
The UK economy

Martin Weale and Garry Young

- The budget was expansionary, bringing about a cumulative fiscal loosening of 1.5–2 per cent of GDP over the next four years.
- As a consequence, the pound and long-term interest rates will be higher, while immediate pressure to raise short-term rates is reduced.
- After a further quarter point increase in the repo rate to 6.25 per cent, we expect a pause in monetary tightening for the rest of the year.
- Sterling's strength will hit manufacturing which will grow by only 1.2 per cent in 2000, compared with overall GDP growth of 2.8 per cent.
- Despite continuing low claimant unemployment and earnings growth of 5.5 per cent in 2000, the labour market is not over-stretched.

The March budget loosened fiscal policy mainly by raising spending over the next four years. While the government meets its fiscal rules, the additions to net borrowing from the announced policy measures are substantial, rising to around 1.5 per cent of GDP by 2003–4. The fiscal stance is admittedly tighter this year and next than had been anticipated in the 1999 budget. But cyclically adjusted public sector net borrowing moves from a surplus of 1.2 per cent of GDP in 1999–00 to a deficit of 1.1 per cent by 2003–4, a cumulative fiscal loosening of over 2 per cent.

The loosening of fiscal policy keeps the pound higher; this means that pressure for further short-term interest rate rises is less than it might be. A simulation on our model suggests that an unanticipated fiscal relaxation has the biggest effect on the exchange rate which jumps on the news, reflecting higher expected long-term and future short-term rates. The rise in the pound reduces pressure to raise rates in the immediate future. We now expect the Bank of England to raise the base rate to 6.25 rather than 6.5 per cent this year.

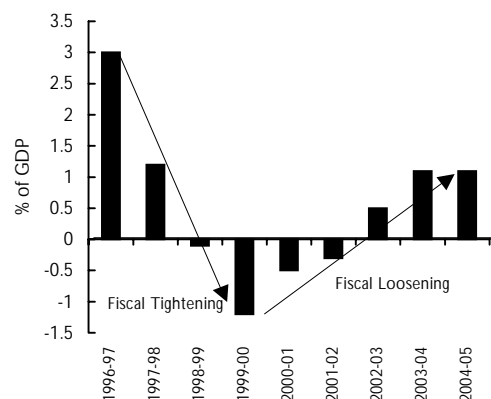
While the economy is set to expand quite strongly this year, the pattern of growth will be marked by continuing imbalances. The recovery in manufacturing output will be muted, at little over 1 per cent following a small decline in 1999. Domestic demand will increase by almost 4 per cent while net trade will again be

con-tractionary. Even though the outlook for world trade has improved, exports will grow by only 5 per cent in 2000 while imports will rise by 8 per cent.

The inflation target will be comfortably met, with RPIX inflation less than 2 per cent in the final quarter of 2000. This occurs despite fears that the labour market is overstretched on at least two counts, claimant unem-

An expansionary budget

Public sector net borrowing (cyclically adjusted) as a percentage of GDP



Source: Budget 2000.

ployment and earnings growth. However, a more rigorous analysis of the labour market based on alternative measures suggests that these fears are misplaced. The share of the working age population not in work remains above the low level it reached in 1990, recent reductions in claimant unemployment have been concentrated among the long-term unemployed, and the number of vacancies per claimant is more evenly distributed around the country.

The world economy

Paul Ashworth, Dawn Holland, Florence Hubert, Nigel Pain and Dirk Willem te Velde

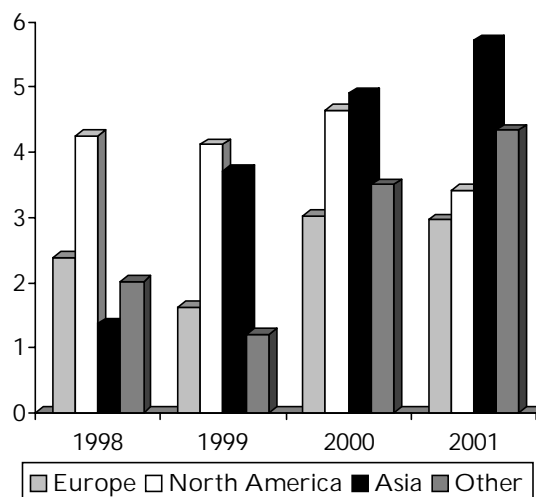
- The world economy will experience a synchronised upturn for the first time since 1994, with growth accelerating in 2000 in all the major regions.
- Despite global economic growth of over 4 per cent in 2000, inflation will remain under control at 2 per cent in the OECD area.
- The US economy will expand by 4.5 per cent, spurring the Federal Reserve to raise interest rates to 7 per cent by the beginning of next year.
- The euro zone will grow by 3.4 per cent, prompting the European Central Bank to raise interest rates to 4 per cent by the end of 2000 and 4.5 per cent in 2001.
- Although the Japanese economy has technically slipped back into recession, we expect growth of 1 per cent in 2000, strengthening to 2.4 per cent in 2001.

