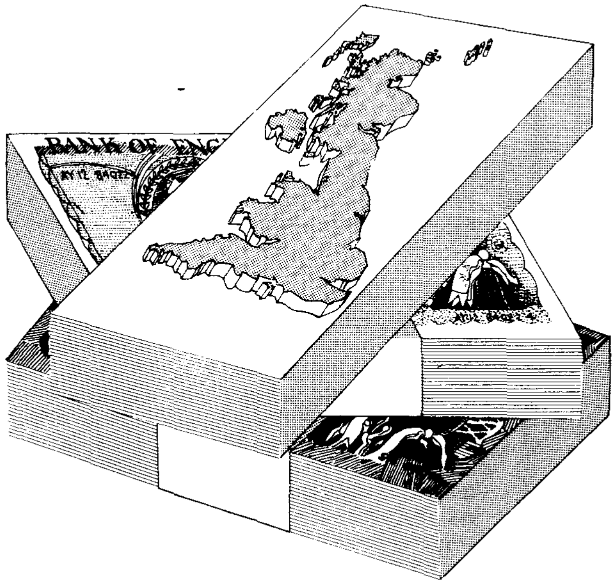
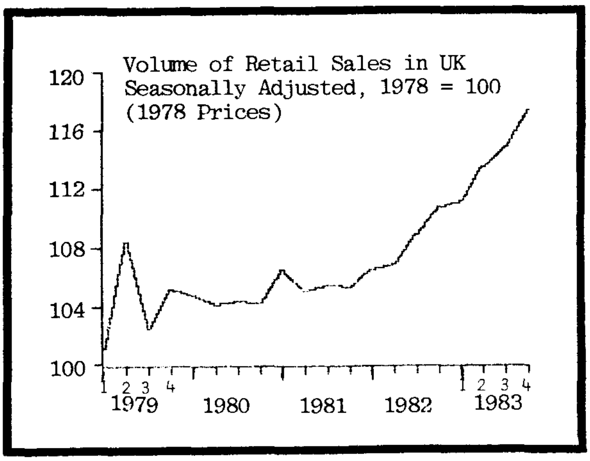
The British Economy

MACROECONOMIC TRENDS

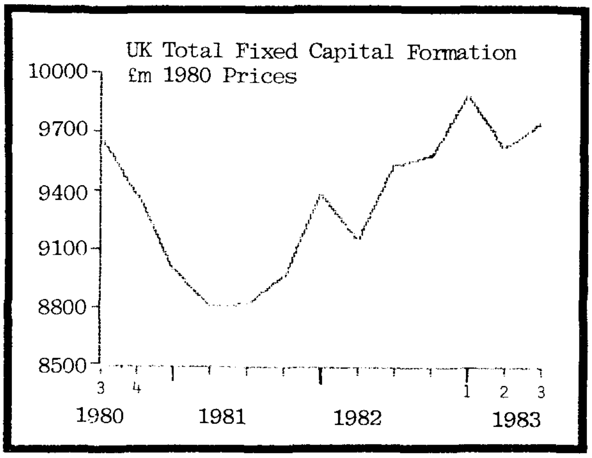


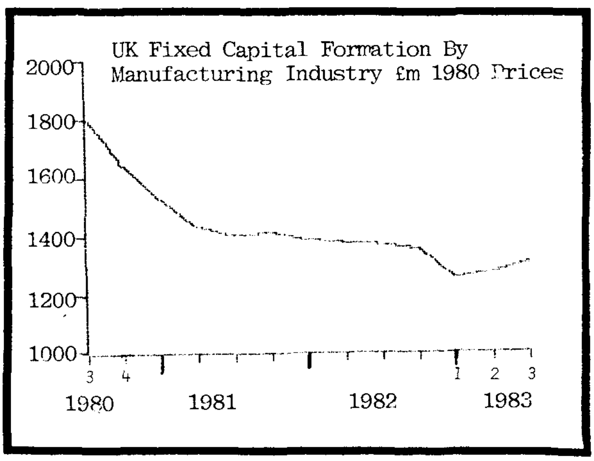
The Treasury estimate that British GDP grew by 3% during 1983 and forecast a similar pace of expansion during the current year. These figures are somewhat higher than those of most other forecasters and analysts, partly because the Treasury forecasts the average of the output and expenditure measures of GDP while most other bodies focus on the output measure, and partly because the Treasury is more bullish about the prospects for consumers' expenditure than other forecasters consider justified.

