in their frequency, and in the publication lag of established series can do as much to facilitate forecasting as the development and publication of new series. Secondly, there is in fact a good deal of information available about the Scottish economy in addition to those data published in official sources like the Scottish Economic Bulletin and the Scottish Abstract of Statistics. This includes information collected by trade associations, nationalised industries and government departments, which may not be published but which are available. There is therefore an important task in the systematic identification, processing and storage of available data series, and this presently constitutes a major part of our research time. Simultaneously, starting with a simple form of model structure based on an output-income accounting system, we are attempting to specify equations consistent with this structure and with the available data series. Two important criteria in this concern the disaggregation of flows by sector and by sub-region, though it is a very long way indeed to the construction of any kind of intra-regional model structure.

3. General Review

World events and prospects from January 1974

Events in the world economy since January 1974 have been dominated by the rise in the price of oil and other primary commodities which took place in 1973. The experience of almost every economy in the world since then has been characterised by adjustment to these events. When the quadrupling of the oil price took place at the end of 1973 it was widely believed that this would bring about an international monetary crisis, in consequence of huge trade surpluses being realised by the OPEC countries and corresponding deficits by the industrialised (OECD) countries. In fact, the very rapid rate of growth of imports of goods and services by OPEC countries coupled with a sharp decline in the demand for oil by the industrialised countries has led to a situation which the "petrodollar" surplus has been much less than had been feared. It is expected that by the end of 1975 the OECD countries taken together will have a collective balance of payments surplus on current account. World monetary institutions have shown themselves capable of coping with the problem of "re-cycling".

While international financial adjustments have taken place without much difficulty, the same cannot be said for the domestic adjustment of real resources within the industrialised countries. The reaction to the sudden unfavourable shift in the terms of trade did not take the form of a smooth switch from consumption to exports but also led to a fall in output and employment. With the exception of the United Kingdom (see later section) most of the industrialised countries responded with domestic deflationary measures which exacerbated the external pressures leading to unemployment. Their object in doing so was to offset any tendency for their domestic costs to increase and to maintain their competitive external position in order to switch resources from domestic consumption to exports. An examination of the path of real GNP in the major industrialised countries shows in the second half of this year the same pattern of a dip in mid-1974 followed by an expected recovery. Output in the OECD countries appears therefore to be moving on an upward course, although unemployment is increasing and is expected to go on increasing.

World trade

As a result of the quadrupling of oil prices the growth of trade in and between the OECD countries grew by less than 5% in 1974, while exports from the OECD to the OPEC countries increased by 45% - 50% in volume terms. Unless there is an equally sudden fall in the price of oil, the imports of the OPEC countries may be expected to continue to increase and provide the stimulus for much of the growth of exports in the OECD countries over the next two years at least. It should be marked that one of the favourable factors leading to a satisfactory readjustment in world trade has been the sharp reduction in imports by the OECD countries which has accompanied their equally substantial increase in exports to the OPEC countries.

United Kingdom

The reaction of the United Kingdom to the external events has been almost unique amongst industrialised countries. So far from deflating, as most other countries have done, the Government has actually continued to inflate the level of aggregate domestic demand. This has of course merely postponed the painful adjustment which other countries have put behind them. The postponement of the readjustment has been made possible by heavy external borrowing. From the beginning of 1973 to the end of 1974 it is estimated that the increase in external short term liabilities of the banking system and public sector borrowing required to finance the cumulative deficit on current and investment accounts amounts to over £3,500 million.

While the necessary readjustment has been postponed of course it cannot be avoided. That this is so is shown by the growing contrast between trends in price levels in the United Kingdom on the one hand and the rest of the major industrialised countries on the other hand. In the first quarter of 1975 the rise in UK consumer prices accelerated to over 6% whereas for the whole of the OECD countries the rise in the same period was only about 3¼%. It seems clear that the competitive position of the United Kingdom will deteriorate markedly unless the £ is allowed to depreciate further, which in any case will merely postpone the required adjustment, i.e. a fall in real consumption. Moreover, the longer effective action is postponed, the more likely it is that its timing and content will be determined by considerations of foreign confidence.

The measures canvassed fall into two broad schools of thought (excluding the "seige economy" proponents). They are (a) the traditional methods of restriction of the aggregate money supply together with net reductions in public expenditure and (b) methods of direct control of wages (and perhaps prices). Both these sets of measures have been applied - separately and in combination - at various periods in the last fifteen years without marked success. (Proponents of both schools would argue that their measures should have been implemented more vigourously).

In the last few days the Chancellor has announced measures to control the level of money wage increases (and maintain existing controls on prices). Whatever the final details of the package, the target set for wages falls short of expected price increases during the next year and must inevitably produce the fall in real consumption already experienced in the other industrial countries, who are now beginning to reflate domestic demand. Although details are not yet clear, references to cash limits in the public sector may also imply further cuts in real net public expenditure and thus add to the decline in aggregate demand resulting from the planned reduction in real wages.

The content of these measures can come as little surprise. It is perhaps appropriate to speculate whether the substantial cost of maintaining a lower unemployment rate than other OECD countries since last year, against a sharp decline in the UK's competitive position, and the certainty of higher unemployment this winter, can be justified. By delaying remedial action the UK has moved out of step with other member countries and may well remain out of step when the expected recovery in world trade gets under way next year. Early re-expansion of the UK economy to take advantage of such a recovery is now not only unlikely because of lags in response to policy changes, but severely constrained by the need to reduce the accumulated public sector and external borrowing requirements. A return to the cycle of slow growth and financial probity experienced in 1968-70 is therefore likely, though the growth may be slower and the probity more severe.