# BRITAIN'S ECONOMIC MIRACLE

Myth or reality?

Edited by Nigel M. Healey



# **CONTENTS**

	List of illustrations	1X
	Contributors	xiii
	Preface	xiv
	List of abbreviations	xvi
1	FROM KEYNESIAN DEMAND MANAGEMENT TO THATCHERISM N. M. Healey	1
	Part I Competing perspectives on the macroeconomy	41
2	THE ECONOMY IN THE 1980s: A REVIEW OF THE DECADE  A. Britton	43
3	BRITAIN'S ECONOMIC RECOVERY G. Maynard	57
4	BRITAIN'S ECONOMIC RENAISSANCE K. Matthews	72
5	THE ECONOMY AFTER TEN YEARS: STRONGER OR WEAKER?  J. Wells	91
6	AN ASSESSMENT OF BRITAIN'S PRODUCTIVITY RECORD IN THE 1980s: HAS THERE BEEN A MIRACLE?  D. H. Blackaby and L. C. Hunt	109

#### **CONTENTS**

7	THE CONSERVATIVE GOVERNMENT'S 'FIGHT AGAINST INFLATION': TEN YEARS WITHOUT CHEERS  N. M. Healey	127
	Part II Contemporary microeconomic issues	149
8	GOVERNMENT POLICY, TAXATION AND SUPPLY-SIDE ECONOMICS  P. Robins	151
9	PRIVATISATION TEN YEARS ON: A CRITICAL ANALYSIS OF ITS RATIONALE AND RESULTS D. Parker	174
10	THE ECONOMICS OF TRADE UNION POWER  1. Paterson and L. Simpson	195
11	NEW FIRMS: THE KEY TO EMPLOYMENT CREATION?  P. Johnson	211
12	REDISTRIBUTION UNDER CONSERVATISM: PAST AND FUTURE K. Richards	227
13	THE 'NORTH-SOUTH DIVIDE': HAS REGIONAL POLICY FAILED?  N. M. Healey	241
Refe	References	
Inde	Index	

# **ILLUSTRATIONS**

# **FIGURES**

1.1	Equilibrium in the 45-degree line diagram	4
1.2	Investment and unemployment	6
1.3	Fine-tuning for full employment	7
1.4	Aggregate supply and the 45-degree line diagram	10
1.5a	The effect of price changes on the 45-degree line diagram	11
1.5b	The derivation of aggregate demand	11
1.6	Demand-pull inflation in the Keynesian AS-AD model	12
1.7	Cost-push inflation in the Keynesian AS-AD model	13
1.8	The relationship between output and employment	16
1.9	The operation of the labour market	17
1.10	Changes in aggregate demand and the long-run aggregate	
	supply schedule	19
1.11	The effect of price changes on the labour market	21
1.12	The short-run aggregate supply schedule	22
1.13	Rational expectations and the AS-AD model	24
1.14	The effect of changes in aggregate demand in the	
	AS-AD model	26
1.15a	The dynamic version of the AS-AD model	29
1.15b	The expectations-augmented Phillips Curve	29
1.16	The foreign exchange market	33
1.17a	The labour market	36
1.17b	The short-run aggregate production function	36
1.17c	The long-run aggregate supply schedule	36
4.1	Manufacturing industries: output per person employed	
	(1980=100)	77
4.2	Poverty trap: couple with two children	81
4.3	The Liverpool model	84

