University of Strathclyde

The Fraser of Allander Institute

Quarterly Economic Commentary

FRASER of ALLANDER INSTITUTE

The Fraser of Allander Institute for Research on the Scottish Economy was established in the University of Strathclyde on 1 January 1975, as the result of a generous donation from the Hugh Fraser Foundation. Its principal function is to carry out research on the Scottish economy and its research programme includes the analysis of short term movements in economic activity. The results of this work are published in the Institute's Quarterly Economic Commentary. The Institute also publishes a series of Research Monographs and a series of Discussion Papers to provide an outlet for original research on medium term and long term aspects of the Scottish economy.

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QUARTERLY ECONOMIC COMMENTARY

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Outlook and Appraisal

This Commentary revises upwards our February assessment of the prospects for growth in the Scottish economy during the current year. The revision reflects several factors. The upturn in Scottish industry last year was both slower and weaker than anticipated, with the result that a greater part of the recovery phase is now likely to occur during the current year rather than in 1983. By contrast, the upturn in export markets other than the rest of the UK has proved stronger than foreseen. In addition, increases in personal tax allowances in the March Budget were almost three times as large as required by simple indexation.

Consumers' expenditure in Scotland was not the only component of demand which has had to be re-assessed after the Budget. Changes in the tax treatment of investment are likely to lead to some front-loading of projects into 1984 and 1985. All of these factors will boost Scottish GDP growth over the coming 18 months. On the basis of the Institute's Medium Term Model, the growth rate of the Scottish economy during the current calendar year is forecast to be 2.7%. Growth in 1985 is forecast to be marginally slower, but still comfortably above 2%.

The effects on Scotland of the Budget changes in corporate taxation and investment allowances may be significant. In so far as these measures cause investment projects to be brought forward, the relatively large Scottish capital goods sector will benefit in the short run. In the longer run however, if such measures depress investment, or induce marginally more labour intensive projects as intended by the Chancellor, demand for the output of the Scottish investment goods sector will be reduced, entailing further structural adjustment within Scottish industry towards the close of the decade.

It is now clear that the performance of the Scottish economy during 1983 was somewhat weaker than diagnosed at the time of the last Commentary. Non-oil related industrial production in Scotland continued to fall during the first nine months of last year. No general recovery had occurred in Scottish manufacturing by September of 1983. While survey data suggest some recovery in the final quarter and into the early months of the current year, it is clear that the estimate of 1983 growth published in the February Commentary was over-optimistic. It now appears that Scottish GDP growth last year may not have been markedly higher than 1.5%

The overall performance of the Scottish economy during 1983 was disappointing. Industrial production fell further during the first three quarters of the year even though there was a weak recovery in this sector at national level. Scottish labour market trends reflected those in output. While official estimates of significant increases in aggregate British employment in the final nine months of 1983 are difficult to reconcile with the behaviour of other labour market indicators and should therefore be treated with some scepticism, the unadulterated regional employment estimates show the Scottish labour market in the twelve months to December last to have been one of the weakest in Britain.

During that period only three other regions; the North-West, North, and Yorkshire and Humberside, experienced relatively more severe contractions in employment than did Scotland. However, while in these three regions the contraction in employment occurred during the first half of last year and was followed by relative stability or a partially compensating increase in the latter half, the same was not the case in Scotland.

While recovery in the Scottish industrial sector does not appear to have begun till the final quarter of last year, other sectors of the economy performed somewhat more strongly. 1983 was a particularly good year for tourism and, by the standards of recent years, for the construction industry. Trends in the broader service sector are difficult to identify, but recent research (see Feature Article in this issue) suggests that Scotland has probably followed aggregate British trends reasonably closely, entailing a fairly robust performance over the past eighteen months with the prospect of the maintenance of this trend into 1985.

