I. OBJECTIVES

The objectives of British economic policy have rarely been set out by official spokesmen in any but a very short-term sense. For a comprehensive statement one would have to go back to the Radcliffe Report on the Monetary System which came out as long ago as 1959, and was in no sense an official government pronouncement. Even the ambitious, but quickly jettisoned, National Plan of 1965 confined its objectives to numerical targets and had no comprehensive statement of aims.

Nevertheless such aims have existed, at least implicitly. The ones most relevant to external economic policy may be listed as follows:

(1) To attain a surplus on the basic balance of payments on current and long-term capital account.
(2) To maximise the propensity of overseas residents to hold sterling.
(3) To maintain 'full employment'.
(4) To attain as steady and as rapid a rate of growth as can be combined with the other objectives.
(5) To encourage the liberalisation of world trade.

The list is confined to objectives which have direct relevance to external economic policy. Thus, there is no mention of regional objectives or the distribution of income. Nor is there any reference to the structural changes in domestic industry which are bound to accompany any attempt to reach these objectives.

Even the list as it stands must promote ironical reflections. For it could equally read (with the possible exception of (3)) as a list of the main failures of British policy in the 1960s. This is not entirely surprising. Policy discussions tend to centre on matters which are believed to have gone wrong, while the listing of successes is reserved for electoral utterances and ceremonial occasions.

II. SPECIAL FEATURES

There are two striking differences between the aims just mentioned and the corresponding lists that might be compiled for other advanced Western nations. The first is the absence of any explicit reference to price stability,
or anything approaching it, as a goal. There have been ritual references on numerous occasions. But in fact the United Kingdom financial authorities have been mainly interested in the movement of British costs, relative to other nations, from the point of view of the country's international competitive position. This concern is so predominant that ministers and officials rarely find occasion to ask themselves how much weight they would give price stability per se, if the external constraints were lifted.

The second striking difference is the objective of encouraging the holding of the country's currency abroad. This need arose in the first place from the large unfunded sterling balances with which the United Kingdom emerged after the war. As these wartime balances were drawn down, others accumulated. But up to the middle 1960s there was very little change in the total net sterling liabilities (excluding central bank assistance) which fluctuated around a level of a little above £3,000 million. Thus, in contrast to the dollar, there was no net increase in the holding of sterling for reserve and trading purposes.

Britain's vulnerability arose from the low level of gold and foreign exchange reserves, which rarely rose above £1,000 million, in relation to these liabilities. At times there has been a degree of substitutability between the two aims of strengthening overseas confidence in sterling and running a payments surplus. Ideally the authorities would have liked to increase the British reserves by a series of payments surpluses; but in their absence the willingness of sterling holders to keep their funds in London has sometimes served as a second best. (A Foreign Office brief is even said to have spoken of the danger of the sterling balances 'falling into enemy hands'.)

III. DEMAND MANAGEMENT

Much the most important single economic weapon has been demand management. In the short term demand restraints have affected the balance of payments mainly through their temporary effect on the import bill and imported stocks in particular. Governments have hoped that there would be sufficient correlation between domestic overheating and payments difficulties to bring a very rough harmony between external and internal needs. Despite the very obvious disharmonies of the 1960s, the official hope still is that after the 1967 devaluation and any ensuing currency changes, deficits can be prevented in a normal year if demand is prevented from pressing too hard against capacity.

Demand policy has also had a long-run aspect, which has been to manage the economy at an average pressure of demand high enough to preserve reasonably full employment, but low enough to prevent British costs from rising faster than those of other countries. In practical terms