Full Employment and Public Spending

By Ronald Burgess

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FULL EMPLOYMENT AND PUBLIC SPENDING

Ronald Burgess

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Since 1966 he has been the Director of the Economic Study Association, an independent research organisation. He adds to his training in economics the practical experience of a company director and an inside knowledge of commodity markets in the City of London. He is the author of *Enquiry into Prices and Incomes*, *Local Government Finance*, *Fanfare to Action–Income Distribution as a Cause of Inflation*, and *Social Justice or Unbridled Government*.

The views expressed in this study are the author's and do not necessarily represent those of Aims for Freedom and Enterprise.

Full Employment and Public Spending

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Foreword

There is a growing realisation in the United Kingdom that high government expenditure and inflation are connected. There is now a recognition, too, that high government spending and inflation no longer cure unemployment.

These views receive strong support from the new statistical research carried out by the Economic Study Association. In this booklet Ronald Burgess, of the Association, presents the results of that research. His figures suggest that Britain's prime need is reduced taxation. A cut in taxation, however, is of no help unless public spending is also cut.

Mr. Burgess shows that there is a remarkably close connection between unemployment and inflation–for which the only solution is lower public spending and lower taxes. His argument seeks to bridge the gap between the Keynesians and the monetarists.

Higher living standards and lower unemployment are the ultimate goals, but they depend on the government taking a smaller share of the national cake. Perhaps the government recognises this in its 1977 Budget. The June, 1977 Economic Progress Report from the Treasury points out that a married man without children paying basic rate tax will, as a result of increased allowances, receive 95½p a week more. "This is worth as much as a pay rise of £1.59 per week (just on 2% for a man on average earnings which are now nearly £80 per week) from which tax and national insurance contributions have been deducted," says the Report.

Mr Burgess shows that much more has still to be done.

MICHAEL IVENS

Full Employment and Public Spending

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I FULL EMPLOYMENT

The end product of political economy is to put forward practical proposals which, when they are put into effect through economic policy, will attain an intended political objective.

Inevitably full employment will always be a most attractive political objective in any modern developed economy enjoying universal suffrage and some freedom of choice at elections. The overwhelming majority of electors will be employees and their families.

It falls to political economy to give economic meaning to this political objective of full employment so that it is both attainable and, in the long run, sustainable. The post-war full employment objective was never given an economic meaning. It was a political concept which rapidly deteriorated into an emotive slogan, used to justify profligate spending policies which were in themselves self-defeating.

The successive post-war governments have only succeeded in adding inflation to unemployment. Today the number registered as unemployed is about the same as in 1937, but remedial measures are constrained by a double-figure rate of inflation.

Some advance towards providing policymakers with a target level for employment is gradually emerging from the debate over monetary policy. The concept of ‘full employment’ has now been abandoned, and replaced by the so-called ‘natural unemployment rate hypothesis’.

This hypothesis implies that, in any given conditions, there is a natural, or minimum sustainable, rate of unemployment. Attempts to raise the level of employment above this rate must fail in the long run.

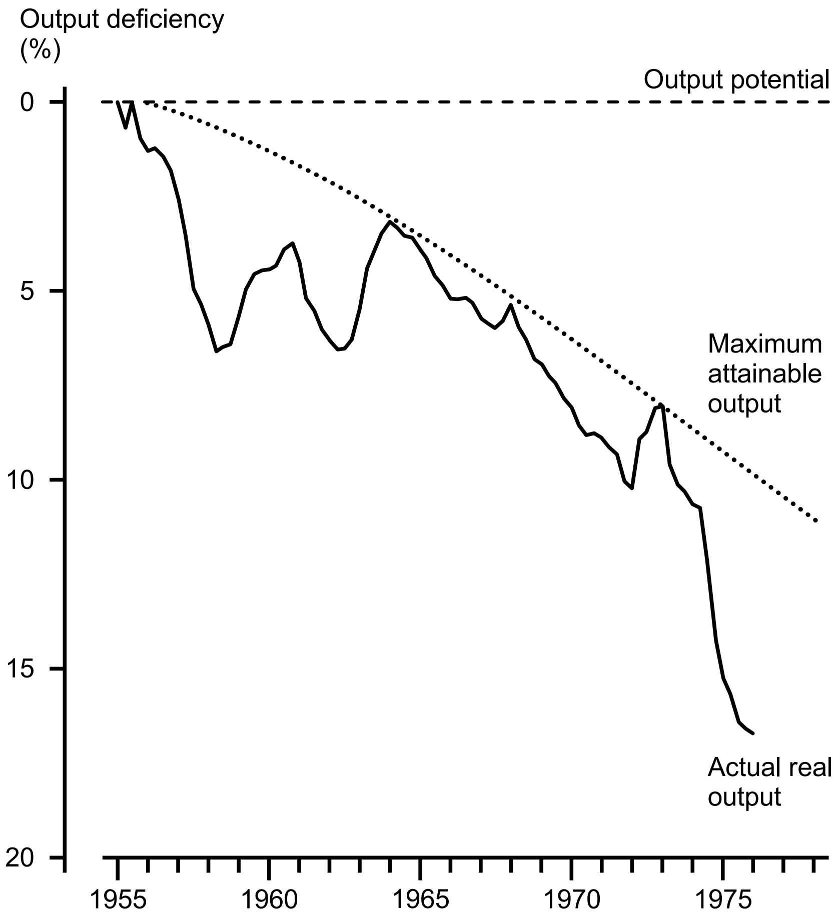


Chart A

The natural unemployment rate may be permanently reduced only by improvements in the labour market and the structure of the economy. It has been suggested that, for Britain, the natural rate may be a little less than 2% (1, p.45).

