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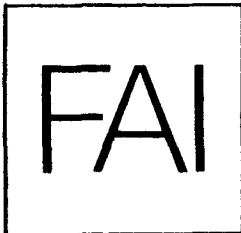
Notes to Contributors

The editor welcomes contributions to the Students Brief, Feature Article and Economic Perspective sections. Material submitted should be of interest to a predominantly Scottish readership and written in a style intelligible to a non-specialist audience. Footnotes and references should conform to recent issues of the Commentary. Contributions should be typed and two copies submitted to the Editor.

Editor: Frank Kirwan

Contributors: Bob Buchanan, Robert Crawford, Frank Harrigan, Lyle Moar, Alan McGillivray, Noreen O'Donnell, David Simpson, Elizabeth Tait, Jim Walker, Alison Wingfield

Production: Sheelagh Blackhall, Linda Nicolson and Lyle Moar



The Fraser of Allander Institute
Curran Building
100 Cathedral Street
GLASGOW G4 OLN

041-552 4400 Ext. 3958

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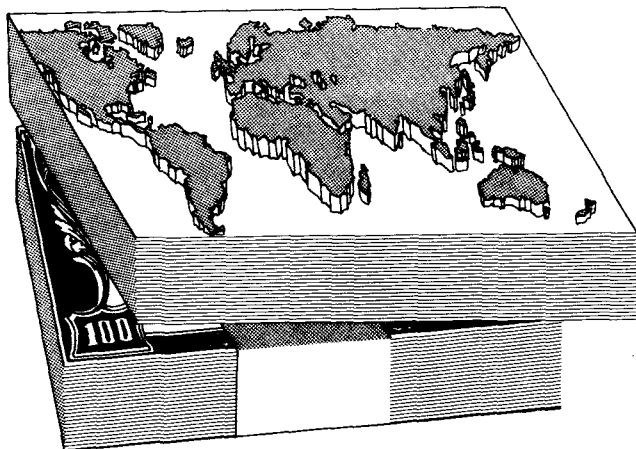
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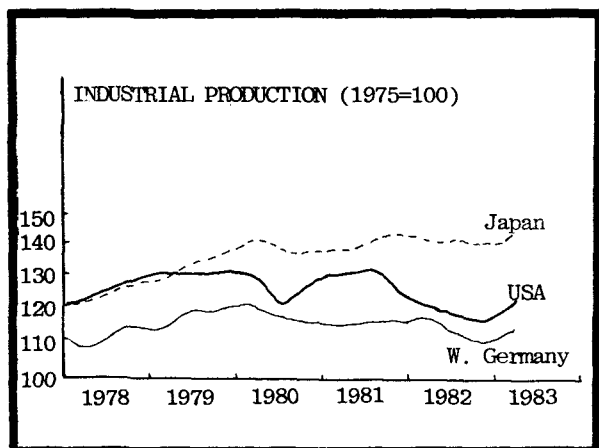
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The World Economy



The world economy is now well into the recovery stage of the cycle. The recovery is most marked in the United States and in Britain, with the pace of expansion in other countries still somewhat slower. Opinion remains divided on how sustained the recovery will be, but there appears little chance of its losing momentum before the middle of 1984. The maturation of the recovery into a long-lasting upswing depends on a fall in real interest rates, and a revival of business investment. On present projections significant reductions in unemployment are unlikely over the coming year, indeed in many countries further increases are inevitable, albeit at a slower rate than in recent years.