Recent evidence suggests that conditions in the Scottish labour market may now be coming more closely into line with those in Britain as a whole. Though vacancies in Scotland turned down last Autumnn in advance of the British wide downturn and Scotland's share of unfilled notified vacancies fell from 12.5% of the British total to 10.7% over the year to April last, other more recent labour market indicators paint a slightly more encouraging picture. Scottish unemployment did not increase at the turn of the year to the same extent experienced in the British economy in general. In addition the trend in seasonally adjusted Scottish unemployment over the first four months of this year was slightly less unfavourable than the comparable British trend. Short-time and overtime working in Scottish industry, which seemed during the third quarter of 1983 to be moving in the opposite direction to that in British industry as a whole, moved back into line in the closing months of 1983. The CBI April Industrial Trends Survey suggests a slower pace of job losses in Scottish manufacturing over the coming months than that anticipated by respondents in the remainder of Britain. Nonetheless, seasonally adjusted adult unemployment in Scotland is unlikely to fall below 310,000 by the end of the year.

While the immediate outlook for the Scottish economy appears better than at any time since 1979, there are, if not spectres at the feast, several waifs at the cold table. The first is the recent reversal of the trend in interest rates, the second the jobless, and the third the festering threat to a non-inflationary global recovery. associated with the Iran-Iraq war. On the last, the government can do little. On the first, their freedom of action is relatively limited in the longer term by the linkage between international interest rate differentials, exchange rates and inflation. On the jobless, remedial action is cramped by self-imposed constraints.

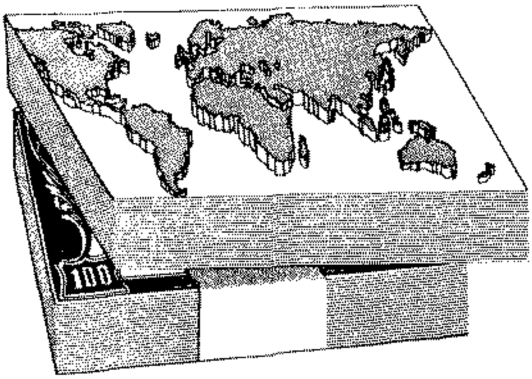
Radical action is certainly required. The spending plans in the recent Public Expenditure White paper are based on the working assumption that **registered** unemployment will remain close to present levels for the remainder of this decade. Admission of the problem should entail remedial action. Such action is particularly necessary in Scotland. While there are large monthly movements onto and off the register, with considerable numbers losing jobs each period while others move into jobs, those who leave the register have different characteristics from those who remain unemployed (see Labour Market and Regional Review sections of this Commentary). Those leaving the register tend to be younger, to have endured a shorter than average spell of unemployment, to reside in a relatively prosperous region such as Grampian, and to be female. For the unemployed who do not share these characteristics and who live in other regions of Scotland, particularly in Strathclyde, the chances of leaving the register are small and the typical spell of unemployment prolonged.

It is socially and politically irresponsible to acknowledge the problem, yet fail to devise policies appropriate to its solution. The Youth Training and Young Worker Schemes, for all their defects, have drastically reduced the duration of unemployment amongst 16-18 year olds in Scotland. A marginal employment subsidy payable on all types of labour would have qualitatively similar effects on aggregate unemployment. Such a subsidy need not inflate the PSBR, (See **Commentary** November 1983).

Such a scheme is quite consistent with the present panopoly of government incentives, though it runs counter to the rhetoric of non-intervention. Even after the Budget changes, the cost of capital remains heavily subsidised. The Chancellor committed himself to reducing the relative cost of labour to industry. The abolition of the National Insurance Surcharge and the March changes in corporate taxation are welcome nods in that direction. But they are only nods. Much more imaginative measures are required if the eighties are not to replicate the prolonged joblessness of the thirties.