Politicians of monetarist persuasions are not, it would seem, inhibited from campaigning for a very substantial reduction from the present high levels of unemployment.

The research approach used by the Economic Study Association differs from that of the monetarists, and leads to a clear distinction between full employment, and the minimum sustainable rate of unemployment.

Full employment may be defined as the consequent level of employment in conditions under which, at stable prices, maximum attainable output coincides with output potential (see Chart A).

That is to say, conditions under which the economy's potential output at the existing level of technology and knowledge is fully achieved.

Output and unemployment

The minimum sustainable unemployment rate is related to the maximum attainable output which, in the prevailing conditions, is consistent with stable prices or a fully anticipated rate of inflation. The difference between output potential and maximum attainable output is largely determined by government monetary and fiscal policies.

Unemployment in the UK has been on a rising trend for the past 20 years, and statistical investigations show that to halt this trend the economy needs to sustain a steady growth rate of a little over 3% each year. In effect, this percentage rate is the growth rate of UK output potential on a full employment basis.

Taking the fourth quarter of the year 1955 as the base period (output potential and actual real output = 100) then real output, calculated at an annual rate, expressed as a percentage of output potential, provides an index of real output relative to potential.

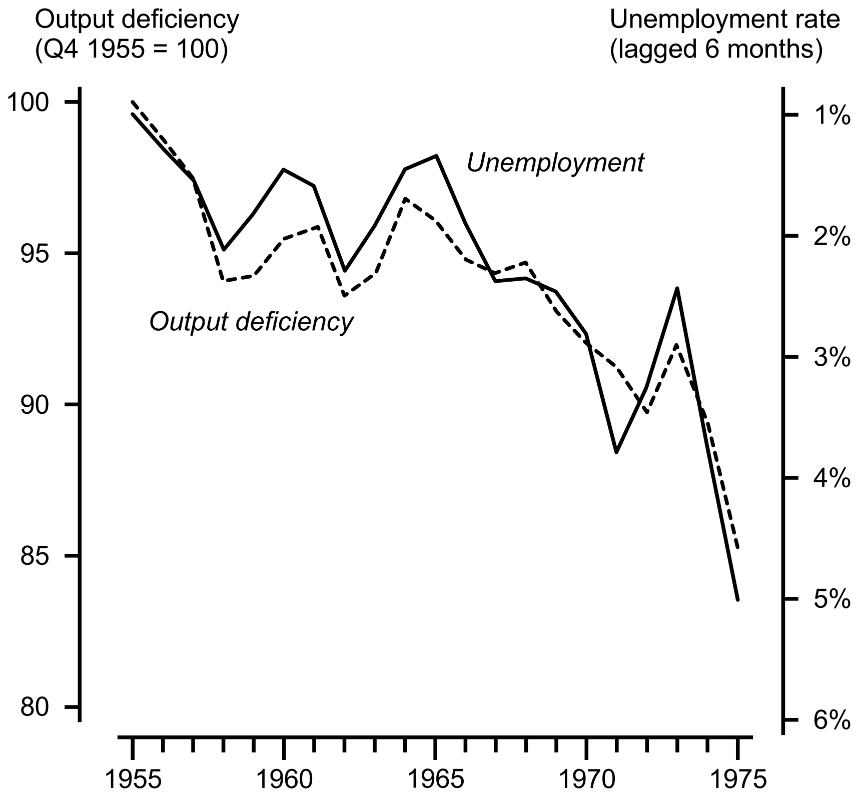


Chart B

This index is given in column (i) of each of the three tables. In column (ii) the index is expressed in terms of output deficiency.

Since output deficiency is derived from output potential on a full employment basis, a significant statistical relationship is to be expected between output deficiency and the rate of unemployment.

As shown on Chart B, there is a highly significant relationship between these two quantities and, given a time lag of two quarters, the coefficient of determination has a value of 0.91.