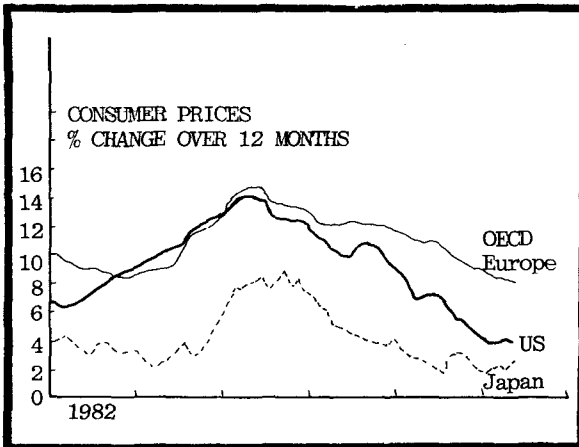
OUTPUT



The recovery in industrial production in the United States has been especially rapid. By May of this year the volume of output was some 5.7% higher than the November 1982 trough. Growth in manufacturing output was even more rapid, being most marked in intermediate sector goods. In the OECD area as a whole industrial production increased at a somewhat slower pace than in the US, rising by 3% over the first four months of this year. However industrial production in the EEC was static, with only Germany and Britain recording significant increases in output. Activity in Japan has been much less buoyant than in other countries, industrial output only starting to rise in March and

April of this year. Capacity utilisation throughout the developed world remains historically low. Inflationary pressures are therefore unlikely to become a major problem in the short term, but a strong revival of industrial investment also looks equally unlikely. One type of investment which has however been particularly buoyant is construction with the increase in housing starts being especially marked in the United States and to a lesser extent in the OECD area.

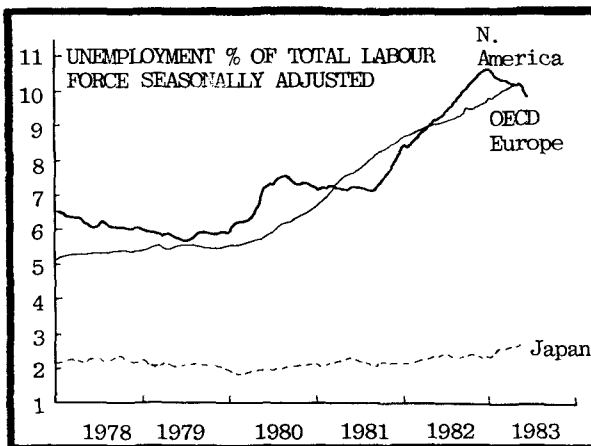
INFLATION



The deceleration phase of retail price inflation now appears to be at an end. Some increase in average inflation rates is expected over the coming months as the effects of harder commodity prices feed through into final products. However the degree of acceleration is not expected to be great. In the OECD area as a whole the annual rate of inflation was broadly unchanged over the quarter from February to May, while in the narrower OECD Europe area there was a slight increase. The average rate of consumer price inflation for all EEC countries increased from an annual rate of 6.8% in February to 7.2% in May. Inter-country variation in the EEC average continues to be very

large with annual rates in May ranging from Italy's 16.1% through France at 9% down to Germany at 3%. There are no signs of any significant acceleration in the rate of increase of wholesale prices. For the OECD area as a whole this appears stable at just under 6%. While oil prices appear to have entered a settled phase, other commodity prices are increasing at a considerable rate. In the year to July the Economist dollar commodity price index increased by some 20%, an increase which must eventually filter through to wholesale prices. The ultimate effect of this on world-wide inflation is likely to be moderated by the existence of excess capacity and by unusually competitive conditions in product markets.

UNEMPLOYMENT



Unemployment still remains the least encouraging of macro-economic indicators. Only in the United States are there signs of a significant fall, with the seasonally adjusted unemployment rate falling approximately one tenth of one percent each month since February. By contrast in OECD Europe and the European Economic Community unemployment continues to rise. Indeed, the OECD in its recent Economic Outlook sees no immediate end to the upward trend in numbers out of work. Given short term demographic conditions it is quite possible for unemployment and employment to increase simultaneously if the increase in

labour supply exceeds the increase in the demand for labour. This is especially true in the major OECD countries where labour supply continues to