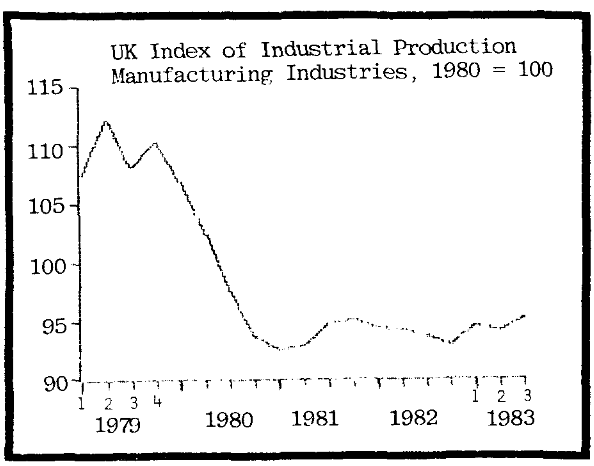
GDP (on the expenditure measure) rose further during the third quarter of 1983 to stand some 3% above the level of the corresponding quarter of 1982. The third quarter level was nonetheless below that reached in the first quarter. In the twelve months to September 1983 over half the growth in final expenditure was attributable to personal consumption. The growth in this component of aggregate demand showed little sign of slowing as the year ended with the volume of retail sales 5.7% higher than a year previously. Durable goods accounted for almost half of the increase in consumers' expenditure during the year.



The other major contributor to GDP growth over the year to the third quarter was the virtual end of inventory liquidation. The first quarter of 1983 witnessed substantial destocking, with stocks in effect remaining almost unchanged during the following two quarters. Gross fixed investment dipped during the second quarter, but recovered during the third due to increased spending by central government and public corporations. Private investment did not mirror this trend, falling in both the second and third quarters, though with the fall least



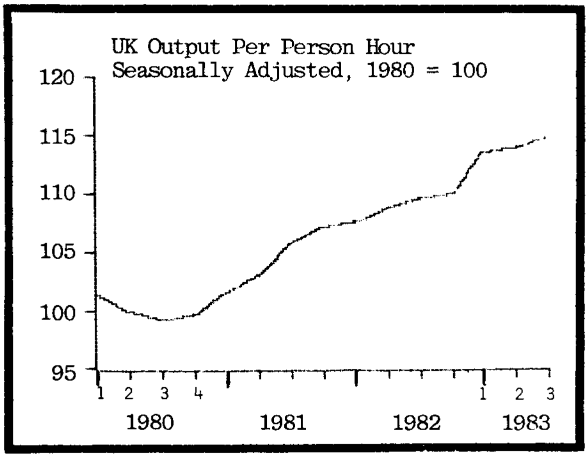




marked amongst firms in manufacturing. The balance of CBI survey respondents intending to increase investment over the coming year turned positive in April of 1983 since when it has steadily increased. The Dept. of Industry's Investment Intentions Survey predicts "slow growth" in manufacturing investment during the coming year. Fixed Investment in dwellings rose significantly during the first quarter of 1983, since when it has shown little change. The number of housing starts, in both public and private sectors, fell continuously through 1983.

Industrial production continued to increase in the third and fourth quarters of 1983 following virtual stagnation during the first two. For the year as a whole the volume of industrial output increased by 2.5% above its 1982 level, a creditable performance by international standards. This expansion was heavily underpinned by oil-related activities, with the extraction of mineral oil and gas expanding by 10% during the course of the year. With oil-related activities excluded, the 1983 figures are less encouraging. For the year as a whole manufacturing output was only 1.4% higher than during 1982, but still over 14% below its 1979 peak. Experience within manufacturing was diverse with significant increases during the year in the output of chemicals, man-made fibres, electrical and instrument engineering, and motor vehicles and parts. By contrast output fell further in mechanical engineering and other transport equipment.

Inflation appears to be on a slow upward path fuelled by accelerating earnings. The trough of the earnings inflation cycle appears to have been passed during the summer of 1983. Even then earnings in the whole economy were increasing at an annual rate some 3% faster than consumer prices. The acceleration in earnings has been particularly marked in



manufacturing where earnings in December were 9.75% higher than a year earlier. Even though productivity growth in manufacturing remains impressive, with output per man hour 4.7% higher in the third quarter of 1983 than a year earlier, the rate of increase of wages and salaries per unit of output has begun to accelerate, reaching an annual rate of 2.4% in the year to December. Though low by British standards, this figure is higher than the corresponding measure in Japan, Germany and the US.