May 21st 1984

The World Economy

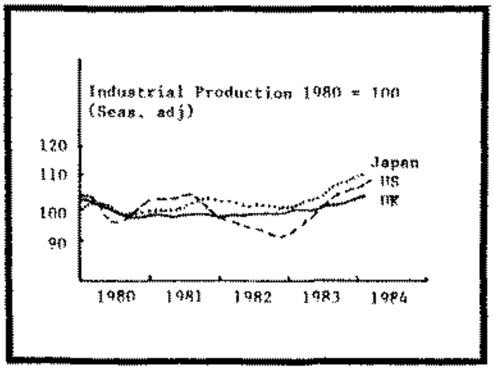


The world economy is now well into the upswing phase of the cycle, a phase which seems set to persist into 1985. A modest revival of inflationary pressure and a renewal of the upward trend of interest rates cloud the outlook. The international debt crisis continues to simmer, exacerbated by renewed pressure on dollar interest rates. Oil prices remain stable but vulnerable to escalation of the Iran-Iraq war. Labour market trends outside the US provide little grounds for optimism. The level of registered unemployment is likely to continue relatively insensitive to the recovery in output, with no marked fall in the numbers out of work likely over the course of the cycle.

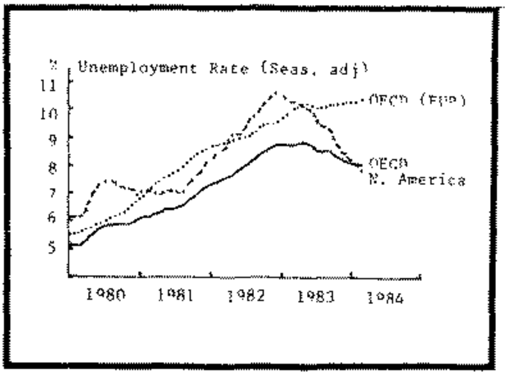
OUTPUT

GNP in the OECD area is set to grow at an annual rate of 4% during the current year. This aggregate rate conceals a considerable discrepancy between the slower pace of growth in OECD Europe, for which the forecast is 2.5%, and the more rapid rate of expansion in North America and Japan, where growth is likely to be of the order of 4-5%. Such differences in growth rates are forecast to narrow in 1985, as the overall pace of expansion slackens, with the anticipated slowdown most marked in the US and Japan. Slower growth in these two economies will be compensated to some extent by more rapid expansion elsewhere in the OECD.

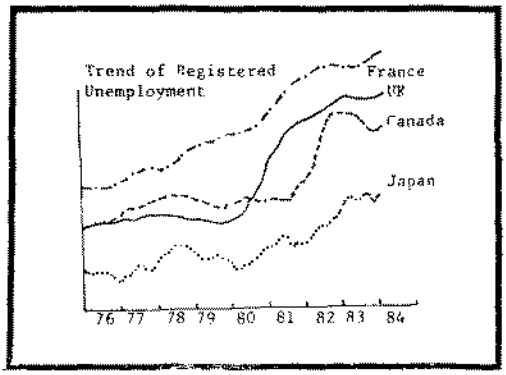
During the first quarter, the pace of growth in the US economy, far from slowing down as widely anticipated, accelerated further to an annual rate of 7.6%. If allowance is made for the considerable stockbuilding which occurred, the underlying rate of growth was a more sustainable 4 - 4.5%. This figure is likely to be repeated during the remaining quarters of this year.



Despite the prominent role played by consumers' expenditure in the 1983 upturn, recovery in most of the major economies was quite broadly based with all components of demand making positive contributions. Notable exceptions were Canada and Japan where investment continued to be weak, and the US where the trade deficit widened further. The major economies can currently be classified into three groups according to their position in the cycle. In the first are those earliest to emerge from recession and whose recovery may now be maturing. This group comprises the US, Canada, Japan and the UK. In the second are the bulk of the European economies, whose recovery lagged that of the first group by almost one year. The economies in this group are forecast to decelerate only slightly in 1985. In the third group are Italy and France, economies where the process of structural adjustment was initially delayed. Growth in these economies is likely to accelerate through 1984 and into 1985.