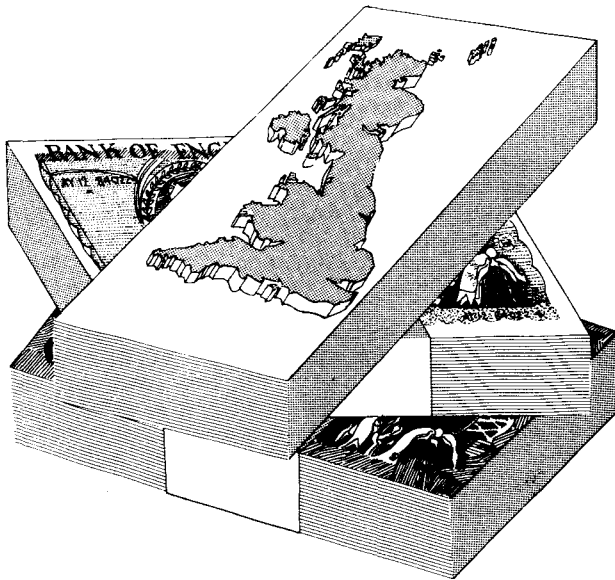
grow by 1% a year. So far there are signs of a sustained upturn in employment only in the United States and to a lesser extent in Japan. In many countries policymakers are turning increasingly to specialised youth employment programmes, measures to facilitate part-time work, and encouragement to early retirement from the labour force. While youth unemployment has been the focus of a wide range of policies, there are as yet only isolated measures aimed at the long term unemployed or all ages. Those who have been unemployed for over six months now represent well over half of the combined unemployment in Germany, France and the UK.

PROGNOSIS

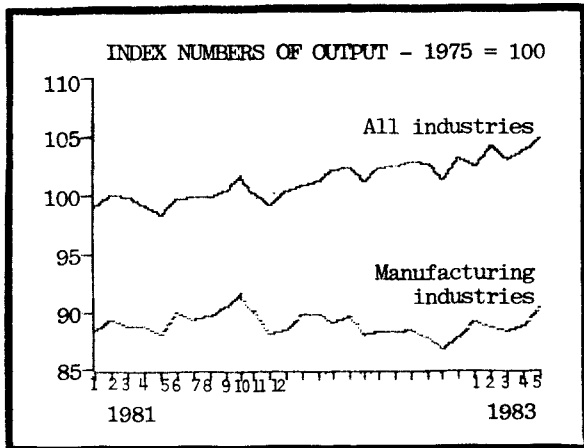
Output is now increasing at a moderate pace in most of the major developed economies. In most cases the recovery is being sustained by buoyant consumers expenditure and by the end of stock liquidation. Of themselves these are inadequate to sustain a prolonged upturn in economic activity. The key to such an upturn is a revival in business investment. That in turn is predicated on a fall in real interest rates, an increase in capacity utilisation, and a stabilisation of inflation. Prospects for the latter two factors appear promising, for the first somewhat more problematical. The major constraint on falling interest rates is the stance of American fiscal policy. There are as yet no signs of a willingness on the part of the American authorities to tackle the structural deficits which are projected for the American economy in the middle years of this decade. However, while high US rates ensure that rates elsewhere also remain high, any move to lower American rates through restraining US public spending or increased taxation would in the short run have both expansionary and contractionary effects on the world economy. The move would be expansionary insofar as lower real interest rates should stimulate investment. But a reduction in US rates achieved through budgetary tightening would reduce American import demand and increase the competitiveness of American exports and thus tend to depress output in the rest of the world. The short run effects of a reduction in US interest rates are therefore problematical. The longer run effects, in particular the ensuing alleviation of the financial situation of less developed debtor countries, would however undoubtedly be beneficial for the world economy.