## LIST OF ILLUSTRATIONS

4.4	Liverpool model results	86
5.1	UK's share of world manufactured exports, 1960-88 at	00
	current US\$ and constant 1980 US\$	99
5.2	Percentage increase in manufacturing output: twenty OECD countries, 1979–88	100
5.3	UK output by sector: GDP, manufacturing and services,	
	at constant 1985 £m, reference base 1979=100.	102
5.4	UK external balances (manufacturing,	
,·-	non-manufacturing current account, fuel) as % of GDP	
	at current £m, 1973-88.	104
7.1a	The Phillips Curve	130
7.1b	The expectations-augmented Phillips Curve in the	
	short and long run	131
8.1	Production possibility frontier of a two-sector economy	154
8.2	The 'Laffer Curve' and the 'Gutmann Effect'	157
8.3	Supply-side policy and the price level	160
8.4	Tax structures before/after 1988 budget	168
9.1	Privatisation: a schema	178
9.2	Privatisation new issues: premium after first day's	
	trading	182
9.3	Privatisation: impact on the public sector borrowing	
•	requirement	183
9.4	The organisations	187
9.5	UK privatised monopolies: price regulation	191
10.1	Labour market equilibrium	196
10.2	The monopsonist	198
11.1	VAT registrations and deregistrations	214
11.2	Self-employment: numbers and income, 1966-87,	
	UK (1985=100)	215
13.1	Standard regions	243
	TABLES	
2.1	Total autout and aurondiann as annual missa	
2.1	Total output and expenditure at constant prices (£bn, 1985 prices)	44
2.2	Personal income and expenditure (£bn)	46
2.3	Output and employment	49
2.4	Wages and prices (% increase)	50
2.5	Financial indicators	52
3.1	UK macroeconomic performance, 1979-88	60
3.2	Labour productivity trends in UK manufacturing industr	y

## LIST OF ILLUSTRATIONS

	(% p.a. growth in cyclically adjusted measures)	60
3.3	Output per person employed in the major seven	
	industrialised countries (average annual % change)	62
3.4	Output, jobs, productivity, 1979-86: % change (+ or -)	63
3.5	Labour productivity in manufacturing (output per	
	hour: UK=100)	63
3.6	UK balance of payments	68
3.7	Domestic demand GDP (1985-8) (1985 prices)	70
4.1	Productivity trends in the business sector in selected	
	OECD countries	79
4.2	Profit shares: gross operating surplus as % of gross	
	value added	79
4.3	Inflation analysis (annual rates %)	87
4.4	Recession and recovery: real output growth (annual	
	average %)	87
4.5	Productivity growth 1979-87 (annual average %)	88
5.1	The rate of growth of output per person employed	
	in manufacturing	98
5.2	Internal-external balance trade-off for the UK (1979	
	and 1988 compared)	107
6.1	UK output per head (average annual % changes)	110
6.2	UK manufacturing output per head (average annual	
	% changes)	112
6.3	UK non-manufacturing ouput per head (average annual	
	% changes)	113
6.4	UK manufacturing output per hour (average annual	
	% changes)	114
6.5	UK capital productivity (average annual % changes)	114
6.6	UK total factor productivity (average annual % changes)	115
6.7	International comparison of output per head (average	
	annual % changes)	116
6.8	International comparison of productivity for the business	
	sector (average annual % changes)	118
6.9	UK manufacturing output and employment (average	
	annual % changes)	122
6.10	UK non-manufacturing output and employment (average	
<b>.</b> .	annual % changes)	123
7.1	Inflation in Britain (annual average %)	128
7.2	Consumer price inflation around the world (annual	129
	average %)	・レノソ

## LIST OF TABLES

7.3	The MTFS 1980-9, targets and outturns	138
8.1	Main tax changes affecting households since 1979	162
8.2	Percentage changes in net income for working	
	population: 1979 indexed compared with post-1986	
	budget	165
8.3	Singe-earner couple: effective marginal tax rate (%)	166
8.4	Main tax changes affecting companies since 1979	171
9.1	Major British privatisations	176
9.2	Privatisation proceeds (£bn)	177
9.3	The record since privatisation: some performance	
	indicators	185
9.4	Performance of nationalised industries, 1979-87.	186
9.5	Summary of the York research results: did	
	performance improve as expected?	188
10.1	Stoppages of work due to industrial disputes in the UK,	
	1960-89	199
10.2	Trade union membership and density in the UK:	
	selected years 1960-88	202
10.3	Employment changes 1980-4	207
11.1	VAT registrations and deregistrations	217
11.2	The relative contribution of new firms to employment	220
12.1	Ratio of after-tax incomes	230
12.2	Income and mortgage details	232
12.3	Net yields from BES investments	234
12.4	Transfer taxes and wealth	238
13.1	Economic indicators of regional differences	244
13.2	Percentage of regional workforces in high	
	unemployment localities	245
13.3	Regional house price trends	246
13.4	Business registrations and deregistrations (1982-9)	246
13.5	Employment by sector in Britain (000s)	247
13.6	The regional importance of manufacturing	250
13.7	Interregional movements of British manufacturing	
-	1960–81	252
13.8	Effect of business rates reforms on regional business	
-	rare hills	254