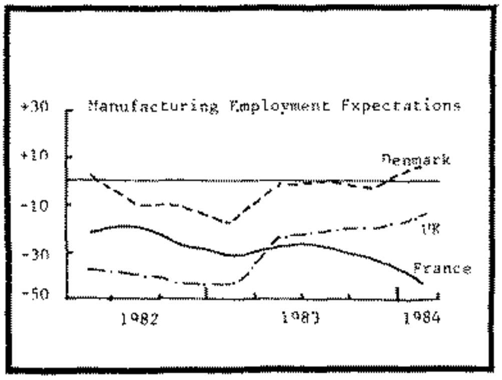


Evidence of the propagation of recovery amongst the EEC member states is to be found in the Commission's Business Survey. The balance of respondents recording an increase in output turned positive at the end of last year for the first time since the recession. Only in France and Italy is production still on a downward trend. The balance of new manufacturing orders remained strongly positive in March, for the third successive quarter, with only French industry recording a continuing shortening of order books. Reflecting the widening international character of the recovery, all except French respondents place increasing emphasis on export orders.



As industrial output expands, capacity constraints are beginning to appear. In the US capacity utilisation is close to the previous cyclical peak and the registered unemployment rate less than 1.5% above official estimates of the level consistent with stable inflation. Capacity utilisation in European industry still remains well below the peak levels of 1973 in all EEC states.

LABOUR MARKETS

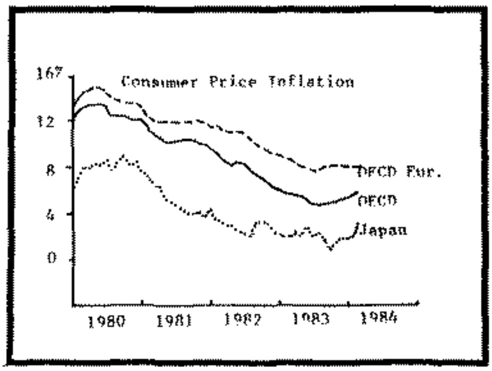


Despite the widespread recovery in output over the past twelve months, the decline in OECD unemployment during the course of 1983 and into 1984 is due almost entirely to a fall in the numbers out of work in the US. Unemployment in OECD Europe continues to increase with the renewed upward trend observed in the UK at the end of 1983 and into the Spring of 1984 far from being an isolated experience. A similar pattern can be discerned in Canada, Japan, France and Italy.

With the exception of Japan and the US, manufacturing employment continues to contract while that in the service sector expands. The results of the EEC Harmonized Business Survey in March suggest that employment in manufacturing is likely to continue to fall in member countries during the remainder of 1984, with little indication at the aggregate EEC level of any reduction in the pace of job losses in this sector. Only in Denmark is there a positive balance of manufacturing firms intending to increase employment. In Germany and the UK the pace of redundancies is forecast to slacken, while in France and Italy, the shakeout of labour from the manufacturing sector is gathering pace. There is widespread evidence of the increased use of overtime in this sector, in part enforced because the capital stock remaining after the recession is much reduced while the volume of demand is not, and in part because of a reluctance to hire additional employees who might prove an encumbrance in the downswing of the cycle. The resulting slower expansion of employment has led to renewed union demands for reductions in working hours. Employer reluctance to concede such demands unless combined with compensating wage changes has provoked industrial strife in the German metal working industry.

INFLATION

An unambiguous trough in the rate of inflation of OECD producer prices can be discerned in mid-1983, since when there has not been any significant acceleration. Nor does the trend of responses to the EEC Business Survey or the behaviour of non-food raw material prices portend any. The opposite is true of consumer prices where, taking the OECD as a whole, some acceleration is evident. The exception to this pattern is OECD Europe where consumer price inflation slowed further during the first quarter, reflecting the lag in recovery between the majority of European economies and the remainder of the OECD. However, in Britain and Germany, which were amongst the first European economies to emerge from recession, there was a slight acceleration of retail prices in the early months of 1984. In France and Italy, where recovery was delayed, inflation continues to fall, though still remaining well above rates achieved by their trading partners in mid-1983.