The current account of the balance of payments ended 1983 in substantial surplus, contrary to expectations. The surplus for the year amounted to £2m, compared to the £0.5 m implied in the Treasury November Statement. Over the year as a whole the volume of exports (excluding erratic items) was only 1% higher than in 1982. Within this global total the volume of oil exports increased by 14%. The volume of non-oil exports was almost 1% lower than during the preceding year, while the fall in manufactured export volume was slightly larger. Exports to centrally planned and developed economies were up during the year, while those to oil producing and developing countries were down. The composition of exports reflected the consumption-led nature of the early stages of recovery abroad. The volume of exports of consumer goods was marginally up on its 1982 level while falls of the order of 9% and 5% were recorded for intermediate and capital good exports respectively.

The year on year comparison masks a strong recovery in all types of exports during the fourth quarter after stagnation in mid year. The bulk of the growth in exports during the last quarter of 1983 was attributable to EEC markets, though these typically absorb only about 40% of British exports. The enhanced export performance at the turn of the year reflects with a lag an underlying improvement in the relative profitability of exports for British firms. The Dept. of Trade and Industry's export profitability index has risen uninterruptedly since the second quarter of 1982 and currently stands marginally above the 1979 level for the first time since the onset of recession. The competitiveness of British firms on the home market also improved markedly during 1983 and, after serious loss of competitiveness during the recession, is now back to 1978/9 levels. Export prospects for 1984 are bright. World trade, which grew by only 0.5% during 1983, is expected to be some 5% higher during the current year. Growth in British export markets is expected to be somewhat slower than that in world trade, but nonetheless considerably more rapid than in the past two years when such markets are estimated to have contracted by almost 2%.

While export volume grew only slowly during 1983, the UK's consumption-led recovery ensured that import growth would be rapid. The volume of imports was some 7% higher than during 1982, with the volume of manufactures rising by over 10%. Consumer good imports, which rose by almost 10% were not however the most buoyant category, as imports of capital goods rose by almost 15% compared to the previous year.

THE LABOUR MARKET

EMPLOYMENT AND UNEMPLOYMENT

The most recent labour market indicators provide a somewhat ambiguous picture. Employment appears to have increased in the third quarter of last year, but the fourth quarter of 1983 and January 1984 witnessed falls in the number of vacancies at job centres and an apparent reversal of the slow downward trend in registered unemployment.

The supplementary series on the number of employees in employment recorded an increase of 30,000 during the third quarter of last year. As noted in previous Commentaries, the assumptions used to generate the supplementary series are controversial. Its evidence must therefore be treated with caution. The original series recorded a further fall of 10,000 between the second and third quarters, but the extent of the contraction was much less than in previous quarters when the average decline was of the order of 50-75,000. It seems therefore that the downward trend in total employment bottomed out during the second or third quarter of 1983 at a level some 140,000 below that of the corresponding quarter of the previous year.

The sectoral composition of the third quarter change in overall employment was broadly the same as in previous quarters with an increase in service sector employment offset by a continuing decline in manufacturing. The scale of net job losses in manufacturing was much reduced during the third and fourth quarters, though provisional estimates suggesting a small net increase in total manufacturing employment during October and November subsequently proved unfounded. Subsectors of manufacturing which did record an increase in employment during the third quarter include office machinery, electrical engineering and instruments, textiles leather clothing and footwear, and timber and furniture. Within the service sector strong employment growth is now apparent in distribution, banking insurance and finance, and in the heterogeneous other services.

In contrast to the somewhat encouraging picture painted by the employment figures must be set other less palatable pieces of evidence. Seasonally adjusted unemployment rose in December and January. The magnitude of the increase in January was sufficient to reverse the downward trend apparent in the Autumn. The unexpectedly large increase in January may in part reflect the vagaries of the seasonal adjustment programme. Definitional changes in the series may have altered its underlying seasonal characteristics, a change which will not be fully reflected in seasonal factors till a fuller run of data becomes available.