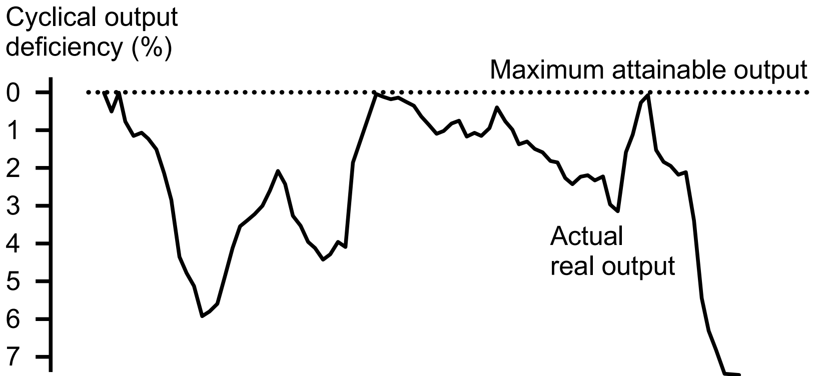
The fitting of a curve to the output deficiency data, as shown on Chart A, provides a measure of the maximum attainable output. The cyclical output deficiency is the difference between actual real output and maximum attainable output, and the figures are given in column (iii) of the tables.

It is to be expected that changes in the rate of inflation will be associated with the cyclical output deficiency, with an accelerating inflation rate frustrating any attempt to expand real output beyond the maximum attainable, which is the equivalent of a zero cyclical output deficiency. This expectation is confirmed by UK evidence as illustrated on Chart C.

Provided that cyclical output deficiency is not less than 2%, an increase in deficiency is followed in about two years by a fall in the rate of inflation, and conversely. However, attempts to sustain actual real output at a level above the equivalent of a 2% cyclical output deficiency have been associated with the rate of inflation accelerating out of all proportion. Thus, inflation increased at the end of 1963, and then rose rapidly from the beginning of 1974 as cyclical output deficiency fell below 2%. Inflation fell in 1962, and again in 1972 and 1976, as output deficiency rose above 2%.

On the basis of current policies, we can see that the minimum sustainable unemployment rate for the British economy in 1978 will be about one million wholly unemployed, and this figure must be expected to rise each year. Attempts to reduce unemployment below the minimum figure dictated by maximum attainable output will be frustrated, probably by accelerating inflation.

INFLATION RATE



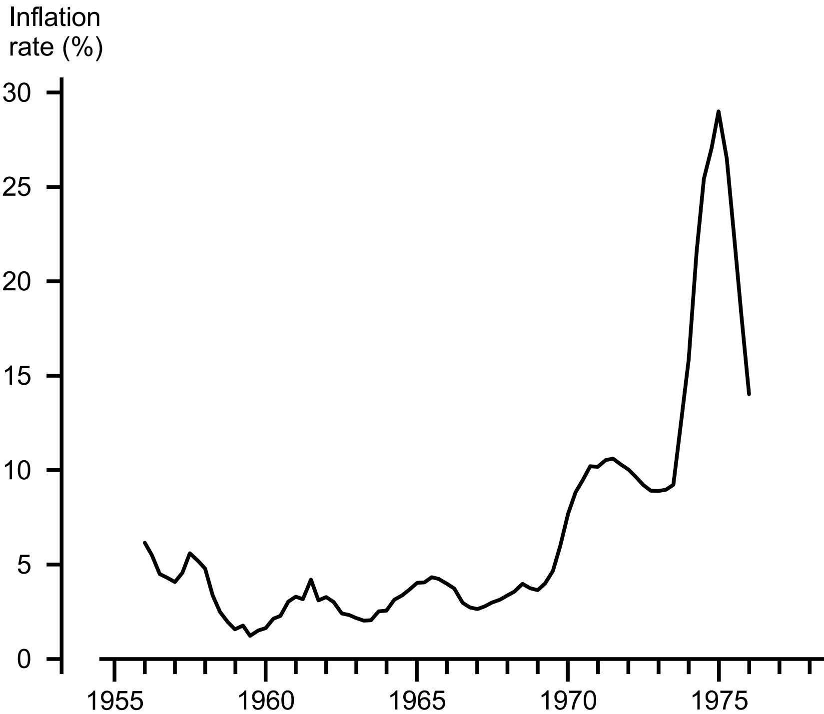


Chart C

If a million and more unemployed are not to become endemic in the UK, then government policy must be directed towards creating the conditions in which the maximum attainable output converges with output potential, so providing the opportunity for a sustained expansion of output.

Given the right policies, unemployment could be cut gradually to around 1 to 1½%. This is to say that full employment for Britain is an average of some 300,000 wholly unemployed. In boom years the number would be less; in a recession the number would rise.

II TAX INCIDENCE

A policy implication to be drawn from the work of Keynes is that in certain conditions it may be necessary to increase spending by the public authorities in order to expand economic output and reduce unemployment. To achieve the same objective in other conditions, the empirical law formulated by Colin Clark implies that it may be necessary to reduce public authorities' spending.

Clark's conclusions apply in a situation where spending by the public authorities necessitates a total tax revenue plus borrowing requirement which, by reason of its size, restricts both output and employment as well as pushing up costs and prices (2, 3).

Again, Hayek has argued that both output and employment are restricted by persistent inflation (4). Taken together, the works of these economists suggest that there is a right amount for public authority spending – or tax revenue plus borrowing requirement – which sets the conditions for achieving an optimum level of output and employment without deleterious side effects.

