

specialised papers develop in India, this kind of waste is likely to be reduced and manufacturers will be able to aim more and more only at the people who matter for them, their potential customers.

In this context, in order to advertise effectively, there is an irreducible number of papers, and in the case of some products and services, cinemas, which almost any advertiser has to use. Normally the pressure of demand on the space available makes these particular papers and cinemas very expensive. With the new rules, most advertisers cannot even do a minimum of advertising, without having to pay tax on the expenditure.

#### Why Advertise?

It can be argued, of course, that it is not necessary to advertise except perhaps once a year to inform customers of the existence of a product. Obviously there are no hard and fast rules on how often to advertise. However, it is a fact that the customer's memory is fickle, and he must be constantly reminded about the product of service, and the benefit that it offers him. While past advertising continues the identification of a brand in the consumer's mind with certain attributes, the stoppage of advertising soon results in the loss of this identity. More important, a business which is advertising its product or service, cannot afford to take risks with its quality. By bringing and keeping the product or service in the consumer's attention, and claiming certain attributes for it in the advertising, the advertiser has to meet these claims in the quality of his product. If he does not, his product or service is soon found out to be unable to meet what is claimed for it, and the consumer shifts to another brand which claims to offer greater satisfaction.

The Soviet Union, till a few years ago, did not believe in making a multitude of brands of the same product. Nor was there competition for the consumer's rouble among different manufacturers. The consumer bought what was available or did without it, India does not claim to be such a rigidly controlled economy. Where there is a free market, and more than one manufacturer of one type of product (or supplier of one type of service), the consumer has to choose. In order to do so, he has to be informed, and this has to be done effectively. With the sums that will now be available for

advertising it is unlikely that this can be done at all effectively. (Even the Soviet Union, with the recent emphasis on consumer satisfaction, is moving towards advertising products and services).

We are daily exhorted to export more. The export market is a highly competitive one. This competition is expressed in vigorous and heavy advertising. In the absence of a healthy advertising industry in the country, we are unlikely to be very competitive in foreign markets.

The choice that the Finance Minister is giving to businesses in India now is not an enviable one. He says in effect "Spend as much as you think is reasonable on advertising your product but pay for most of your expenditure from your profits. Or, do not spend as much as you think you need to communicate effectively to your market, and so reduce the prospect of your future growth and future profits".

One hopes that the Government will

#### FROM THE LONDON END

## Growth Target Too Ambitious?

IT is only natural, with the budget looming ahead, that there should be much discussion of the direction that the British economy should take. The controversy over whether what is needed is an expansionary or a deflationary budget continues to rage. With the overriding need to reassure her foreign creditors, Britain may be tempted to impose a tough budget, but it is certainly against the natural bent of a Labour Government to undertake a policy that might well produce a recession and could do a great deal of damage to the long-term plans for economic development to which this Government is committed.

#### Whitehall's Dilemma

Some indication of the dilemma which is exercising Whitehall was reflected in a recent speech by Austen Albu, the Minister of State for Economic Affairs, to American bankers in New York. Albu pointed out that the Government was well aware that as the level of exports increased, domestic demand would have to be restrained, but the full deflationary effect of the autumn budget, together with the "severe squeeze" on bank

reconsider the rates that they have published and increase the permissible levels of advertising expenditure to more reasonable levels.

While the Government may not be very responsive to anguished cries from the private sector — after all, anguish is becoming a fairly common emotion in the private sector in recent months! — the newspaper industry should also consider what effect the substantial likely reductions in advertising expenditures, is likely to have on its already difficult economics. When there is so much talk of encouraging smaller papers, a measure which will reduce their advertising revenues, seems peculiar.

The chances are that most advertisers will prefer to advertise, perhaps less than before but still at a much higher level than can be done without increasing tax liability. The Finance Minister will get more in tax revenues without announcing a new revenue measure. The consumer, will probably be the worst sufferer in the long run.

liquidity and a "very high" Bank Rate, had not been fully appreciated. Albu stressed the fact that while the Government was always ready to take any corrective action necessary, it could not accept that "in order to try to secure a temporary improvement in the balance of payments we should push deflation to the point at which it would utterly defeat our long-term objectives". The real need of the economy was for consistent and enduring policies which would encourage growth and the modernisation of both equipment and human attitudes by which alone the recurring cycle of balance of payments weakness could be overcome.

This is certainly a pointer that the Labour Government has not yet given up hope of persuading opinion abroad that harsh deflationary measures would do more harm than good.

The views of Anthony Crosland who is now Secretary for Education, but was formerly Brown's deputy are also indicative of the same vein of thought. While he agreed that "we must so control demand as to release the resources needed to provide the exports and the import substitutes... the ille-

gitimate View is that we should deliberately deflate home demand not as a condition of correcting "the balance of payments deficit, but as the sole means of correcting it". This, according to him, "would run wholly counter to the philosophy of "Keynes and Bretton Woods".