The possibility that the short-lived downward trend in unemployment may already have been reversed cannot be discounted, but seems rather unlikely. The only important piece of corroborative evidence is the fact that the number of vacancies at job centres fell in each of the three months to January, even after allowing for seasonal variation. By contrast, confirmed redundancies fell further in the final quarter of 1983 for the fourth quarter in succession. For the year as a whole such redundancies were 25% below the level of 1982, with the provisional fourth quarter figure some 14% below the average for 1983. The January CBI survey suggests that the trend towards slower contraction of manufacturing employment will be maintained into the first half of 1984, with a continued decline in the balance of firms planning to reduce employment.

Prognosis

It seems unlikely that the pace of growth in the British economy will either accelerate or decelerate significantly during the current year. It also seems unlikely that the Budget will embody any substantive and unexpected changes in government strategy. Monetary policy is broadly on target, while public expenditure appears to be coming back into line after some months of unplanned growth. The Public Sector Borrowing Requirement (PSBR) for 1983/4, though considerably in excess of the target initially announced in the 1983 Budget, seems unlikely to be quite as high as that envisaged in the November Statement. The PSBR target for 1984 implied in the Medium Term Financial Strategy seems attainable without the imposition of additional taxation.

The Budget therefore is likely to alter the balance of taxation rather than materially affect its level. No stimulus to domestic demand is required at the present stage of the cycle. What is desirable are measures to further enhance the competitiveness of British firms on both home and export markets, and to tackle the problem of long term unemployment. The former can be achieved by measures already well aired, such as the reduction or elimination of the employers' National Insurance Surcharge, reform of the industrial rating system, continued pressure for further liberalisation of EEC and world markets in services, and the weakening of product and service monopolies domestically.

The problem of long term unemployment is not so easily tackled. It cannot be ignored, nor is it likely to go away in the near future. Economic growth, even at the levels envisaged by the Treasury, will not significantly reduce the numbers unemployed. The Treasury rightly does not hold out such a prospect. Policy initiatives are therefore required, not in terms of general reflation of demand, for shortage of domestic demand is not at present a problem, but in terms of measures to increase the share of domestic demand captured by British firms and to encourage those firms to expand their employment from the ranks of the long term unemployed to meet this increased demand. Marginal employment subsidies are a suitable policy instrument to this end. Suitably structured, they need conflict neither with the ideology of government policy, nor with its goals of reducing public borrowing and inflation.

INDUSTRIAL RELATIONS

Pay and Comparability

Pay settlements in the fourth quarter of 1983 appear to have averaged about 5.7% compared with approximately 6.1% for the same period in 1982, suggesting a continued, if slight, fall. A few groups managed to achieve markedly higher settlements with the police obtaining 8.4% in September, and the fire service 7.8% in November 1983. A fairly wide spread in pay claims appears to have continued into 1984 with gas and electricity workers pursuing pay rises well above the 3% pay target for the public sector, bank unions seeking 9% and doctors 17%. It is not at all certain that the apparent decline in pay settlements at the end of 1983 continued into the first quarter of 1984.

The recommendation of a 5.18% pay agreement for engineering workers in mid-December is likely to be an important determinant of the level of settlements in the current pay round. In this settlement the claim for a 35 hour working week by the Confederation of Shipbuilding and Engineering Unions was met by a counter claim by the Engineering Employers Federation for radical changes in working practices. Discussions on these matters are expected to continue for some months with the EEF seeking reduced demarcation between trades and occupations, greater flexibility in working time, with the possibility of increased shift and seven day working, and a change in the character of national agreements in the industry. Whether these discussions will be fruitful and provide the basis for next year's agreement in engineering remains to be seen.

Pay may become a difficult problem in the public sector in the coming months. The Pay Review Body for nurses, midwives, health visitors and other complementary professions has been established and given broad guidelines by the Government. This replaces the Comparability Commission abolished in 1980 when the Government rejected the general idea of comparability. Tnis earlier rejection notwithstanding, comparability has recently been brought back in some form for teachers, white-collar civil servants, nurses and NHS ancillary workers and for ambulance staff. Comparability arrangements have in addition been operating for some time for police, firemen, armed forces, doctors, dentists and top salaried staff. The commitment to comparability thus continues to increase, with possibly 10% of all public sector employees now covered by it.