Productivity growth in industry remains rapid, and coupled with relatively stable wage inflation has prevented any acceleration in the rate of increase in unit labour costs. International discrepancies on this measure remain large, with such costs expressed in national currencies actually falling in Germany and the US, but rising at an annual rate close to 10% in France, and at a rate of 3% in the UK.

PROGNOSIS

The world recovery has been well established for several quarters and attention has now focussed on predicting the next downturn/slowdown. Business cycles have always been a feature of industrialised economies and have almost certainly not been exorcised by the recovery currently in train.

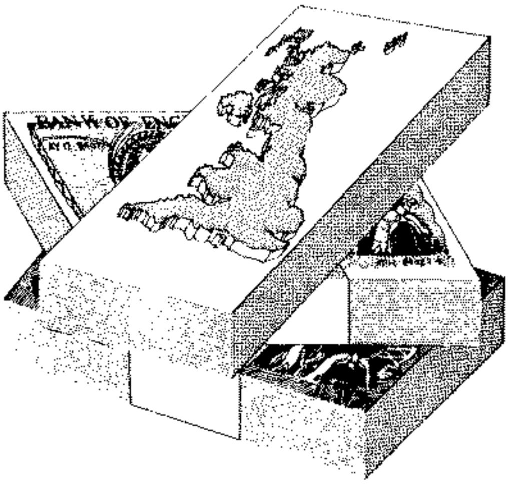
The present upturn originated primarily in the US where a combination of expansionary fiscal policy and a restrained monetary stance ensured that America exported stimulus to its trade partners through its current deficit and overvalued currency. The worldwide slowdown of inflation also contributed to the upturn as savings ratios fell and consumer indebtedness was rebuilt. These stimuli are now waning, that from across the Atlantic somewhat sooner than anticipated in earlier Commentaries. It had been assumed that the US Administration would be able to defer measures to tackle the structural component of the budget deficit till after the Presidential and Congressional elections. The continuing rapid pace of expansion of the US economy and the increasing private credit demand which it entails, coupled with a less than accomodating stance by the Federal Reserve, seem likely to force prompter and more significant action than earlier anticipated.

In the interval, US interest rates have moved upwards dragging the whole matrix of international nominal rates in tow. The effect can only be to retard the upswing and hasten the downturn. The transmission process is multi-dimensional. In the US itself the increased cost of borrowing hits housing starts and car sales and curbs American import demand. Abroad, higher interest rates imply more restrictive domestic policies particularly in less developed debtor countries. The resulting depression of living standards in those countries reduces their demand for imports from the developed world. Domestic demand in developed countries will also tend to be depressed by rising interest rates, with the consequences especially marked at this stage in the cycle when investment is in the throes of recovery.

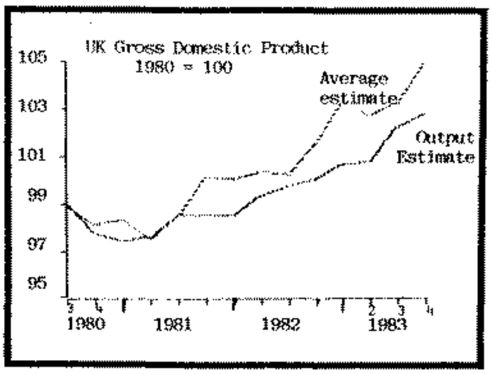
An enforced slowdown of growth may well be desirable in the US, but is almost impossible to justify in the remainder of the world's economies. The revival of inflationary pressures is not marked. Even if it were, what would be required in a world of unemployed labour would not be deflationary measures, but institutional and structural change. Excess demand can be accomodated through trade liberalisation rather than demand deflation, while monopoly price and wage fixing is appropriately tackled by legislative change rather than through the creation of unemployment.