The U.K. Economy

MACRO-ECONOMIC TRENDS

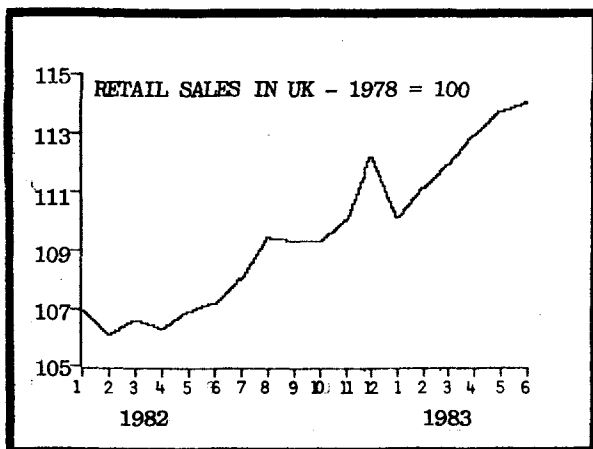


The recovery in the UK economy drew breath during the second quarter. Industrial production continued to increase, the rate of retail price inflation fell further, while the rate of increase of average earnings shows a further slight deceleration. The factors which have contributed most to the recovery to date have been buoyant consumer's expenditure and a turnaround in stock liquidation. Both of these factors are unlikely to provide continuing support in coming quarters, and other components of aggregate demand must become more buoyant if the recovery is to be sustained. There are already signs that investment may be recovering, but on the trade front present trends are not encouraging.



Following its fall in March the index of industrial production increased during the next two months to stand at the end of May some 4% above its November 1982 trough, before falling slightly in June. Growth in manufacturing output proceeded at a similar pace and volume in May was some 3.9% above its November trough. All sectors of manufacturing recorded some growth over the preceding three months. The growth in output was most marked in Chemicals, Coal and Petroleum and in Metal Manufacture. The results of the CBI Industrial Trends Survey in July suggest further increases in industrial production over the coming four months.

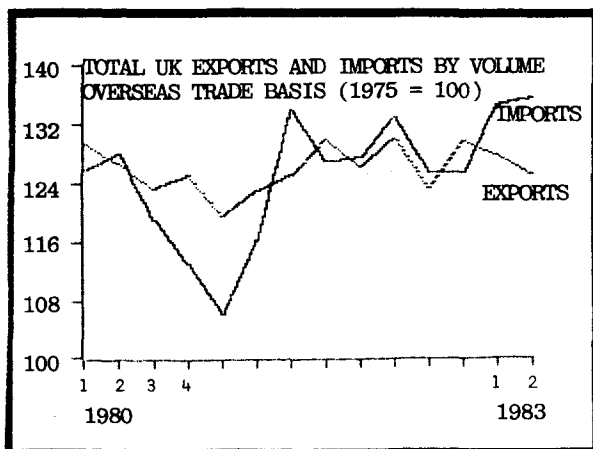
The recovery to date has been underpinned by buoyant consumer's expenditure. The July CBI Survey reflects this, predictions of rising output being most marked in consumer goods industries. In spite of the fact that real personal disposable income has been static for almost two years and



currently stands 2.5% below its 1980 peak, the volume of retail sale in the first half of this year was some 4% up on its average 1982 level. No slowdown was evident in the second quarter of the year when the volume was some 2.5% up on that of the preceding quarter. The rise in consumer's expenditure has been most marked in the clothing and footwear and household goods sectors. While the real disposable income of those who remain in employment has increased strongly over the past year, the increase in unemployment has been so large that real personal disposable income in the aggregate has not grown at all in the last two

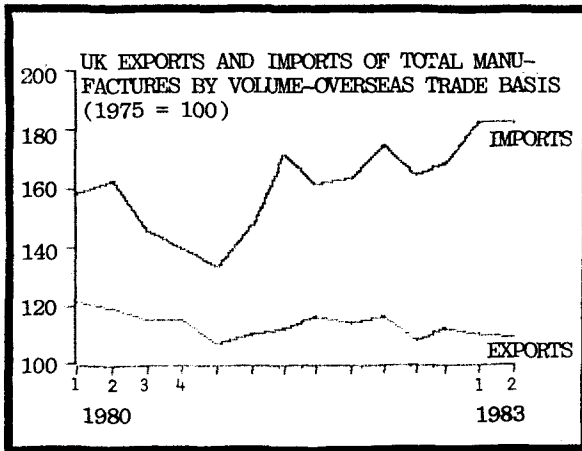
years. The recovery in consumption can be traced to a variety of factors; the abolition of hire purchase controls in the latter part of last year, significant falls in mortgage interest rates and mortgage repayments during 1982, a falling savings ratio as price inflation decelerated, and the effects of the March budget in increasing personal tax allowances above the prevailing rate of inflation. The combined effect of these factors may well weaken, if indeed not be reversed, in the latter half of this year. The increase in mortgage interest rates in July coupled with the changeover to MIRAS and higher National Insurance contributions will tend to reduce discretionary disposable income, while increases in petrol prices, and the lagged effects of sterling's depreciation are all likely to cause the rate of retail price inflation to accelerate. Though any such acceleration is unlikely to be marked, it may well have the effect of discouraging further falls in the personal savings ratio, and, by narrowing the gap between the rate of increase of average earnings and that of prices, reduce the rate of increase of real take home pay somewhat below that seen in the past year.

