

THE FRASER OF ALLANDER  
INSTITUTE

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## The Fraser of Allander Institute

The Fraser of Allander Institute was established in the University of Strathclyde on 1 January 1975. Its principal function is to carry out research on the Scottish Economy, and its research programme includes co-operation with the Scottish Council Research Institute and IBM (United Kingdom) Scientific Centre in the compilation of Input-Output Tables for Scotland, and the publication of a Quarterly Economic Commentary. It also publishes a series of Research Monographs to provide an outlet for original quantitative research on the Scottish economy, and a series of occasional papers entitled Speculative Papers.

The Institute wishes to thank The Scotsman Publications Limited for its financial support in the appointment of a Research Fellow, to work on the construction of forecasting models for Scotland.

Additional copies of this Commentary may be obtained from The Secretary, The Fraser of Allander Institute, 100 Montrose Street, GLASGOW G4 0LZ.

## Preface

The aim of this Commentary is to provide a regular evaluation of current trends in the Scottish economy and forecasts of likely developments over the next year. The Institute's work in this direction will not be confined simply to providing a consistent commentary on the available series of economic indicators, but will attempt to expand the data base by estimating and storing new statistical series which will help in interpreting short term movements in the economy.

We are well aware of the difficulties of the task, which are discussed in the special article included in this first issue. If national forecasting is likened to crystal-gazing, then regional forecasting is crystal-gazing with a highly imperfect version of the crystal ball. The development of methods of regional forecasting for Scotland, and the construction and testing of an adequate data base for a forecasting model, is a lengthy process of trial and error.

In preparing this Commentary we have been aware of the substantial advance in statistical information about the Scottish economy since the late 1960's. There are still, of course, great gaps to be filled, but the statistical series presently available, mainly in the Scottish Abstract of Statistics and the Scottish Economic Bulletin at least provide a skeletal framework for quantitative analyses of the structure and performance of the Scottish economy, and this Commentary has only been possible because of these data. We hope through our work to make some contribution towards the development of the range of Scottish economic statistics.

## 1. Summary

### World and UK

1. Since late 1973 the international economy has been dominated by the oil crisis and by parallel rises in the prices of other primary commodities. Most industrialised countries have reacted to these changes in the terms of trade by domestic deflation; unemployment has risen sharply in the OECD countries, while gross product declined and world trade levelled off. All countries have suffered substantial inflation, though with varying degrees of severity.

2. The UK has been almost alone amongst industrialised countries in continuing to expand domestic demand, maintaining this expansion by means of heavy external borrowing. A comparatively lower rate of unemployment has been achieved at the cost of an alarming, and accelerating rate of inflation and deteriorating price competitiveness. However while the necessary readjustment of the domestic economy has been postponed, it cannot be avoided.

3. The recent anti-inflation measures announced by the Government are designed to effect this adjustment in real resources. While they will have little impact for the remainder of this year, real disposable incomes and domestic demand will fall sharply in the first half of 1976. Unemployment, already expected to reach 1.1 million this winter, may further increase. An upturn in world trade through 1976 should help output and employment in the second half of 1976, but the effects of this on the domestic economy may be less than expected and the prospects for reducing unemployment during next year must be considered unfavourable. While these painful adjustments are inevitable, the slow rate of recovery will generate substantial political pressures for premature re-expansion of the domestic economy.

## Scotland

4. Like the rest of the UK, Scotland experienced a modest rate of growth of GDP between 1964 and 1973, though at a marginally higher rate. The Scotland/Great Britain ratio of unemployment rates fell and the ratio of average Scottish to average UK earnings rose. Despite these changes, up to 1973 there was little evidence of a real improvement in the comparative growth potential of the Scottish economy.
5. From late 1973 however the Scottish economy showed signs of greater robustness, expressed through a greater degree of locally-generated growth. Despite a decline in UK GDP in 1974, real GDP in Scotland is estimated to have increased, by just under 1%, and this comparatively better performance has been sustained through the first quarter of 1975.
6. As in the UK generally, real disposable incomes will fall in the latter part of this year and will fall further in 1976. These effects will be to some extent cushioned by a more buoyant (or less depressed) level of demand in Scotland. GDP is expected to increase by 1% in 1975. This will not affect the rising trend of unemployment, which is expected to reach 127,000 by the beginning of next year, and a further increase may be expected in 1976.