A Clark/Hayek effect

For British policymakers the works of Professor Hayek and Colin Clark are much more pertinent today. Indeed, the divergence between maximum attainable output and output potential (Chart A) may well be considered as illustrating a Clark/Hayek effect.

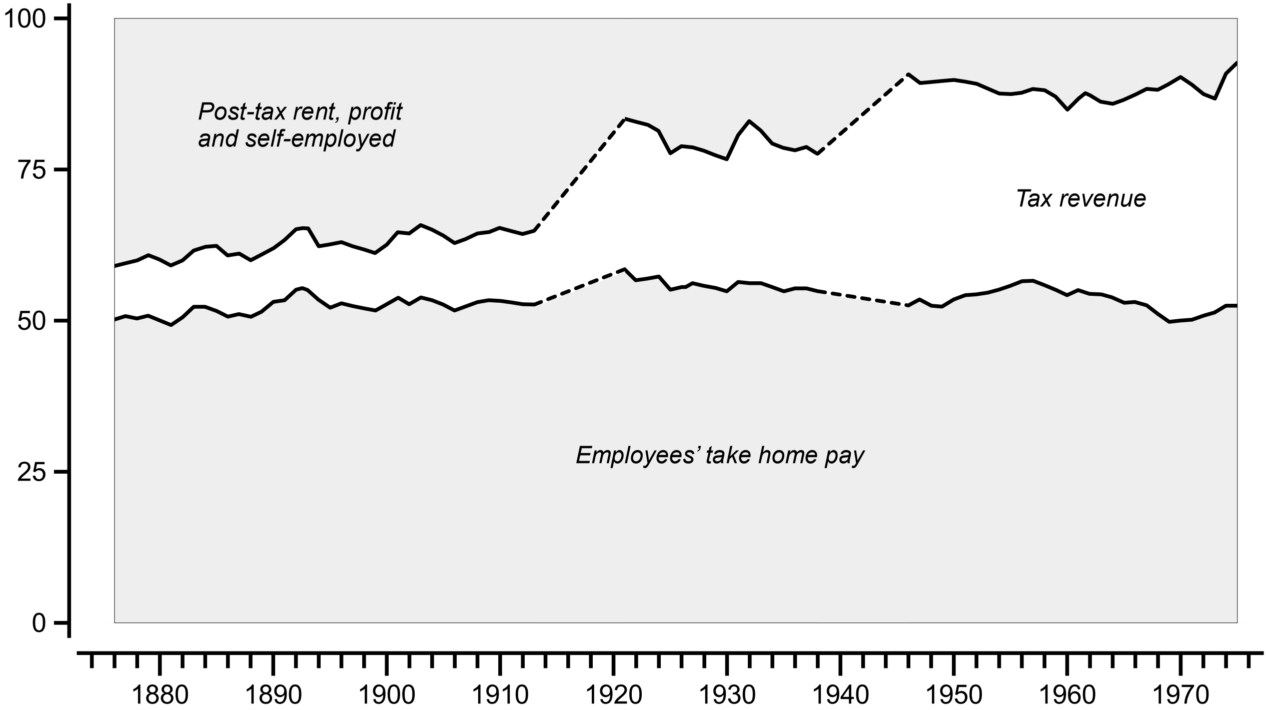


Chart D

The prime cause of this effect is the burden of public authority spending. In this context, 'burden' must be distinguished from the level of tax rates, or the mere size of total public authority revenue and spending.

A relative measure of tax burden can be obtained by expressing the total tax revenue as a percentage of taxable capacity; total tax revenue plus borrowing requirement similarly expressed provides a measure of the burden of public authority spending.

The effective incidence of taxation resulting from the system of public finance common to most western developed nations enables taxable capacity, for practicable purposes, to be calculated as total tax revenue plus post-tax net property incomes (5).

The majority of economists assume a tax is paid by those on whom it is levied, except where it is intended the tax should fall on the consumer by being passed on in prices.

For example, the incidence of employers' contribution to social security tax is assumed to be upon the employer; the incidence of employees' contribution on the employee. The pennies on a pint of beer are levied with the intention that they should be passed on as price increases, so the assumption is that taxes of this kind are paid by the consumer.

These assumptions are highly misleading in the formulation of macro-economic policy, as they are not valid at the macro-level in respect of the effective incidence of taxation.

Slicing the cake

The net 'domestic cake' of an economy may be divided into three slices, so that: $Y = W + T + P$. Here, Y is the net 'domestic cake', W is post-tax income from employment, T total tax revenue, and P post-tax net property incomes. Shares in the net 'domestic cake' of the UK for the past hundred years are shown on Chart D.

Empirical studies (5, 6, 7) have confirmed that in any particular economy W/Y (i.e. the take-home pay slice) has a constant secular trend, although the actual ratio is not the same for all economies.

It follows from this that an increase, or decrease, in T/Y (the tax revenue slice) must be matched by a decrease, or increase, in P/Y (the rent and profit slice) since, when combined, they must equate to a constant also. This is to say, the effective incidence of taxation must be wholly upon net property incomes.