The recent upward trend in interest rates does not spell the end of the recovery, though it will certainly dampen it. The extent of the dampening will depend on developments in the US economy. The longer the American economy remains subordinate to the President's re-election campaign, the greater will be the upward pressure on interest rates and the larger the realignment in exchange rates when appropriate measures are eventually taken.

The British Economy



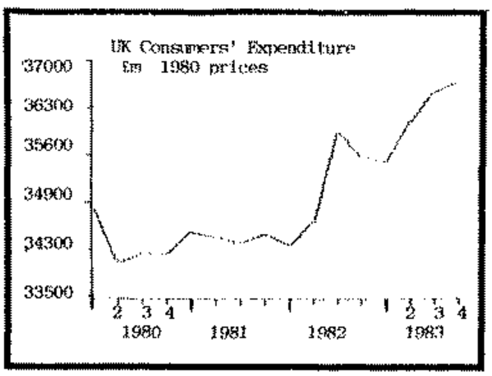
the second and third quarters, with such expenditure actually falling during the first and rising only marginally in the last. Changes in inventories exhibited the opposite time path, with large additions to stocks during the first quarter, liquidation in the second and third, particularly during the former, and some rebuilding in the final months of the year. The net contribution of the trade balance was positive only during the final quarter. Exports were stagnant in the first quarter, fell during the middle six months of the year, but subsequently recorded a historically large contribution to final expenditure in the last quarter.



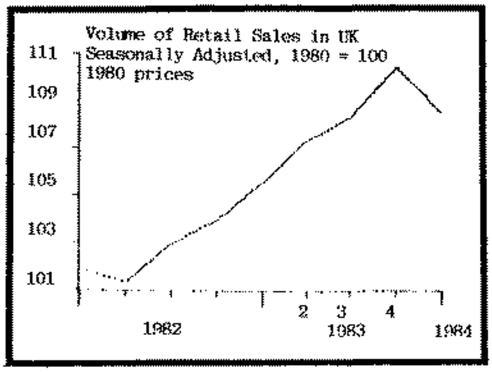
Macroeconomic Trends

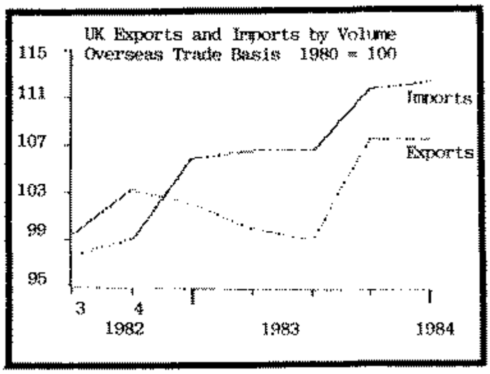
With the availability of national accounts data for the fourth quarter of 1983, the contribution of the various components of aggregate demand to last year's rapid pace of expansion can be assesed. Growth in 1983 was underpinned by consumers' expenditure to a greater degree than was the case in 1982. The only other component of demand which grew significantly more rapidly than in 1982 was the current expenditure of both central and local government. The contribution of stockbuilding was much the same as in 1982, while exports and fixed investment were both weaker. Reflecting the consumption-led nature of growth in 1983, the increase in imports during the year was particularly marked.

