary import charge as soon as possible was being taken into account.

THE MEASURES OF 27 JULY 1965

2. Early in the summer a fresh appraisal of the economic outlook was made, taking into account the less favourable prospects for world trade and the possible repercussions on United Kingdom export performance. Further corrective measures were decided upon and announced on 27 July. These fell into two categories: (a) those intended to exert their effect on the balance of payments indirectly, by reducing the growth of home demand, and (b) those operating on the balance of payments directly.

3. The main measures in category (a) were as follows. First, the maximum repayment period for hire purchase contracts was reduced from three years to thirty months, with limited exceptions. (The principal impact is expected to be on car purchases.) Second, in the public sector, where contracts had not been signed by 27 July, starting dates would be postponed for six months for non-industrial projects other than housing, schools and hospitals. (This applied to projects of both the Government and local authorities, though there would be exemptions for areas of high unemployment and also for designated development districts.) Third, purchases of goods - equipment and stores - would be deferred to the maximum possible extent, and manpower requirements would also be reviewed. (The nationalized industries would be asked to act similarly.) Fourth, local authorities operating schemes for house purchase loans would cut back their loans; and, as a longer-term measure, the Government would in future be more restrictive in sanctioning borrowing by local authorities for capital purposes. Fifth, for large private construction projects other than housing and industrial building, the Government would seek powers with some retrospective effect to 27 July to determine starting dates.

4. The measures in category (b) comprised very largely changes in exchange control. No further approvals would be given for the use of official exchange for direct investment in the non-sterling area, which would have to be financed for the time being with investment currency or by borrowing in the non-sterling area. Certain further categories of foreign currency would no longer be eligible for disposal through the investment currency market. Payments for imports from the non-sterling area in advance of arrival would normally be permitted only against evidence of despatch. Stricter control would be exercised over borrowing in the United Kingdom by subsidiaries of parent companies in the non-sterling area. A further improvement was being made in the bank guarantee facility given by the Exports Credits Guarantee Department and arrangements were also being made to reduce the cost of shorter-term export credit. Finally - a measure outside the scope of the exchange control regulations though closely related to them - the commercial banks were asked to look more carefully at requests for credit where there was evidence that such credit related to payment for imports.

5. The estimated effects of both categories of measures have of course been taken into account in the assessment included in the two succeeding sections of this statement of prospects for the domestic economy and the balance of payments.

THE STATE OF THE ECONOMY

6. We expect the further deflationary effect of the category (a) measures to be appreciable. Although it is too early for this effect to be widely reflected in the statistical indicators, it is noteworthy that in the wake of the tightening of repayment terms, new hire purchase contracts for cars have fallen. It is in any case clear that even before the end-July measures the pressure of demand was beginning to ease, partly in response to the restrictive measures taken earlier by the Government. Gross domestic product in real terms ceased to rise between the first quarter and the second, and indeed may have dropped back slightly. The industrial production index for the three months May-July was little changed from the previous three months; this was partly because of supply difficulties in some industries, but also reflected a weakening of demand in other sectors. And - in contrast to the position reported to the Working Party some three months ago - the trend of unemployment is now clearly upwards, and that of unfilled vacancies downwards.

7. The main check to demand has been, as intended, to consumer spending. The fall recorded by retail sales in the second quarter was probably exaggerated by the substantial anticipatory buying before the Budget; nevertheless, sales in real terms were as much as $1\frac{1}{2}$ per cent lower in the three months May-July than in the first quarter, and car registrations have been running well below last year's average. Industrial investment has been maintained at a high level, although the rate of increase was slowing down in the first half of this year, while commercial

investment may have started to turn down. Housebuilding, especially in the private sector, seems to have been curtailed by the credit squeeze. Stockbuilding has been running at only about half last year's rate. As against this, the volume of exports has risen in recent months. Public expenditure has almost certainly remained on an upward trend.

8. The least satisfactory feature of the situation has been the continued rapid expansion of money incomes. However, the Government has come forward with a new initiative in prices and incomes policy (described in the concluding section of this statement) and the slackening in the general pressure of demand should of itself contribute significantly to a moderation of wage pressure.

9. We expect only a very modest rise in output from now on, with a progressive further easing in the pressure of demand including demand for labour. Investment, both public and private, will be increasingly under restraint, and personal consumption is likely to grow very moderately indeed.

THE BALANCE OF PAYMENTS

10. The figures for the overall balance of payments in the second quarter of 1965 have been published in the September issue of Economic Trends. The second quarter is seasonally favourable to the current account and with this help, there was a surplus of £28 million in the quarter. There was a surplus on current account and a change in the balance of private investment, which showed an inflow of £13 million in the second quarter compared with an outflow of £75 million in the previous quarter.