In a market economy enjoying any degree of freedom, total tax revenue plus post-tax net property incomes is in reality the taxable capacity, as total tax revenue cannot exceed this sum without the introduction of controls, directed towards the aim of depressing post-tax employment incomes below the level determined by open market forces.

The hypothesis that the effective incidence of taxation is wholly upon net property incomes (i.e. that $dT/Y = -dP/Y$) implies a significant linear relationship between the two variables, and also a regression coefficient equal to unity.

This means that a percentage point increase in the share of the net 'domestic cake' to be appropriated by taxation is balanced by a one percentage point decrease in the share accruing as post-tax net property incomes, and conversely.

Calculations on the basis of annual first differences, drawn from the UK estimates shown on Chart D, yield a regression co-efficient of -0.999 and confirm a highly significant linear relationship.

Corroborating this result, other investigations show the share of the net 'domestic cake' enjoyed by post-tax employment incomes to be independent of the share appropriated by tax revenue.

Thus, an understanding of the effective incidence of taxation is essential if our macro-economic policy is to produce the intended result. A lack of this understanding contributed to the failure of so-called 'Keynesian economics'.

It is the effective incidence of taxation which produces the results observed by Colin Clark, and leads to the circumstances in which governments seek inflationary solutions; but it must also be remembered that an excessive level of tax revenue plus borrowing requirement is a result of profligate spending by public authorities.

Driven by the need to cover increased spending, governments turn to raising those taxes, such as income tax and social security contributions, having direct impact on incomes from employment.

Contrary to common belief, the imposition of these additional taxes raises employers' labour cost rather than depressing the take-home pay of employees (5, 6, 7). Faced with rising labour costs, firms reduce their demand for employees and attempt to raise the prices of their finished products. Those firms unable to cover their tax-inflated costs by higher prices eventually cease production.

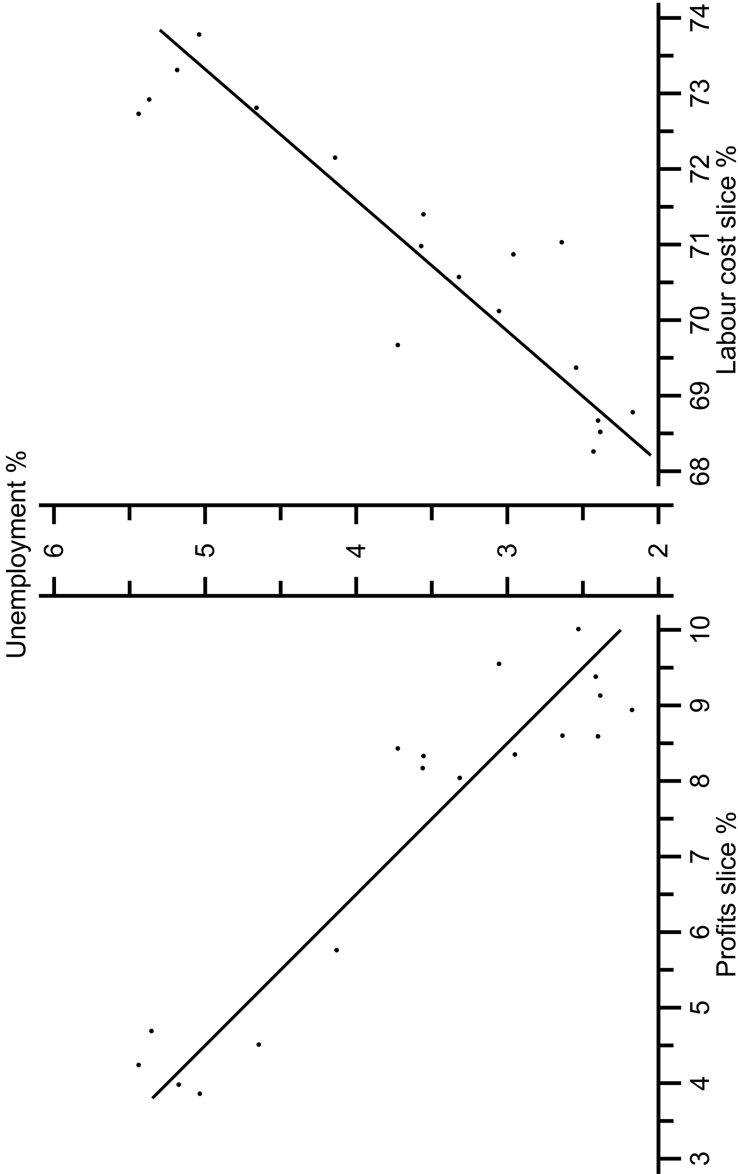
Taxation and jobs

When governments attempt to cover excessive spending by additional indirect taxes, the immediate effect is to raise prices directly. Higher prices tend to reduce demand, which in turn leads to a restriction of output. Also, a rising general price level reduces the purchasing power of take-home pay, and generates insistent claims for more money wages and salaries. In the final analysis, as Adam Smith stated explicitly, there is little to choose between indirect taxes and direct taxes on employment. Both will result in higher costs, rising prices, restriction of output, and fewer jobs.