Taking 1983 as a whole conceals considerable inter-quarter variation in the behaviour of the individual components of demand. The bulk of the stimulus from consumers' expenditure was concentrated in

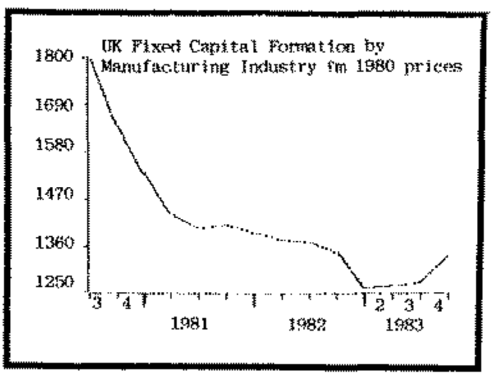


These trends appear to have been maintained during the first three months of this year with consumers' expenditure weakening further, while exports maintained momentum. Retail sales in the first quarter were below the level of the second half of 1983, and preliminary estimates of the volume of consumers' expenditure suggest a fall of the order of 1% on the level of the final quarter of last year. The first quarter's figures do not signal the end of the consumer boom. There was a similar dip in the volume of consumers' expenditure in the corresponding quarter of last year suggesting that a changing seasonal pattern of expenditure may be partly responsible. The CBI/FT Distributive Trades Survey implies that further growth in this category of demand is probable during the remainder of this year, albeit at a slower pace than in 1983. The unexpectedly large increases in personal tax allowances in the March Budget, and the recent reductions in mortgage interest rates will help to ensure such an outcome. The April CBI Industrial Trends Survey recorded strong increases in both export orders and deliveries during the first quarter and the expectation that both will remain strong over the coming four months.





Industrial production continues on an erratic upward trend with a rise in January followed by a fall during the two succeeding months, that in March partly a reflection of industrial disruption caused by the miners' dispute. The February figures are therefore probably a better guide to the underlying production trend. Over the twelve months to February output of production and construction industries combined rose by 4.3%. Even after the exclusion of oil-related production, which increased by 13.9% over the year, the performance of the industrial sector looks considerably healthier than has been the case for some years. Manufacturing output was up 4% in the year to February, with growth most rapid in the metal and chemicals and man-made fibres sectors. However, these sectors combined account for less than one tenth of industrial production. Engineering and allied industries, which contribute almost one third of total production, recorded somewhat slower growth, with output in this sector increasing only marginally faster than the index as a whole. Within engineering, there has been considerable variation in the output experience of individual subsectors. Electrical and instrument engineering recorded an



increase in output of 13% over the same period, while output in mechanical engineering actually fell by over 2%. The recovery in the industrial sector is now quite broadly based with only food and transport equipment (other than vehicles) still in the doldrums. Overall capacity utilisation in manufacturing is now at its highest level since 1975, with the lowest incidence of excess capacity amongst firms in consumer good industries, particularly in textiles, clothing and footwear, and consumer electronics.

The results of the CBI Industrial Trends Survey in April suggest that the recent pace of expansion of industrial output should be sustained over the next quarter. The Survey recorded business optimism at much the same encouraging level as in January. The fall on this indicator in October last now looks much like a hiccup. If accepted as such, business confidence has remained high since the beginning of 1983 with optimism most marked amongst firms producing intermediate goods.

Inflation continues to display little sign of significant acceleration in the short run, though some warning signs are visible on the horizon. In recent months the annual rate has hovered just above the 5% mark. Given sterling's recent weakness and the reversal of the downward trend of nominal interest rates, the official target of 4.5% inflation at year end appears unattainable. An outcome of the order of 5.5% seems most likely. Over the past year the pattern has mainly been one of monthly increases of 0.3 - 0.4%, with occassional exceptions such as January last, when the retail price index fell by 0.1%, and June and July 1983 when the index recorded monthly rises of 0.2% and 0.5% respectively. Barring sharp rises in interest rates or a sustained depreciation of sterling, monthly increases are likely to continue in 0.3 - 0.4% range, leading to relative stability in the annual rate to the close of the year.