11. On a seasonally adjusted basis, the current account deficit increased between the first and second quarters but special factors are believed to have distorted the trend of imports between the two quarters. Taking the two quarters together, the first half year's deficit on current account was, on a seasonally adjusted basis, about one third the deficit in the second half of 1964.

12. The Budget measures relating to exchange control were partly responsible for the improvement of about £90 million in the long-term capital account between the first quarter (when the outflow had remained very high) and the second.

13. Since the second quarter of the year, imports have remained unchanged and over the first nine months of the year they have been only slightly above the average value in the same period in 1964. The upward trend of exports appears to have been re-established. Over the first nine months of the year they were 6 per cent higher than in the same months of 1964. (A more detailed appraisal of the trade position is given in a later section of this note.) On the third quarter the deficit on visible trade, on a balance-of-payments basis, seasonally adjusted, averaged £27 million a month.

Prospects

14. The new measures announced by the Government on 27 July were a substantial reinforcement of those already taken to ensure that the target of equilibrium by the end of 1966 would be reached. The measures were designed to act on the balance of payments in two ways. Firstly, by slowing down the rate of growth of the economy the need for imports will be reduced. Secondly, by operating on private investment the net outflow of long-term capital will be curtailed.

15. Imports are expected to show little or no further increase, subject of course to any decisions that are made about the import charge. Any increase associated with the growth of the economy, which would only be very slow, is expected to be broadly offset by lower stockbuilding and a slightly lower level of import prices. Our export promotion measures should be showing positive results next year, and while there is some uncertainty about world market conditions generally over the coming period, we expect deliveries of ships and aircraft under existing orders to increase. Taking imports and exports together, visible trade may be not far from being in balance in the second half of 1966, on a seasonally adjusted basis. Net invisible earnings should be increasing, even allowing for the loss of interest and dividends following from the effect of the new policies in reducing the net outflow of long-term capital. And in the second half of next year there should be a moderate surplus on current account. The net outflow of official capital may be at much the same level as in 1964, but private investment is expected to show a net inflow from the second half of 1965 onwards in contrast to the net outflow in most earlier years. The effect of the April and July Exchange Control measures on the balance of private investment in the next year is estimated at nearly £150 million. In addition, the Corporation Tax will have begun to affect both inward and outward investment. The total long-term capital account may thus be expected to be showing only a small outflow in the second half of next year.

16. The development of the balance of payments will itself depend, inter alia, on what decisions are taken with regard to the import charge and the Government will continue to keep the situation under review. It remains the Government's intention to reduce and abolish the charge as soon as the balance of payments permits.

MORE DETAILED APPRAISAL OF THE TRADE POSITION

[Sufficiently detailed information is not yet available to allow this section to deal with the September figures.]

Imports

17. Imports in the latest months (June-August) have been rather higher than in the early months of this year. This reflects some recovery in food imports and also increased arrivals of manufactured goods following the reduction in the import charge from 15 to 10 per cent at the end of April. Imports have been rather

uneven during 1965, partly due to special factors which have also contributed to the increase that has occurred since the first quarter. After reaching a very high level in the second half of 1964, imports were a good deal lower in the first quarter of this year, with food imports falling back, the import charge having an effect on imported manufactures, and some deliveries were delayed owing to dock strikes in the United States. A recovery in arrivals from North America became evident in the following months and imports of semi- and finished manufactures rose sharply in May, partly reflecting shipments held back earlier to take advantage of the reduction in the temporary import charge. In the last three months (June-August), imports of manufactured goods have continued at a slightly higher average level, not quite 1 per cent more, than in the previous three months. In the first eight months of this year, the average value of imports has been very slightly higher than the average for 1964 and not quite 1 per cent more than in the first eight months of last year.

18. The main rise in imports in the latest three months compared with the previous three months has been in finished manufactures, in chemicals and in all three sectors of the food, drink and tobacco category. Apart from the increases in food and raw tobacco, which are not subject to the charge, the moderate further increase has been in chargeable goods. Among manufactured goods subject to the charge, higher imports of machinery and transport equipment accounted for most of the recent increase but imports of clothing and other manufactures were also higher. Against the increases, there were slight falls in the other main categories of imports - fuels, basic materials and semi-manufactures other than chemicals. A large part of the increase in total imports in recent months has come from the United States. There have been smaller increases in imports from the sterling area, from Western Europe and from other sources, except Latin America and Canada, which have shown moderate decreases. Compared with the second half of last year, the rise in imports in the first eight months of 1965 has been largely from Western Europe especially from EFTA countries. Imports from the sterling area were still rather lower than in the second half of 1964.