The other main stimulus to aggregate demand in recent quarters has been the slowdown in the rate of liquidation of stocks. The change in stocks was almost zero in the first quarter of this year, but this was due to stock liquidation by wholesalers and manufacturers being largely offset by stock



accumulation by retailers. The July CBI survey suggests that stock liquidation by the former two groups may almost be at an end. Hence, the major stimulus to activity from this component of aggregate demand may already have occurred with the stock output ratio in manufacturing in the first quarter standing only marginally above its long run trend.

The consumption and inventory led recovery has had adverse effects on the trade balance. Visible trade was some £1bn in deficit during the first half of 1983. If trade in oil is excluded the



deficit was of the order of £4bn. Comparable figures for the last half of 1982 of a £1.9bn surplus on visible trade including oil, and a £1.2bn deficit excluding oil illustrate the extent of the deterioration. The principal explanation of the move into deficit is a rising volume of imports. Non-oil imports increased by some 6.5% during the first two quarters of 1983, compared to their average level during the preceding year. By contrast the volume of non-oil exports fell by 1% during the same reference period. Trends in manufactured trade were even less encouraging, with total manufactured exports down by 3% in the

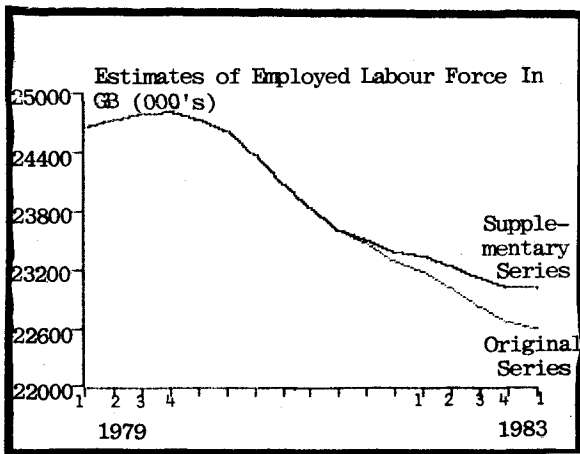
first half of 1983, while manufactured imports were up by 9%. The import content of consumers expenditure is high and this is reflected in marked increases in imports of consumers goods and especially of cars. On a more encouraging note however, imports of basic materials for further production increased by 10% in the first half of 1983 compared with the preceding year, while imports of intermediate manufactured goods were up by 4%. British exports to North America and non-European developing countries remain buoyant, in the former case because the American economy is now well out of recession. However, export volumes to other destinations are falling.

THE LABOUR MARKET

EMPLOYMENT AND UNEMPLOYMENT

Recent changes to the way in which statistics of unemployment in Britain are compiled, and growing awareness that the abolition of the annual Census of Employment in 1978 and its replacement thereafter by a triennial census has led to greater than usual margins of error in estimates of total employment, both contribute to making analysis of labour market trends more difficult than usual.

The 1981 Census of Employment revealed that postcensal estimates of the employed labour force were biased downwards during the period 1978-81. The bias stemmed mainly from the difficulty of monitoring employment in the self-employed and service sectors in the absence of an annual census. The bias was considerable, 1978-1981 estimates of numbers employed being revised upwards by over half a million when the results of the 1981 census became available. The Department of Employment suggests that a similar bias may characterise estimates of employment since mid 1981. Two statistical series on total employment in Britain are now available. The first is the traditional series based on updating the information from the most recent Census of Employment in 1981. This shows total employment falling by a further 71,000 on a seasonally adjusted basis during the first quarter of this year with practically all the job losses taking place amongst males. This nevertheless represents a significant slowing down of the rate of decline of total employment. However, this estimate is based on the assumption that the numbers of self-employed have remained constant at their