A strong recovery in the world economy is now under way. Between 2000 and 2002, the global economy will grow at 4 per cent a year. World trade will expand by around 9 per cent a year. In contrast with the late 1990s, all four major regions in the global economy will share in a vigorous expansion.

In the past, such synchronised upturns have unleashed inflation. However, we expect inflation in the OECD area to remain under control. There is still plenty of spare capacity available in the world economy. Nonetheless, central banks will have to act promptly to fend off inflationary pressures by tightening monetary policy. Short-term interest rates will rise by a percentage point in both the US and the euro zone over the next twelve to eighteen months.

The US economy will slow down from growth of 4.5 per cent in 2000 to around 3 per cent in 2001. The deceleration occurs as the boost to consumer spending from the stock market boom ceases and the savings ratio rises. Consumer expenditure growth is forecast to fall back from over 5 per cent in 2000 to 3 per cent in 2001. Investment will also rise less rapidly, particularly in housing.

A synchronised
upturn
World real GDP
growth by region



The euro zone will post substantial growth of over 3 per cent a year in both 2000 and 2001. This robust performance is underpinned in 2000 by a turnaround in net trade, which contributes over half a percentage point to growth. The improvement in net exports stems from the recovery in world trade and the substantial gain in competitiveness caused by the decline in the euro. The unemployment rate will continue to fall reaching 8.9

per cent in 2001, the lowest level for a decade.

Although the Japanese economy has technically slid back into recession, industrial production is substantially higher than a year ago. Business and consumer confidence have improved markedly, indicating brighter prospects for both investment and consumer spending. As a result, we now expect modest growth in GDP in 2000, accelerating to 2.4 per cent in 2001.

1300 years of the pound sterling

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Value of the currency

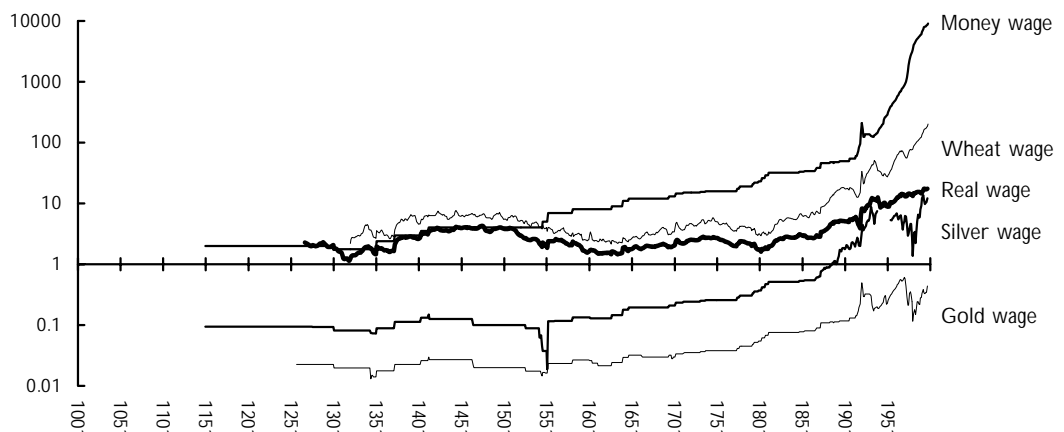
There are three convenient ways of looking at how the currency has changed since its earliest days. The price of silver is 30 times what it was when the coinage was re-introduced in the seventh century. Gold coin first appeared in the thirteenth century, and its price has risen more rapidly. The earliest wheat prices identified go back to 1350; the price has risen 55-fold since then.

All of these rises have been condensed into the last 60 years or so of the 20th century. Silver cost less in 1939 than in 700; wheat was only three times its price in 1350 and the price of gold had risen only about five times. A more general cost of living index suggests that prices rose by 0.37% p.a. between 1300 and the 1930s. Since then prices have risen 44-fold. Some prices have risen much faster: the cost of a short bus-journey in central London has increased 80-fold since 1960, while other items such as television sets have risen relatively little. The wage rate of a bricklayer's mate rose about 25 times between the eleventh century and 1900. Since 1900 it has risen 180 times. The rate of inflation promised by Gordon Brown is more than double the average rate of 1 per cent per annum experienced between 1350 and 2000.