19. For the future there are signs that the decline in food imports has ended but the future trend will depend on factors such as world prices and crops in the United Kingdom. The prospect is possibly of a slight rise in future months. Fuel imports normally rise in volume from one year to another. Imports of basic materials will probably show only a slight rise. Prices of food and basic materials are expected to be lower. Some further growth in imports of semi- and finished manufactures would be expected to accompany the continued but slower growth in the economy, but the import charge, at 10 per cent, will have some restraining effect upon goods subject to it, and stockbuilding, which has an impact on imports of industrial materials especially, will probably be lower in coming months. Over the whole field of imports, the general trend may be rising slightly but with the possibility of further flattening next year.

Exports

20. In the first eight months of 1965, United Kingdom exports have been 6 per cent higher than in the corresponding period of 1964. In recent months exports to North America have increased sharply, mainly due to the United States where exports in the first eight months of this year have been 18 per cent higher than a year earlier. Growth in exports to the Overseas Sterling Area has paused after the rapid climb towards the end of last year, but the first eight months of 1965 were 8 per cent above a year earlier.

21. In Western Europe, growth in exports has flattened off in recent months after the recovery from the dip in mid-1964. Expansion in exports to EFTA countries continued in the first part of this year, and the first eight months were 6 per cent up on a year earlier. Exports to EEC countries have been growing again in recent months after their drop in the second half of 1964, but the first eight months of this year were still 5 per cent lower than a year earlier. Although exports to Italy are no longer falling, they have remained well below a year earlier; in recent months exports to France have eased back; however, exports to Western Germany have shown fast growth and in the first eight months of this year were 14 per cent higher than a year earlier.

22. The general outlook for world trade remains favourable. In Western Europe, expansion in EFTA is expected to continue and demand in EEC is expected to strengthen. Demand in North America is expected to continue to expand with continued fast economic growth in the United States. Demand from the primary producing countries is expected to continue to rise.

LONGER-TERM MEASURES

23. The Working Party may again wish to have a progress report on longer-term measures being taken to strengthen the United Kingdom economy and its balance of payments.

Prices and incomes policy

24. The Working Party will recall that the Government have made it a first priority since taking office to work out with management and unions an agreed policy on productivity, prices and incomes, the machinery to implement it and the general criteria which, in the national interest, should guide all those concerned in determining prices and incomes. Since the last meeting of the Working Party three further cases (London Electricity Board tariffs, pay and conditions of clerical workers in the electricity supply industry and salaries of staff employed by the clearing banks) have been referred to the National Board for Prices and Incomes. The Board have so far reported on four of the earlier cases referred to them (road haulage rates; wages, costs and prices in the printing industry; bread and flour prices; and soap and detergent prices) and these are now being followed up vigorously with the industries concerned.

25. In spite of the progress made so far, pay increases have in many cases been made above the norm of $3-3\frac{1}{2}$ per cent and prices have continued to rise. The Government have therefore decided that the policy must be applied more vigorously and with a greater sense of urgency. They announced at the beginning of September that legislation would be introduced early in the new session to give the National Board for Prices and Incomes statutory power to collect all necessary information and call witnesses to give evidence, and to give the Government powers by Order in Council to require the prior notification of intention to increase prices or charges and of claims relating to pay, hours and other major improvements and prospective terms of settlement and where, after due consideration, any proposed price or pay increase is referred to the Board, to require it to be deferred until after the Board has reported. The Government have stated, however, that they will not make an Order to bring these provisions into effect unless they are convinced that they are necessary to make the policy effective and that before coming to any decision to do so they will consult the Trades Union Congress and the Confederation of British Industry. They have pointed out that the proposals will, in any case, leave intact the essential voluntary principles on which the policy is based.

26. The Trades Union Congress have since agreed to operate their own early-warning system whereby affiliated unions will be expected to notify proposed wage claims to them. The Government for their part have announced that they are already operating the early-warning system in respect of all charges, prices and claims that fall directly within the public sector. The Confederation of British Industry have accepted the Government's legislative proposals and are, in the meantime, considering the ways in which their members can co-operate in the reporting of intended price increases and pay claims on a voluntary basis.

The National Plan

27. The National Plan was published on 16 September. It consists of a detailed analysis of the prospects for growth in all parts of the economy and an action programme designed to secure the central objectives. These are:

- (i) to remove the balance-of-payments deficit and to achieve the surplus required to repay recent borrowing. (£250 million per annum by 1970.)
- (ii) to speed up the rate of growth of output and achieve an increase of 25 per cent in national output between 1964 and 1970;
- (iii) to ensure a better balance of development between different regions of the country.