No matter how the additional tax revenue is raised, in the long run the effective incidence is upon net property incomes in general and net profits in particular. Directly, it is the squeezing of profits that forces firms to raise prices, restrict output, and cut jobs.

Price control merely intensifies the pressure on output and jobs. In 1960 the share of the UK net domestic product appropriated by taxation was around 30%, and the post-tax net profits of private sector companies represented a 10.6% share. Today, tax revenue appropriates around 40%, and the profit share has been all but squeezed out of existence.

During recent years any real post-tax profits which may have been earned by some companies have been cancelled out by the real post-tax losses incurred by other private sector companies.


LABOUR COSTS, PROFITS and UNEMPLOYMENT
Unemployment %
6
5
4
3
2
Labour cost slice %
68
69
70
71
72
73
74
Profits slice %
3
4
5
6
7
8
9
10
Chart E

III TAX, PROFITS AND UNEMPLOYMENT

With the expansion of mixed economies in the Western world it has become fashionable to play down the vital role of profits. But it still remains, and as Sir Keith Joseph has forcibly argued: "A profitable, efficient and thriving industry should be regarded as the precondition of a human, compassionate and civilised society."[1]

Without profits firms cannot be efficient or thriving; they will be uncompetitive, lack the funds necessary for investment, and be unable to generate the jobs people need in order to earn a living.

The direct, but negative association existing between profits and unemployment during the past five years is shown by the scatter diagram on the left of Chart E. The coefficient of correlation for the two sets of variables, given a time lag of six quarters, is –0.95.

Labour costs and the political factor

The private sector can generate more jobs only when employers can afford to do so given the current level of labour costs. But the level of labour costs today is determined not so much by what an employee receives, as by the taxes on employment imposed by Parliament. As is shown by Chart D the slice of the cake received by employees has remained fairly static for the past hundred years yet, during this century, the slice represented by labour costs has expanded by 60 per cent. It is the politician, not the trades union negotiator, who effectively determines an employer's labour costs.

As may be seen from the scatter diagram on the right of Chart E there is a direct, and positive association between labour costs and unemployment. Given a time lag of two quarters the coefficient of correlation for these two variables over the past five years is +0.91.

Direct taxes on employment inflate labour costs and tax-inflated labour costs create unemployment. Further, tax-inflated labour costs combine with other forms of taxation to depress profits, and

1 In the paper *Why Britain needs a social market economy*, published in 1975.

tax-depressed profits then lead to the destruction of jobs. "Absurd and destructive" was Adam Smith's description of the taxes upon employment then levied by some foreign governments.[2] Now, two hundred years later, such taxes provide a major source of public revenue in the UK.

Even more "absurd and destructive" is a policy of subsidising employment in an attempt to minimise the destruction of jobs by taxation. More subsidies mean more public authority spending. This leads in turn to higher taxes and an intensification of job destruction. The founder of modern political economy could not even envisage such a spiral to disaster by deliberate acts of policy.

With the tax burden reducing profits to near non-existence, the massive public authority borrowing requirement of recent years provided a final straw for the British economy. First, government appropriated by all forms of taxation (not merely corporation tax) the income that firms needed for essential investment to continue in competitive production. Then, through its extensive borrowing operations, government proceeded to appropriate such funds as became available on the open market.

Ministers persistently upbraid British industry for its low level of investment; what is to be wondered at is the high level of new investment which the private sector maintains under the adverse conditions created by bad government. Public authority spending appropriates the resources needed for new productive investment, whilst taxation plus the public authority borrowing requirement appropriates the funds needed to finance the investment.

Fortunately for the people of this country, many British private sector companies regularly earn a substantial income overseas.

Government-created inflation

Some argue that when and where the private sector is unable to operate profitably and provide an acceptable level of employment,

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2 In *The Wealth of Nations*, Book V, Chapter II, Part II, Article III: Taxes upon the Wages of Labour.

the public sector should expand to make up for any deficiency.

This proposal would gain credence if it could be shown that public corporations have, without any recourse to their monopoly powers, always a natural advantage over private sector companies in efficient and profitable production.

Admittedly, it is possible for the public sector – unlike the private sector – to incur persistent losses and still maintain, or even expand, both output and employment, but in a mixed economy this possibility depends upon the continued ability of the private sector to generate sufficient taxable capacity as a source of finance for public sector losses.

Unemployment is directly increased by excessive taxation. It is indirectly increased by a massive borrowing requirement which restricts necessary investment. It follows, looked at from the other side, that beyond a certain limit increases in spending by public authorities will tend also to increase unemployment.

The economic upper limit to taxation, as defined by Colin Clark (3), marks the point at which the effective incidence of taxation causes the results of excessive tax and public authority borrowing to be statistically measurable. It is the point at which additional public authority spending may be seen to raise prices, restrict output, and increase unemployment. This is the point at which governments may find inflationary monetary policies irresistible.