1981 level - an assumption which experience of 1978-81 would suggest is implausible. During the latter period the numbers in this category increased by over 200,000. Unfortunately there is no hard information on subsequent changes. The Department of Employment have therefore compiled a supplementary series of estimates of total employment by assuming that the numbers of self employed have continued to grow at the same rate since 1981 and that the tendency of the original series to underestimate the numbers employed in the services sector has persisted equally strongly. The net effect of these two adjustments is to suggest that the decline in the

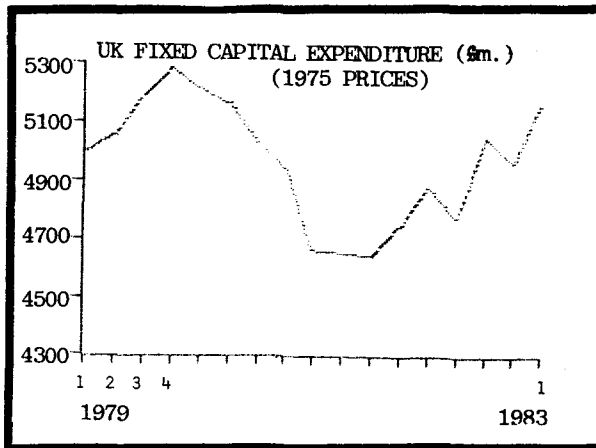
employed labour force slowed to only 6,000 in the first quarter of this year compared to an average decline of 80,000 per quarter on the same basis during 1982.

Both series suggest a significant deceleration in the pace of net job loss, with the supplementary series providing the most encouraging evidence for several years. Full revisions to the series cannot be carried out till the results of the 1983 Labour Force Survey become available next year. From 1984 onwards the Labour Force Survey, hitherto biennial, is to be carried out annually with a consequent improvement in estimates of labour market activity. The annual survey will provide some indication of trends in self-employment and avoid the crude assumption used in compiling the present employment estimates that the numbers of self-employed are either constant (the old series) or changing at the rate recorded during the most recent intercensal period (the supplementary series).

Trends in registered unemployment have also been distorted by recent administrative changes in the way the series are compiled. Such changes have taken place piecemeal since October of last year and make analysis of the underlying trend in registered unemployment - not to mention the true level of joblessness - somewhat hazardous. After correcting for the most recent administrative change, the removal from the register of men aged 60 and over who had previously been signing on for national insurance credits, the July figures suggest that the trend towards a slower rate of increase has been maintained. On a seasonally adjusted basis, the average change over the last three months has been of the order of 16,000 additional unemployed a month, compared to about 30,000 at the beginning of the year. In spite of the slowing down in the rate of increase of registered unemployment, the problem of long term unemployment continues to worsen. Well over a third of those currently on the register have been out of work for over a year, while nearly three out of every five have been unemployed for longer than six months.

The upward trend in the number of vacancies which has been evident since the final quarter of last year has persisted into July when the number was over a third higher than one year ago. This trend in vacancies is mirrored by the CBI survey where the balance of respondents who expect a lower level of employment in the subsequent four month period fell from 45 in January to 29 in April and further to 25 in the most recent survey.

PROGNOSIS



In the absence of an upturn in export demand the rate of growth of the British economy in the coming year is unlikely to exceed two to two and a half percent. While investment demand shows signs of reviving, personal consumer expenditure and stock accumulation have probably already made the bulk of their contribution to the present recovery. Little on balance can be expected from government expenditure. There are some tentative signs already that gross domestic fixed investment is increasing, in the first quarter of this year fixed investment was some 5% above the 1982 average. But while real

interest rates remain high and the level of unused capacity significant, any revival in manufacturing investment will be delayed. The scale of output growth over the coming year is most unlikely to induce any significant reduction in the total numbers unemployed.