This resurgence in comparability may generate conflict in public sector pay determination as the collection of the necessary information on outside pay levels varies between groups and is not under the direction of one body with an agreed procedure as occurred with the Comparability Commission. Furthermore, although comparability is to be given a degree of influence in pay determination for these professions, its relative importance compared to market forces in not clear. From the government point of view, it must be less than previously. It is unlikely that the union side will acquiesce peacefully in such an outcome. Comparability is not the only source of friction. In addition, agreement must be reached on the access of parties to arbitration, on whether such access can be sought unilaterally, and on whether its outcome is binding or not.

INDUSTRIAL RELATIONS DISPUTES

The printing industry and the media continue to be the centre of much industrial unrest. Recent disputes in this sector include that in January between BBC journalists and the Corporation over payment for the use of computer technology, the British Printing and Communications Corporation dispute over the printing of the **Listener** and the **Radio Times** at its Park Royal plant in West London, that between the NUJ and the **Richmond and Twickenham Times Group** and the long-running NGA-**Messenger** Group dispute. The latter three disputes all featured recourse to legal remedies newly available under industrial relations legislation and are thus worthy of comment.

The first of the disputes arose when the proposed closure of the BPCC Park Royal plant and subsequent concentration of production at the company's East Kilbride and Bristol factories led Sogat 82 to declare an official strike and to instruct its members to stop production of the **Listener** and the **Radio Times.** A court injunction, granted early in December 1983, required Sogat 82 to lift these instructions. Although Sogat 82 obeyed the court order at that time, a further injunction was sought and granted a month later under the 1980 Employment Act requiring Sogat 82 to stop blacking the printing and distribution of the **Radio Times.** Industrial action nonetheless continued during mid-January, thereby raising the possibility of an NGA-style dispute with Sogat 82 defying the courts and the law, and facing heavy fines or sequestration of funds. Such an outcome was averted by the BBC's termination of the BPCC contract for the London editions of the **Radio Times** and the **Listener**, and the subsequent withdrawal of BBC and BPCC legal actions against Sogat 82 for alleged contempt of court. **The Listener** and the **Radio Times** will now be printed and distributed by another company.

A wider aspect of this dispute is worthy of note. BPCC propose to replace the Park Royal works with a new printing factory in East London and are at present negotiating terms with Sogat 82 to staff the new plant. The **Radio Times** dispute, the injunctions involved, and the possibility of Sogat 82 being fined for contempt of court, became inextricably linked with negotiations on terms for investment in the new printing works; an acceptable deal on the new investment project being coupled with possible withdrawal of contempt proceedings by BPCC against Sogat 82 for failure to cease blacking the distribution of the **Radio Times.** The law in this case has thus not so much helped to solve industrial problems but rather become part of the collective bargaining process.

The second long-running dispute in printing has concerned the National Union of Journalists and the **Richmond and Twickenham Times** Group of newspapers. The dispute stems from the sacking of some employees and the switching of printing to a non-union firm which was an associate of a company with whom the NUJ was already in dispute. NUJ members refused to handle work going to the non-union printing firm. Legal action followed. The courts ruled that the action of the NUJ was not concerned primarily with terms and conditions of employment, nor was it between a union's members and their employer. Rather, it appeared to the court to be based on a refusal by journalists to allow their work to be handled by a non-union firm, and was considered to be a means of putting pressure on the **Richmond Group** not to deal with a non-union company. The legal immunity of a union in such a situation was withdrawn by the 1980 and 1982 Employment Acts. The court accordingly granted the injunction sought by the employer requiring the NUJ to withdraw its blacking instructions to its members. After some initial prevarication the NUJ finally agreed to comply with the court ruling. This dispute illustrates the kind of legal complexities that are now becoming commonplace, and reflects the consequences of a greater willingness to use the law during industrial disputes.