In the UK, successive governments have created inflation in an attempt to mitigate the effects of their disastrous fiscal policies.

IV IMPLICATIONS FOR POLICY

In the economic sphere the political objective of the majority of the British electorate is the same as it was thirty years ago – full employment in a free and prosperous society.

If you ask a misleading question you will get a misleading answer. Thus, public opinion polls conclude that halting inflation is now the political objective of the vast majority in the country.

A double figure inflation rate, 16% output deficiency, and over one million unemployed was not, and is not, an intended objective of the British people.

Fundamental to Britain's recurring economic difficulties is the persistent attempt to maintain personal liberties and at the same time approach socialism through the creation of an all-embracing welfare state. As the great visions of those who formed the Attlee administration crumble,[3] the impossibility of the task is now a matter of harsh experience.

In the absence of state controls effectively limiting personal and corporate freedom, the economy cannot carry the public authority spending burden which socialistic policies impose. If economic chaos is to be avoided then, beyond a certain limit, any increase in revenue plus public authority borrowing requirement necessarily entails the government taking powers to depress take-home pay.

This is what income policies and the so-called social contract are about. The development of socialistic policies in a welfare state is incompatible with free wage bargaining, collective or otherwise.

To sustain full employment without inflation in a free and prosperous society the present system of public finance must be radically reformed so that cyclical fluctuations may be minimised by methods which do not restrict maximum attainable output to a level less than output potential. The research approach of the Economic Study Association enables the implications of this requirement to be considered in two parts, one concerned with eliminating output deficiency induced by past errors of policy, and the other concerned with minimising cyclical output deficiency.

Today, past and present policy errors have relegated the many problems associated with cyclical fluctuations to a position of minor immediate importance. Although now, a severe economic recession does exist, compensatory financial policies cannot be put into effect at the current levels of public authority spending when they are coupled with a double figure inflation rate.

3 The Attlee administration was in power from July 1945 until October 1951.

The precondition for eliminating output deficiency induced by past errors of policy is to stop repeating the errors. If the statutory enforcement of reductions in take-home pay is unacceptable, then public authority spending must be geared to the available taxable capacity. The existence of mass unemployment does not justify excessive public spending. Persistent public prodigality is a cause of the rising unemployment.

The immediate priority is for a policy directed towards reducing significantly the slice of the net ‘domestic cake’ appropriated by tax revenue plus the public authority borrowing requirement. This does not require a government to act perversely, but it does require the prompt implementation of an integrated economic policy and the acceptance of both monetary and fiscal disciplines.

Reverse the trend

An effective and sustainable counter-inflation policy is wholly compatible with progress towards full employment. A reduction in the burden of public authority spending – by combining tax cuts with spending cuts in a way that will then allow for a sustained expansion of output – is basic to both policies.

The essential point is the right combination of cuts. It does not necessarily follow that spending cuts will reduce the burden of public authority spending. Indeed, in isolation spending cuts could precipitate an economic depression which would so restrict taxable capacity as to result in an increase in the burden of public authority spending. Men and resources made idle by public economies will remain idle unless positive action is taken to ensure their speedy reallocation into productive employment. Spending cuts can never be more than half a policy; for a complete policy they must be combined with selective tax cuts.

As has been argued in this paper, the worst of all forms of taxation are direct taxes on employment. By inflating labour costs they cause firms to be inefficient and uncompetitive. They raise prices, restrict output and destroy jobs.

A great deal of present spending by government appears to be necessary only because successive governments have pursued tax policies which have inflated labour costs. In 1955 the share of the product represented by labour costs was 66.6%. In 1975 this share reached an all-time high of nearly 74%; yet, during the same 20 years, the share of the product accruing as take-home pay declined.

Since 1975 there has been a slight, but relieving, fall in the product share of labour costs, largely as a result of voluntary pay restraint and reductions in income tax, but this year all of this relief will be absorbed by higher tax revenue, as a result of the surcharge on employers' social security contributions.

Progress towards full employment is dependent upon reversing the rising trend of direct taxes on employment and adjusting public spending accordingly. A start must be made now – by abolishing the damaging National Insurance Surcharge.

Editors' note:

The National Insurance Surcharge was introduced by legislation in 1976, and was removed by further legislation in 1983. Between April 1977 and the end of September 1984 it was applied as an addition to the employers' contributions, with the rate changing at different times of the year. During this same period, however, the standard rates of both the employees' and employers' contributions rose steadily, with changes being introduced generally in April of each year. The following table gives an indication of the overall effect:

Year	Employee	Employer	Surcharge	Total rate
1976	5.75%	8.75%	-	14.50%
1977	5.75%	8.75%	2.00%	16.50%
1978	6.50%	10.00%	3.50%	20.00%
1979	6.50%	10.00%	3.50%	20.00%
1980	6.75%	10.20%	3.50%	20.45%
1981	7.75%	10.20%	3.50%	21.45%
1982	8.75%	10.20%	2.00%	20.95%
1983	9.00%	10.45%	1.50%	20.95%
1984	9.00%	10.45%	1.00%	20.45%
1985	9.00%	10.45%	-	19.45%