Real wages

Over the whole of the period from 1300–2000 prices have risen at an average rate of about 1% p.a.. This compares with the inflation of 2½% p.a. which the current monetary framework promises. Table 1 shows how the wage of a building labourer has changed when measured in wheat, gold or silver or in terms of a general cost of living index. Between 1350 and 1800 the real wage measured in terms of the cost of living rose by 20%. In 1998 it was 3.4 times its value at the start of the 20th century.

The wage of a building labourer



Source: Author's calculations. The lines are spaced to show them clearly. No importance should be attached to the position

Evolution of the currency	7 th century	Silver coinage re-appeared; the Roman coinage had disappeared at the end of the Roman Empire. There were 240 pennyweights of silver to a pound, although the pennies were lighter than one pennyweight.
	8 th century	The system of 12 <i>denarii</i> in 1 <i>solidus</i> is described. The Franks used a shilling of twelve pennies; the Anglo-Saxons used a unit of account in which a shilling was four or five pennies.
	8 th century	King Offa adjusted the weight of English coins to match those of Charlemagne. The arrangement lasted for about four years.
	13 th Century	Gold coinage appeared in Western Europe. First gold coins in England were not widely used
	14 th Century	Edward III tried to circulate light gold coinage similar to the gold florin from Florence, hoping that the minting charge will help to clear his debts. He was unsuccessful.
	15 th Century	Coins of one shilling and one sovereign first appear.
	16 th Century	Henry VIII and Edward VI debase currency. Queen Elizabeth restores its value. Both the debasement and the restoration yield a profit to the Crown.
	17 th Century	Paper Money Appears. Bank of England Founded
	18 th Century	Gold Standard established in 1717 (suspended 1797–1821). User of paper money becomes widespread.
	19 th Century	Silver became token coinage (1816). Bank of England extends note issue in England.
20 th Century	£1 and 10/- notes issued (1914). Gold coin withdrawn (1916) and small-scale convertibility of notes ended (1925). All gold payments ended (1931). Silver coinage debased (1920) and replaced with base metal (1947). Decimal coinage introduced (1971). Last 1816 silver coinage demonetised (1992).	

Living standards in Britain 1900–2000: women’s century?

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Few people would dispute that the standard of living of the average Briton has improved over the last hundred years. National income per capita has grown more than five fold, boys born today can expect to reach the age of seventy-five, compared with a life expectancy of only forty-six for their predecessors in 1900, maternal mortality has been reduced by a factor of seventy-nine, and a university education is no longer the privilege of a small minority. But progress has been neither continuous throughout nor uniformly shared.

Calculation of composite measures of living standards incorporating a wide range of indicators reveals the trend improvement in welfare. But comparison of Britain’s progress over the century against an Achievable Millennium Standard, based on the highest levels observed worldwide for each of the indicators, shows that Britain has some distance to go to meet the ‘best practice’ standards in income, leisure, wealth, health and enrolment in education seen elsewhere. Furthermore progress has not been continuous and even in recent years downturns in some indicators can be observed. Income inequality has widened since 1975, wealth per capita fell after 1990 and high levels of unemployment have persisted. The health indicator too suffers a downturn after 1990 as a result of the surprising increase in notifications of respiratory tuberculosis; a poverty-related disease which was thought to be eradicated. Many of the gains in welfare over the century can be attributed to the conception and development of the welfare state. But there is no room for complacency, these reversals demonstrate that the gains are not immutable and need to be protected.

How have women fared in this general progress? Welfare indicators in the areas of political rights, income, education and health might be expected to show more marked improvement for women than men. For political rights, yes (women gained the vote in 1918 and had the age at which they could vote brought in line with men’s in 1928) and education, where women’s enrolment in secondary education remained below men’s until the late 1940s and only recently have similar proportions undertaken a university education. However, life expectancy figures indicate better health gains for men, possibly as a result of the decline of heavy industry or because women now incur more stress as they have the double burden of work and family. Equal opportunities legislation and greater female labour force participation raised the share of total income earned by women from 17% in the early decades of the century to 28% at its end. But how much work have women performed for this money? Adding paid labour market work with unpaid housework time, a decline in weekly working time for both men and women is evident. But throughout, women’s hours stand above men’s and this gap has widened, notably in the 1990s. The extra 10% of total income gained by women since 1965 has been mainly ac-

quired through more hours spent working in spite of the decline in housework time. This negates much of the relative welfare benefit of the increased income share.