The main dispute in the printing industry in the last quarter was that between the NGA and the **Messenger Group** of newspapers. The dispute has proved costly to the NGA which has agreed reluctantly to observe the law even though it continues to declare its opposition to the 1980 and 1982 Employment Acts. It is interesting to consider three wider implications of the NGA/Messenger episode, even though the NGA's full reaction to the dispute has not yet been worked out. Firstly, the dispute shows that a closed shop can not be enforced on an unwilling employer by secondary action. The closed shop in printing has hitherto allowed few non-union firms to operate but now that the national system of the closed shop has been broken in this way, further breaks may follow. The NGA is highly vulnerable both to legislation restricting the closed shop and to the introduction of new technology. The latter ensures that wage differentials between printers and trained typists must come under close scrutiny in the near future. Given the nature of the threat to the long-term role of the NGA, any weakening of the closed shop in printing following the **Messenger** dispute may in the short-run bring more problems rather than less. The second significant feature of the dispute is the unexpected effectiveness and tightness of the legal restrictions that now apply to trade unions. The extent of legally immune action left open to unions is severely limited, while legal injunctions and the sequestration of assets have been very effective in making the NGA obey court rulings. Unions require the use of their funds to meet ongoing commitments and in current disputes are given access to them only if they obey the court's rulings. This has proved a new and highly effective method of making unions obey the law. The third significant feature of the NGA/Messenger dispute has been its repercussions on the rest of the labour movement. The NGA received less support than it expected from the TUC and from other unions. While this may spur the NGA to organise support for new challenges to existing legislation in the coming months, the dispute seems also to have led the TUC to start a fundamental reappraisal of the function of the labour movement, of its democratic organisation, responsiveness to members and its place in society.

All the printing cases have involved a union being taken to court by an employer over an issue of 'rights'. A test case has recently taken place however in which a union has taken an employer to court over an issue of employee 'rights'. Here, a small group of members of the Inland Revenue Staff Federation in the West Midlands have taken the Inland Revenue to court after being suspended from duty for refusing to operate new computer equipment installed to streamline the Pay-As-You-Earn system. The West Midlands are operating a pilot scheme for the full computerisation of PAYE. The proposed national system which is expected to be completed in 1987 is likely to yield substantial revenue savings but an associated loss of about 4,000 jobs.

The IRSF claimed that computerisation would change the nature of their members' jobs completely, that their contracts of employment were thus being altered unilaterally, and that the Inland Revenue was refusing to negotiate the introduction of computerisation and the allocation of resulting benefits. The IRSF claimed that tax officers would become mere computer operators under the new scheme, a job for which they were not recruited and which their contract of employment did not cover. The case has led some unions to demand legislation in this field, under which the problems and 'rights' of parties involved in the introduction of new technology are clearly defined. Legislation of this kind exists in some Scandinavian countries; whether it will be pursued by unions in this country may depend on further cases like that of the Inland Revenue Staff Federation. Clearly, if unions take action on issues of this kind, and have some success in using the laws to achieve their aims, a new field of activity could be opened up in which activity in the courts could replace action in the picket line.

REFORM OF INDUSTRIAL TRAINING

Significant developments have been announced in the system of industrial training in Britain; first with the introduction of changes in the organisation and administration of the Manpower Service Commission's Skill Centres; and then with the publication of a White Paper ("Training for

Jobs" Cmnd.9135. January 1984) outlining future strategy for government sponsored training in Britain. Both have important long-term implications.

In April 1983, the Skill Centres were reorganised within the MSC to comprise a Skill Centre Training Agency, required for the first time to operate on a trading account basis and charge its customers the full price for its services. This has required the centres to compete in the market for business, and has led to a reassessment of their usefulness with particular emphasis on the extent to which Skill Centres are providing training in the kind of skills currently in demand. Although Skill Centre trainees have in most cases been able to obtain employment in the past, the employment record of recent Skill Centres graduates is not encouraging. Some Skill Centres have been very successful in recent months and on the basis of the lessons learned at these a new strategy is now being proposed. Greater emphasis is to be given to providing training to meet the needs of local industry with Skill Centres encouraged to identify and assess local needs and market MSC's ability to meet them. At the same time the Skill Centre Training Agency must move towards fully meeting its operating costs by 1987.

The recent White Paper identifies three national objectives in training: better preparation in schools and colleges for working life; modernisation of training in occupational skills by providing training appropriate to jobs available, with no outdated age limits for entry; and wider opportunities for adults to acquire and improve their skills. In order to ensure that these aims are met in the most cost effective way, the White Paper proposes that the Manpower Service Commission become a national training authority. In its expanded role the MSC would purchase an increased amount of further education and training, provided at present by local authority expenditure, which in turn would be reduced accordingly. It is proposed that these arrangements apply only to England and Wales. In Scotland existing provisions for funding further education and training are to remain unchanged.