Contents

	FOREWORD	Page
1	THE ECONOMY AS A WHOLE M.C.Kennedy	
I	Introduction	1
1.1	Methodological Approach	1
1.2	Gross Domestic Product	
1.3	Gross Domestic Product at Constant Prices	3 7
II	Fluctuations in Total Output and Expenditure	8
II.1	Fluctuations in Output and Employment	8
II.2	Expenditures in the Cycle	10
II.3	The Determinants of Demand	11
II.4	Consumers' Expenditure	11
II.5	Fixed Investment	15
II.6	Stocks and Stockbuilding	19
II.7	Government Consumption, Exports, Imports and Indirect Taxes	20
11.8	Personal Income and the Multiplier	22
11.0	1 crsonar meome and the manipher	22
III	Budgetary Policy and Demand Management	25
III.1	Objectives and Instruments	25
III.2	The Effects of Policy Instruments	27
III.3	Economic Forecasts	30
III.4	Criticisms of Demand Management	31
III.5	Demand Management and the PSBR	37
IV	Inflation	39
IV.1	Meaning and Measurement	39
IV.2	A Model of Inflation	40
IV.3	Imported Inflation	44
IV.4	Excess Demand, Unemployment and Vacancies	45
IV.5	Demand-pull Inflation	47
IV.6	Wage-push Inflation	49
IV.7	Inflation Since 1970: A Summary	50
IV.8	Monetary Explanations of Inflation	53
IV.9	Inflation and Economic Policy	54
V	Economic Growth	55
V.1	The Growth of Productive Potential	55

vi Contents

V.2	Economic Growth and Policy	59
VI	Economic Prospects and Policies 1986–90	60
VI.1	The Economic Situation in 1986	60
VI.2	Economic Prospects to 1990	61
VI.3	Economic Policies and the MTFS	61
VI.4	Alternative Strategies	63
2	MONEY AND FINANCE: PUBLIC EXPENDITURE AND TAXATION R.L. Harrington	
I	Introduction	66
II	The Financial System	68
II.1	Introduction	68
II.2	The Bank of England	70
II.3	The Retail Banks	72
II.4	Accepting Houses and Other British Banks	78
II.5	Foreign Banks and Consortium Banks	80
II.6	The Discount Market	83
II.7	Building Societies	84
II.8	Life Assurance Companies and Superannuation Funds	87
II.9	Other Financial Intermediaries	88
II.10	The Capital Market	90
III	Changes in the Financial System	93
III.1	Introduction	93
III.2	Internationalization	94
III.3	Technology	95
III.4	The Growth of Short-Term Markets	97
III.5	Euro-Currency Markets	100
III.6	The Eurobond Market	102
III.7	The International Debt Problem	103
III.8	Towards the Financial Supermarket?	105
IV	Government Spending and Taxation	107
IV.1	The Volume and Composition of Government Spending	107
IV.2	The Budget	112
IV.3	The Public-Sector Borrowing Requirement	114
IV.4	Income Tax	116
IV.5	Corporation Tax and Oil Taxation	118
IV.6	Capital Gains Tax	121
IV.7	Capital Transfer Tax	122
IV.8 IV.9	Value Added Tax	123
IV.9 IV.10	Excise Duties and Customs Duties	125
IV.10 IV.11	Local Taxation Taxation and the EEC	126
1 V . 1 1	Taxation and the EEC	128

	Contents	vii
3	FOREIGN TRADE AND THE BALANCE OF	
	PAYMENTS C.J.Green and J.S.Metcalfe	
I	The UK Balance of Payments	130
I.1	Introduction	130
I.2	The Concept of the Balance of Payments	130
I.3	Equilibrium and Disequilibrium in the Balance of	420
T 4	Payments The Poles of Payments 1061 65	138
I.4	The Balance of Payments 1961–85	139
I.5	North Sea Oil and Gas	143
II	Foreign Trade of the UK	145
II.1	Structure and Trends, 1955–85	145
11.2	The Decline in Competitive Performance	148

Ш	Economic Policy, the Balance of Payments and the Exchange Rate	154
III.1	Introduction	154
III.2	The Exchange Market Framework	154
III.3	External Economic Policy with a Floating Exchange Rate	157
III.4	The Exchange Rate and the Balance of Payments 1972–85	162
III.5	Management of the Exchange Rate	168
III.6	Capital Flows and Balance-of-Payments Policy	176
III.7	The UK and the European Economic Community	180
III.8	The Reform of the International Monetary System	190
9.11I	World Debt and Bank Lending	198
4	INDUSTRY	
	J.R.Cable	
I	Industrial Performance and Policy	203
I.1	The Industrial Decline of Britain	203
I.2	Causes and Remedies	207
II	Agricultural Development and Policy	209
Ш	The Nationalized Industries	215
III.1	Introduction	215
III.2	Past and Present Policies towards the Nationalized	
	Industries	217
III.3	Privatization	221

Competition Policy and Consumer Protection Competition, Market Power and Welfare Policy Measures 227

227

233

237

IV

IV.1

IV.2

IV.3

Policy Appraisal

viii Contents

\mathbf{V}	Regional Policy	244
V.1	Introduction	244
V.2	Policy Measures	245
V.3	Regional Policy Impact	250
VI	Technology, Industrial Structure and Planning	253
VI.1	R & D, Hi-Tech and Information Technology	253
VI.2	Structural Reorganization	256
VI.3	Planning	260
VII	Conclusions and Policy Alternatives	262
5	LABOUR	
	David Metcalf and Ray Richardson	
I	Employment	266
I.1	The Working Population	266
I.2	Aggregate Employment Patterns	271
1.3	Employment by Industry and Occupation	271
I.4	Hours Worked	273
I.5	The Quality of the Working Population	275
II	Unemployment	277
II.1	Composition of the Unemployed	277
11.2	Why has Unemployment Risen?	281
II.3	Moderating Unemployment	286
Ш	Income and Earnings	292
III.1	Distribution of Income	292
III.2	Distribution of Earnings	293
III.3	Wage Structure by Occupation and Industry	297
III.4	Wage Structure by Sex and Race	300
III.5	Social Security	308
III.6	Low Pay	312
IV	Trade Unions, Industrial Relations and Wage Inflation	315
IV.1	Trade Unions	315
IV.2	Economic Analysis of Unions	319
IV.3	Strikes	323
IV.4	Industrial Relations	325
IV.5	Wage Inflation and Incomes Policies	327
	Statistical Appendix	333
	Index	347