INDUSTRIAL RELATIONS

STRIKES

The most important national strike in recent months has been the ten week long Financial Times dispute which began at the end of May. The Financial Times management had then recently concluded an agreement with SOGAT machine room workers giving a wage increase in return for productivity improvements, involving redundancies. The SOGAT agreement was considered to have affected the customary differential between SOGAT members, who constitute the bulk of machine room workers, and the much smaller number of machine room managers who are NGA members. NGA members then claimed a sizeable wage rise with no redundancies. Management claims that the machine room has been plagued with disputes between the two unions over differentials, and had been aiming, prior to the dispute, at a self-financing productivity agreement which would bring the wage agreements of the two groups into line. To this end the management have been seeking a cut in manning in line with the agreement already made with SOGAT in the machine room. The NGA demand, however, was for a wage increase with no cut in manning. The dispute led to the appointment of a mediator, who reported on 3 July. His recommendations were accepted by the Financial Times, but rejected by the NGA. The NGA subsequently rejected a TUC appeal to accept the mediator's recommendations and end the dispute. The dispute thus continued into early August at a cost approaching £10m when a settlement close to the original NGA position was reached.

LEGISLATION

On 12 July, the Secretary of State for Employment announced, in the House of Commons, the Government's decisions following the consultation arrangements set in motion by the Green Paper "Democracy in Trade Unions" (Cmnd 8778; January 1983). The Government considers that the outcome of the consultation process indicates fairly general agreement on the need for additional legislation, and has responded with proposals for a bill to be published in the autumn, covering trade union elections, ballots before strike action, and the political activities of trade unions.

The specific proposals for legislation in these areas consist of:

(a) Trade Union Elections

Elections to the national executive bodies of trade unions are to be based on ballots conducted at least once every 5 years. These ballots would not apply to the election of Presidents or General Secretaries unless they had a vote in the governing body of the union or to elections below the level of the governing body. Ballots need not be postal but would require a system of voting in which a ballot paper is marked, and under which all union members have an equal opportunity to vote for members of the governing body. The use of the block vote or voting by a show of hands in these elections would be outlawed, as would the election of governing bodies by members of intermediate bodies.

These arrangements are to be enforced by allowing the members of each trade union, operating either individually or in groups, to challenge any election in the civil courts.

(b) Strike Ballots

Where a trade union orders or endorses industrial action by its members in breach of their contracts of employment without first consulting the affected members by a secret strike ballot, then the union would lose immunity from the civil law effects of its actions. If a union therefore calls or endorses a strike without a ballot it runs the risk of being sued and its funds would be placed at risk in any action for damages. Where unofficial action takes place, no loss of immunity occurs. Only if the action is made "official" does any question of loss of immunity arise. The results of a strike ballot do not affect this immunity, since it is expected that no union would continue with any plans for strike action which were not supported by the majority of those affected.

(c) Political Activities of Trade Unions

The principles set out in the 1913 Trade Union Act, that unions should be able to adopt political objectives and give financial support to political organisations, but that no union member should be required to give financial support in this way if he did not wish to do so, are to remain. But since the consultation process revealed some concern about the administration of these principles, some modifications to the law are proposed. The

government intends that the decision to continue operating a political fund should be tested by each union by a ballot of the total membership every 10 years with a majority of the votes cast (not a majority of members) necessary for the fund's continued existence.

On the issue of the way in which individual union members decide whether or not to pay the political levy, the government have invited the TUC to discuss this problem in order to ensure that union members are able to decide freely and effectively whether or not to pay the political levy. If this offer of consultation is not taken up, legislation will follow.

Implications

It seems likely that the election requirements set out in these proposals will not create too many problems for the trade unions. Few general secretaries have a vote in their executive committees, and although a few unions have part of their national executive committees elected by regional or by block votes (e.g. GM&BU; T&GWU), the modification of these arrangements should not prove too difficult. Nor are periodic ballots testing support for a political fund likely to create problems. However the proposal for secret ballots before official strike action is endorsed may raise more difficult issues. Will the possibilities of litigation make unions and employers seek accommodation, encouraging unions to tighten up their consultation arrangements and use secret ballots, especially since the 1980 Employment Act provides finance for this kind of purpose? Or will individual unions or employers, motivated by other principles, seek confrontation? The results will be seen in the coming months.