28. The Plan was prepared in close co-operation with the National Economic Development Council and the Economic Development Committees for particular industries. It was based in part on an Industrial Inquiry which was addressed to virtually all branches of industry (including agriculture, distribution, and the public sector). This inquiry asked for estimates of likely output in 1970 consistent with the national growth objective of 25 per cent and for estimates of the investment and manpower that would be required to achieve that output.

29. The Industrial Inquiry shows that industry expects to be able to achieve the growth target by 1970 and to achieve sufficient exports to produce a satisfactory balance-of-payments position. But industries' forecast of manpower requirements is slightly in excess of the likely supply and great efforts must accordingly be made to increase the activity rates in the regions and to use existing manpower more efficiently. The Plan devotes considerable attention to ways and means of improving efficiency. It includes a Check List of Action required, showing where responsibility lies for carrying out the programme (i.e. Government, National Economic Development Council, Unions, etc.). Examples are the promotion of standardization, variety reductions and longer runs; rationalization; policies designed to increase labour mobility; training and retraining of management and workers; the acceleration of technological advance; action such as investment, research and development to save imports and promote exports; and a wide variety of measures to secure a more balanced regional economic development.

30. Prospects for the balance of payments are analyzed in some detail. Direct action has been taken on the capital account and the Government's own overseas expenditure is to be curbed. But the major part of the improvement that is foreseen follows from the very widespread attempt to step up productivity and increase efficiency. In addition, the Government's prices and incomes policy should play an important part. The Plan emphasizes that the balance of payments must receive priority and that, if measures already in hand or envisaged are not enough, others will be sought.

31. The Government carried out a detailed analysis of the pattern of growth that might be expected and how the total available resources should be shared between the various categories of demand. In this, priority is given first to the resources needed to correct the balance of payments and produce a surplus sufficient to repay debt, and secondly to investment, especially in manufacturing industry - which is an essential prerequisite to faster growth. (The Plan provides for an increase of about 50 per cent in manufacturing investment between 1964 and 1970 and for large increases in certain other key sectors notably construction, gas, water, and roads.) The Plan shows that, with an increase of 25 per cent in national output between 1964 and 1970, with sufficient resources allowed for the balance of payments and investment, and with public expenditure contained within the 4 1/4 per cent ceiling, there should be enough resources left to enable personal consumption to rise by a little over 3 per cent per annum - which is roughly the same rate as during the last five years. It also concludes that the level of savings at existing tax-rates is likely to be sufficient to match prospective investment.

32. The reception of the Plan so far has been good, and the co-operation of management and Unions in industry has been excellent. Although the measures adopted last July will slow down the rate of growth in the short-term, this need not impede the achievement of the longer-term objectives provided industry presses ahead with re-equipment and modernization despite a temporary slackening in order books. One of the Government's main aims in launching the Plan is to give industry a clear view of the future. Thus it is hoped that publication of the Plan and the discussions that will continue in the Economic Development Committees will encourage firms to base their investment plans on longer-term growth prospects. In addition, the Government are, as stated in the Plan, considering whether, and how, the existing fiscal incentives to industrial investment can be strengthened.

33. The Government have explained that the Plan is intended primarily as a guide to action. As such, it should be an invaluable tool of economic management. As circumstances change, revisions may be called for but this does not detract from the value of planning. An increasing number of decisions must be based on a view of the medium-term future and it is clearly desirable that these should be based on the best possible information.

ANNEX II

Statement by the Representative of the
International Monetary Fund

A number of developments have occurred in the period since the Fund made its last statement to the CONTRACTING PARTIES on June 16, 1965. In July, the United Kingdom authorities took additional measures designed to reduce the growth of domestic demand so as to reinforce the effort to restore balance in its external accounts in the course of 1966. These measures were mainly directed toward public sector investment and private consumption. Additional exchange control steps were also taken at that time. A strengthening of the prices and incomes policy was announced and, in September, a new arrangement with various central banks to support sterling came into effect. Sterling has firmed in the past few weeks in the foreign exchange markets and in September an increase in reserves was reported.

The balance of payments results for the first half of 1965 showed a deficit on current account of £79 million (on a seasonally adjusted basis) and a net outflow on long-term capital account of £86 million; this compares with £230 million and £151 million, respectively, in the second half of 1964. A further deficit on these accounts, though probably lower than in the first half of 1965, is expected in the second half of 1965. The Fund continues to consider that 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.