Table 1

Output deficiency

First cycle (1955 - 1964)

1955 = 100

Year	Qtr	(i) Output index	(ii) Total output deficiency %	(iii) Cyclical output deficiency %
1955	4	100.0	0.0	0.0
1956	1	99.4	0.6	0.6
	2	99.9	0.1	0.0
	3	99.0	1.0	0.9
	4	98.7	1.3	1.2
1957	1	98.7	1.3	1.1
	2	98.5	1.5	1.2
	3	98.2	1.8	1.5
	4	97.4	2.6	2.2
1958	1	96.6	3.4	3.0
	2	95.1	4.9	4.4
	3	94.6	5.4	4.8
	4	94.1	5.9	5.3
1959	1	93.3	6.7	6.0
	2	93.5	6.5	5.7
	3	93.5	6.5	5.6
	4	94.3	5.7	4.8

Table 1 continued

First cycle (1955 - 1964)

Year	Qtr	(i) Output index	(ii) Total output deficiency %	(iii) Cyclical output deficiency %
1960	1	94.9	5.1	4.0
	2	95.3	4.7	3.5
	3	95.4	4.6	3.3
	4	95.5	4.5	3.2
1961	1	95.6	4.4	2.9
	2	96.0	4.0	2.4
	3	96.3	3.7	2.1
	4	95.8	4.2	2.5
1962	1	94.9	5.1	3.3
	2	94.5	5.5	3.5
	3	94.0	6.0	4.0
	4	93.6	6.4	4.2
1963	1	93.4	6.6	4.4
	2	93.4	6.6	4.2
	3	93.6	6.4	4.0
	4	94.3	5.7	3.1
1964	1	95.4	4.6	1.8
	2	95.9	4.1	1.2
	3	96.4	3.6	0.5
	4	96.8	3.2	0.0

Table 2

Output deficiency

Second cycle (1965 - 1973)

1955 = 100

Year	Qtr	(i) Output index	(ii) Total output deficiency %	(iii) Cyclical output deficiency %
1964	4	96.8	3.2	0.0
1965	1	96.7	3.3	0.0
	2	96.4	3.6	0.2
	3	96.4	3.6	0.1
	4	96.1	3.9	0.3
1966	1	95.9	4.1	0.4
	2	95.5	4.5	0.7
	3	95.1	4.9	0.9
	4	94.8	5.2	1.1
1967	1	94.8	5.2	1.0
	2	94.8	5.2	0.8
	3	94.7	5.3	0.8
	4	94.2	5.8	1.2
1968	1	94.2	5.8	1.1
	2	94.0	6.0	1.2
	3	94.1	5.9	0.9
	4	94.6	5.4	0.2

Table 2 continued

Second cycle (1965 - 1973)

Year	Qtr	(i) Output index	(ii) Total output deficiency %	(iii) Cyclical output deficiency %
1969	1	94.0	6.0	0.7
	2	93.6	6.4	1.0
	3	93.1	6.9	1.3
	4	93.1	6.9	1.2
1970	1	92.7	7.3	1.5
	2	92.5	7.5	1.5
	3	92.2	7.8	1.8
	4	92.0	8.0	1.8
1971	1	91.5	8.5	2.2
	2	91.1	8.9	2.4
	3	91.2	8.8	2.2
	4	91.1	8.9	2.1
1972	1	90.8	9.2	2.3
	2	90.7	9.3	2.3
	3	89.9	10.1	3.0
	4	89.7	10.3	3.0
1973	1	90.9	9.1	1.6
	2	91.2	8.8	1.1
	3	91.9	8.1	0.2
	4	91.9	8.1	0.0

Table 3

Output deficiency

Third cycle (1974 - 1976)

1955 = 100

Year	Qtr	(i) Output index	(ii) Total output deficiency %	(iii) Cyclical output deficiency %
1973	4	91.9	8.1	0.0
1974	1	90.4	9.6	1.5
	2	89.9	10.1	1.9
	3	89.7	10.3	2.0
	4	89.3	10.7	2.2
1975	1	89.3	10.7	2.1
	2	87.9	12.1	3.4
	3	86.1	13.9	5.2
	4	84.9	15.1	6.4
1976	1	84.3	15.7	6.9
	2	83.6	16.4	7.4
	3	83.5	16.5	7.5
	4	83.4	16.6	7.5

Sources

1. Charts A, B and C: Output deficiency, unemployment and inflation.

   Economic Trends, HMSO; and Department of Employment.

2. Chart D: Shares in the net 'domestic cake'.

   Prior to 1946: (i) C. H. Feinstein, *National Income, Expenditure and Output of the United Kingdom, 1855-1965*; (ii) Mitchell and Deane, *Abstract of British Historical Statistics;* (iii) *Annual Abstract of Statistics*, HMSO.

   From 1946 through to 1975: *National Income Blue Books*, HMSO.

3. Chart E: Labour costs, profits and unemployment.

   Economic Trends, HMSO; and Department of Employment.

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