Indices based on these components show the overall picture. Women's index has moved from 48% of men's in 1900 to 86% in 1998. But the highest level achieved was 95% in the 1930s, resulting from women's improved political rights. In 1965 women's index stood at 86%. Little progress has been made in changing women's position relative to men's over the last few decades on the dimensions considered here. A century of progress? Overall, yes. Women's century? It is more debatable whether the last hundred years warrants such a title.

'The generous utopia of yesterday can become the practical achievement of tomorrow': 1000 years of monetary union in Europe

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Economic and Monetary Union in the EU is only 15 months old, but the idea of monetary union in Europe has a much longer history. Limiting the time frame of this article to the last millennium, it is possible to identify early needs for common currencies in the thirteenth century, with some local gold coinages enjoying international popularity as they were used to settle large cross-border transactions. Early coinage unions took place between a limited number of German speaking states in the fourteenth and sixteenth century. Progressively, new unions extended their geographical coverage in a discontinuous way until the Austro-German monetary union (Münzverein) of 1857. This was then replaced by a single currency after the German political unification in 1871. A large section is dedicated to the Latin monetary union (1865-1926), which was conceived by some of its founders as a first step towards a European or 'Universal' currency.

The history of theories of monetary union is traced back to 1582 to show the evolution of arguments and institutional frameworks. The expected reduction of transaction costs and of opportunities of monetary debasement have been repeatedly used to promote integration, but these arguments have been challenged. Whereas international cooperation and the pursuit of peace have always been associated with proposals of single or common currencies, the construction of a European political entity was linked to monetary union in the course of the nineteenth century. After the first world war these issues became inseparable.

The article analyses the combination of interests and ideas which have guided France towards monetary union in the last two centuries. Previous reactions by the British governments to European wide proposals of monetary union in the 1860s, 1930s and 1970s are also mentioned, describing the strong continuity in the attitude of the British public. The traditional view of Britain's extra-European nature, and of special relations with the USA has conflicted for over a century with a pro-European sentiment guided more by fear of exclusion and by economic interests than by genuine commitment to Europe.

Domesday economy: analysis of the english economy early in the second millennium

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Using the Domesday Book to find out more about the 11th Century economy in England

Early in the millennium, some 900 years ago, a remarkable survey was undertaken. The survey, which has become known as the Domesday Survey, was ordered by William (the Conqueror), King of England. It covered most English manors in 1086. Landholders answered questionnaires and their responses, not regarded as confidential, were then publicly verified in local courts. The results of the survey were compiled into the document now referred to as Domesday Book. It provides surprisingly high quality and detailed information on manorial net incomes, resources and tax assessments. These data can be used to reconstruct the economy of the time – production and tax relationships can be estimated; and issues such as the efficiency of production, the fairness of the tax system, and the influence of the feudal and manorial systems on production investigated.

In this article the author reviews some of the most recent findings relating to eleventh century production efficiency, and the impact of the feudal and manorial systems on production. A more detailed account is given in the author's book *Production Efficiency in Domesday England, 1086*, London, Routledge, 1998.

In general Domesday estates enjoyed a good level of efficiency relative to the best practice of the time although this was not uniform

One of the most interesting conclusions is that frontier analysis, a technique used in management science and economics to assess efficiency levels, suggests that the average efficiency level of Domesday estates was relative to the best practice of the time similar to, or more favourable than, that of production units in more modern primary industry. Average Domesday production efficiency relative to the best then attainable compares favourably with post Civil War plantation production in the American South, small fruit and vegetable farming in California in the 1970s, and surface coal mining in the US in the late 1970s; the more modern industries are of course judged against their own best practice.

A second finding is that the inflexibility of the manorial and feudal systems resulted in widely different input productivities across estates so that, for example, it was often the case that labour on one estate was considerably more productive than on another. Input rigidities induced by feudalism and manoralism were responsible for a very significant reduction in overall output. It is estimated that had inputs been mobile and moved to their most productive uses, an increase in total net output of 40 per cent would have been possible. The loss in output due to input rigidities is smaller but of a similar order of magnitude to the loss resulting from all estates not operating at full efficiency.

There was certainly room for microeconomic reform, and, as Norman rule became more secure, more flexible arrangements were introduced.