STUDIES IN PLANNING & CONTROL
GENERAL EDITORS: B.T. BAYLISS & G.M. HEAL

INDUSTRIAL PRICING BEHAVIOUR & DEVALUATION

Peter M. Holmes

Industrial Pricing Behaviour and Devaluation

STUDIES IN PLANNING AND CONTROL

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University of Sussex PETER HOLMES

1. General Introduction

General Purpose

The purpose of this work is to discover how large firms in the United Kingdom set their export prices in the months following the 14.3 per cent devaluation of sterling on 18 November 1967, and during the period of floating exchange rates of 1972–3. The method adopted, to be discussed in detail below, was that of interviewing executives with leading firms. Issues raised by the experiences of the individual firms are discussed later in the book; the particular concern is to establish as far as the evidence permits why firms acted as they did, and whether the decisions taken appear to have been in any sense optimal for the individual firm and the country as a whole.

Devaluation and Prices: Impact Effects

The 1967 devaluation was associated with a series of policy measures announced at the same time, and also other measures between December 1967 and the budget in March 1968. The true impact effects of devaluation should strictly refer to the consequences of devaluation and all policy measures inextricably linked to it. The identification of those policy measures that could have been avoided by the government if it had not devalued is quite impossible. It is unlikely that the government would have been able to take less severe deflationary action in 1967 if it had avoided devaluation. It is therefore difficult to know by how much any tax changes were linked to or additional to the devaluation. In fact some of the measures announced on 18 November 1967 were declarations of changes in future levels of taxation or expenditure, whose initial expected values firms could not be presumed to know and which may not have affected previously planned prices. Although between 18 November 1967 and March 1968 the Government announced a total of £641 million worth of public expenditure cuts and tax increases of an estimated £923 million (cf. Cohen, 1971) it seems sensible to see as associated with devaluation essentially those measures announced simultaneously with the devaluation that had calculable effects on costs. The *Economist* (25 November 1967) calculated that the net effect of the 14.3 per cent devaluation of sterling on costs would be offset by a rise in sterling costs of about 7 per cent: 3–4 per cent due to rises in import prices, 2 per cent due to abolition of the rebate to