

# British Economic Scene : Cautious Optimism

by Frank Broadway

WITH unusual unanimity, many politicians and economists have dismissed 1980 as a highly unsuccessful year for Britain. While forecasts for 1981 are generally sombre, they can be broadly divided into those which see nothing but continuing decline ahead and those which suggest that a turning point in the recession is now approaching. Members of the Government including the Prime Minister and the Chancellor of the Exchequer, have come down firmly on the side of cautious optimism.

Essentially, the message from the Government is that 1981 will be another difficult year, but it will at least mark the beginning of economic recovery. Since recovery will be based on the gradual easing of the world recession, and not upon the premature reflation of the economy which has so often been the British response to economic difficulties in recent years, it will be more soundly based and more lasting than previous periods of recovery.

As might be expected, there are plenty of sceptics not all politically opposed to the Government, who suggest that the evidence of any imminent turning point in the recession is scanty. It would, in fact, be surprising if the economic indicators suddenly reversed their trend. If the bottom of the recession is now at hand, the statistical picture is likely to stay confused for many months. Ministers' cautious optimism is

based on some modest evidence that downward trends in the economy are slowing, plus a good deal of reporting back by industry that the vigorous de-stocking which made the 1980 recession so deep and rapid in onset is now nearing its end.

**NO RELAXATION IN POLICIES:** Apart from offering a gleam of hope for recovery as the year progresses, ministerial statements have emphasised that there will be no relaxation in anti-inflationary policies. This is no surprise, for the moderation of inflation from an annual rate of nearly 23 per cent in May to 15.3 per cent in Nov. was one of the brighter features of 1980.

While the current rate is still too high, there are good reasons for expecting a continuing decline this year to an annual rate of 11 per cent or less.

Since 1980 has been the subject of much anguished comment by spokesmen for so many British sectional interests, it is worth pointing out that the outcome was not wholly dismal. Despite an inflationary background and a strengthening currency, British export volume held up well during the year. Allied to a sharp drop in imports as manufacturers and traders cut stocks, it provided Britain with a current account surplus which should comfortably exceed £2 billion.

Over the year, sterling rose by 12 per cent on a trade-weighted basis, with gains of over 20 per cent against the

D-mark and the French franc. This was a paradoxical performance against the background of Britain's faster-than-average rate of inflation and it is believed to stem at least in part, from a high level of overseas confidence that the Government's medium-term strategy for non-inflationary growth of the economy will succeed.

**OVERCOMING DIFFICULTIES:** The strength of sterling undoubtedly helped to stabilise prices in Britain. It brought innumerable complaints from exporters that they were being priced out of overseas markets, but the firmness of the export volume over the year suggests a good deal of success in overcoming these difficulties. Some exporters undoubtedly sacrificed profit margins to safeguard their markets, but there is growing evidence that many firms responded by cutting costs and increasing efficiency.

The fact that in exports Britain did better than most of her competitors during a difficult year for world trade has tended to be overshadowed by the big rise in unemployment during 1980. Over the year, adult unemployment in the UK rose by 84 per cent to 2.13 million, or 8.8 per cent of the workforce. Since unemployment is an effective subject the rising jobless totals have increasingly dominated economic debate.

What the Government has refused to do is to respond to rising unemployment in the way which has bedevilled the econ-

omy during the last 20 years. Irrespective of political persuasion, successive administrations have sought to alleviate unemployment by increasing the money supply and relaxing fiscal restraints. The results have been only temporary and modest improvements in employment, followed by bouts of rapid inflation and further unemployment crises. Each successive jobs crisis has started at a higher level of unemployment than the one before. It is this vicious circle that the Government is trying to break. The post-war record levels of unemployment reflect both the severity of the current recession and the legacy of successive bouts of inflation in Britain's economy.

**SQUEEZE ON PROFITS:** While unemployment is by far the most dramatic measure of Britain's economic problems, behind it lies a squeeze on company profits. This is in part due to recession and falling sales, but it is also another legacy of inflation. Industry has conceded big wage increases unmatched by productivity in recent years and, with the Government now refusing to print money and demand slack, companies are unable to raise prices to cover their increased costs. It is essentially falling profits and fears for survival that have led employers to cut their workforces with a speed and determination unprecedented since the thirties.

Unemployment is clearly a  
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matter of serious concern, but the figures should not be allowed to give an exaggeratedly gloomy picture of the state of Britain. The vast majority of the population, who have retained their jobs, and their dependents have prospered well enough, with a 15 per cent rise in real living standards during the past two years as the growth of earnings has outpaced the rate of inflation. Even for the unemployed, the main problem is demoralisation rather than grave financial hardship, since redundancy payments and unemployment benefits in Britain provide a reasonable cushion against the loss of income from employment.

Behind the modest optimism expressed by ministers lies the conviction that Britain is gradually moving towards a more realistic basis for conducting her economic affairs. The best evidence for this lies in the gradual decline of inflationary expectations and the consequent willingness of employees and their trade unions to accept moderate wage settlements. There is still a very long way to go, but the Government will be fortified during 1981 by the slow accumulation of evidence that its calls for "economic realism" are not entirely falling on deaf ears.