The Bank of England's quarterly Bulletin published, recently is also certainly less in favour of deflation than the National Institute of Economic and Social Research which advocated £200 to £300 a year more in new taxes. The Bank says "it is a matter of nice judgment whether the prospective demands upon the economy are likely to be met without excessive strain on valuable resources". It referred to a number of factors which together "constituted an appreciable deflationary force, the effect of which might become increasingly apparent as time went on".

### Harrod Against Deflation

A much more forthright case for abandoning deflationary policies was put forward by Roy Harrod who said, in effect, that Britain would be unwise to proceed with deflation and that she should go ahead to promote economic expansion, regardless of foreign opinion which favours caution, since the views of these foreign Governments could safely be ignored as Britain's creditors would not dare to run the risk of withholding support from sterling.

The Government appears to be banking on restraint on incomes and increased productivity to remedy the underlying deficit in the balance of payments. Roy Harrod argues that "any application of 'stop-go' in the period ahead would doom the incomes and productivity policy to failure". The Unions would refuse to abandon restrictive practices if unemployment were rising. Britain's creditors have little leverage, according to Sir Roy, for compelling the U K to deflect her domestic policy from the lines Britain thinks best. Britain's negotiating strength lay in the weakness of the dollar. If the pound were to be devalued, serious doubts would be raised concerning the dollar. Therefore, he says. Central Banks will come to the support of sterling so long as the dollar remains weak. Furthermore, any bout of deflation in the U K would place an extra strain on the American balance of payments.

On the other hand, industrial production is continuing to rise strongly,

the unemployment figure in February was among the lowest for ten years, and industry raised the level of its spending, on new buildings, plant, machinery and vehicles by more than 3d in the pound last year—the fastest rise since that recorded during the big investment programme of 1959 to 1961. These facts indicate that the economy is on the way to becoming overstretched, and some economists suggest that what is now really needed is a tougher budget. This is certainly the view of Professor Paish who claims that a greater measure of unemployment is necessary in order to restrain the pressure on rising prices.

### Sharp Rise in Production

The rapid increase in output has also prompted thoughts on a viable rate of economic growth for the U K. The January production index confirms the impression that output was up sharply for the fourth month running and reached a level of 6 per cent higher than twelve months before. The seasonally adjusted index of industrial production compiled by the Central Statistical Office was up by another point in January to 133, and the index for manufacturing industries only jumped two points to 135. However, the pattern of increase is not uniform. In contrast to every period since 1961, it is now the heavy industries that are setting the pace. As a result, production in the steel industry is now running at record levels of 30m tons a year. The British steel industry seems to have benefited more than most from the introduction of the import surcharge which has had a noticeable effect in switching demand towards the home producer. By contrast, the consumer industries are prosperous, but by no means excessively so. The motor-car industry continues to make progress, but other consumer industries, notably textiles and domestic appliances are only moderately active and are working below capacity. Opinions are still divided on the course the economy is likely to pursue later in the year. Many businessmen share the concern attributed to Brown's Ministry of Economic Affairs about a possible downturn.

The economic plan which Brown's Ministry was going to publish showing the way to a 25 per cent growth in national product by 1970 is taking longer to produce than expected. This adds particular interest to the recently published Political and Economic Planning broadsheet which takes a

hard look at a viable economic growth rate for Britain. It casts doubt on the realism of the Government's growth target.

The author, Geoffrey Denton lecturer in economics at Bedford College, London, points out that the Government has quietly scaled down the annual growth rate from 4 per cent, to 3.8 per cent and introduced a greater flexibility by phasing the plan over six years. "Unless there are indications of a fundamental improvement in the economy deriving purpose from an incomes policy, or from measures to improve the balance of payments, there would seem to be disadvantages in committing ourselves even to a phased target".

### Export Needs Over-estimated

The broadsheet examines the causes of the failure of Nedd's first attempt in economic planning with a 4 per cent growth target. Although the target is not impossible from the point of view of the capacity of industry to expand "If showed a great lacuna in the case for 4 per cent in respect of export requirements". With import figures rising, the export target had to be raised from 5 per cent to 5.1 per cent to keep the growth rate consistent with a satisfactory balance of payments. Exports failed to rise significantly in 1964, and the target had, in practice, to be abandoned.

This brings one back to the fact that, as in India, exports have a fundamental role to play if the British economy is to expand. Indeed, export requirements were the main flaw in the original N E D C plan. It would, therefore, be unwise to base further plans for growth on the assumption that there will be a major improvement in export trends. Efforts to raise the standards of competitiveness of British industry can only pay off after a period of years. The same is true of more direct measures to step up exports, though P E P considers there is a strong case for re-examining the part a value added tax could play as a general incentive to exporters. As for the possibilities of developing import substitution, these are described as "at present little more than interesting ideas".

The verdict of the PEP study seems to be that the immediate prospects for fundamental improvements in the balance of payments are very limited, and without this there must be considerable doubt about the possibility of Brown's 25 per cent target.