

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Great Britain: Wage increases endangering growth

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1979) : Great Britain: Wage increases endangering growth, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 14, Iss. 2, pp. 103-, <https://doi.org/10.1007/BF02930207>

This Version is available at:

<https://hdl.handle.net/10419/139604>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Goods imports are mainly determined by cyclical developments in the Federal Republic. Imports of industrial primary products will continue getting impulses from arrangements for carrying stocks apart from the expansion of production. Imports of final products are being favoured by the rising expenditure on consumption and the

strong increase in investment activity. In the aggregate goods imports adjusted for price will exceed the previous year's results by about 8.5% (1978: 8.1%, price basis 1970 in each case). This will initiate again considerable production incentives for the Federal Republic's trade partners.

of the wage conflicts: The money supply (M3) is to expand by 8 to 12% until mid-October (comparison with a year earlier). The monetary policy has certainly contributed to the stability of the exchange rate of the pound on the foreign exchange markets and thus could so far prevent that an enhancement of the price increases came about in an interplay with devaluation effects.

Great Britain: Wage Increases Endangering Growth

In Great Britain the cyclical development is once again being impaired by the wage trend. The wage demands which since December have been urged by extensive strikes do not show any more orientation towards economic criteria than the wage agreements of the last months. This fact is all the more remarkable as the increase in consumer prices at the end of 1978 was by 4 percentage points lower than a year ago and the unemployment ratio remained quite high at 5.5%.

A rise in real wages of 5 to 6% resulted on an average for the past year. This contributed to a noticeable stimulation of private consumption and thus total demand. The profit situation of enterprises did not deteriorate to any significant extent, mainly because the terms of trade improved conspicuously vis-à-vis 1977. Therefore industrial investments continued rising until mid-1978. A considerable part of the additional demand was however covered by imported goods. Excluding energy imports, which owing to the increasing mineral oil output in the North Sea declined by about 2.5%, the volume of imports (according to the classification of foreign trade statistics) rose by 9%.

With increasing duration the strong upward tendency of wages became more and more

an encumbrance for cyclical expansion. Adjusted for seasonal variation industrial investments did not rise any more after mid-year and even private consumption remained in the fourth quarter at the level of the preceding quarter. At present it cannot yet be clearly discerned whether the simultaneous reduction of industrial production is to be traced back to the strikes alone or already to declining cyclical impulses. In any case the prospects for the further economic development have become less favourable again.

For 1979 effective wage increases of about 15% are indicated on an annual average. An acceleration of the upward trend of prices — primarily induced by the increase in wages — can therefore hardly be avoided. The "concordate" recently concluded between Government and trade unions provides *inter alia* for a reduction of the price increase to 5% in the framework of a kind of "concerted action" within three years, but statements on the current general wage-increase are not included. The effectiveness of monetary policy, directed towards stabilisation for about one year already, remains limited under these circumstances. For this year, too, last November a continuation of the course of stabilisation was announced before the outbreak

In 1979 the increase in real wages will be noticeably smaller than in 1978. Consumption in real terms will therefore rise considerably more slowly than in the past year. Industrial investments, too, will, if at all, expand only slowly; this is indicated by a poll of the Ministry for Industries closed by mid-December. In conformity with the medium-term planning, an expansion in real terms of only 2% is to be expected for public expenditure. Exports — as world trade — will probably grow somewhat more than last year. In 1979 the growth of GNP should reach about 2 to 2.5%, one third of it due to the expected strong increase of the mineral oil output in the North Sea which will lead to a substantial reduction of oil imports. Total imports will therefore rise only moderately. The current account will again register a surplus.

In spite of the slowing down of demand and production and the probably again rising unemployment, there is no alternative to a restrictive course for an economic policy looking beyond the immediate future. In view of this year's parliamentary election it is however possible that economic policy will nevertheless yield to inflationary pressures. With that, growth and employment could be supported, if at all, only in the short-term. Soon already the economic dilemma would grow all the more — not least due to the anticipated tendency towards devaluation.