Official projections point to a further deceleration in inflation in 1985. This seems attainable only if the authorities are prepared in the short run to continue to give priority to inflation over unemployment. The substance, if not the tone, of the budget suggests that inflation no longer enjoys primacy as a policy goal and that the time horizon for the attainment of price stability has been sufficiently extended to effectively neutralise it as a target. Containment of inflation at present levels would in itself be a creditable achievement. There are increasing signs that this may prove more difficult than officially acknowledged. The annual rate of increase of industry's input costs accelerated from 6.9% in March to 8.6% in April. Soundings from the April CBI Survey suggest an increasing willingness on the part of firms to pass such increases on in final prices, as the weakness of sterling reduces competitive pressures on both home and export markets.

THE LABOUR MARKET

EMPLOYMENT AND UNEMPLOYMENT

A further increase in employment was recorded by the Dept. of Employment's supplementary series during the fourth quarter of 1983. Given the unsatisfactory and esentially arbitrary nature of the adjustments built into this series since September 1981, which involve a cumulative addition of 65,000 persons to the measured employed labour force **each** quarter, the extent of the actual recovery in employment is unknown. The basic series, which makes no allowance for possible underenumeration, continues to record further declines, albeit at a slower pace, with job losses in the industrial sector slightly greater than job creation in the tertiary sector.

Caveats on the data notwithstanding, it is clear from the basic series that some recovery is taking place in the labour market. While the vast bulk of net job gains are in the service sector, with retailing and banking particularly to the fore in the year to December 1983, marginal increases in employment have also been recorded in subsectors of manufacturing such as footwear and clothing, timber and wooden furniture, and leather and leather goods. The only high technology sector to record an increase in employment over the course of 1983 was measuring and precision instruments.

The April CBI Survey recorded a further increase in the proportion of respondents experiencing shortages of skilled labour, though the relevant percentage for industry as a whole still remains in single figures. The sectors most affected are engineering, particularly the manufacture of office machinery and data processing equipment, instrument engineering, and textiles, clothing and footwear. Nonetheless, the Survey suggests that the contraction in industrial employment will continue over the summer, though at a declining rate.

The rate of productivity growth shows little sign of decelerating. Over the course of 1983 output per person employed in the whole economy increased by just under 4%. In manufacturing, after making the controversial adjustments to the employment figures noted above, output per person-hour appears to have increased by 6.5% over the same period. The downward trend in the number of overtime hours worked, which had been evident since October of last year, was reversed in February. However, the number of hours lost through short-time working rose significantly in January, with the higher level persisting almost unchanged into February. To what extent this is an indirect consequence of the miners' dispute is not yet clear.

The renewed upturn trend in the numbers of registered unemployed, first manifest in the late Autumn of 1983, would appear to have levelled off in April. No significant changes have been made in the definition of the registered unemployed since April of last year, so that it is once again meaningful to analyse changes in the register on a twelve monthly basis. Unemployment in April of this year was 5,000 less than in the corresponding month of 1983. Over the same period, the numbers covered by special employment and training measures increased by almost 8,000. Taking both figures together would suggest that the level of joblessness has changed little over the past twelve months.

The Dept of Employment estimate that the number of people in employment increased by 201,000 during the course of 1983. The civilian labour force is estimated to have increased by 56,000 over the same period. If even one third of the estimated net increase in employment had been accomodated from amongst the ranks of the registered unemployed, the "headline" total should have fallen by over 50,000 in the year to April. The reality is that the number on the register has been practically constant over that period. Official estimates of a strong upturn in employment should therefore be treated with some scepticism.

The rate of increase of average weekly earnings shows little sign of accelerating in the short term and currently stands at 7.75% for the whole economy. Earnings in manufacturing continue to increase more rapidly than in the economy as a whole, but again show no signs of acceleration. Manufacturing earnings in February were 9.5% higher than a year earlier. Some 2 - 3% of this figure is accounted for by increasing use of overtime. Weekly hours of work in manufacturing are currently 2% higher than a year ago. After allowing for the higher level of overtime, the underlying increase in basic weekly earnings in manufacturing is of the order of 6.5 - 7%. Earnings in the public sector are increasing somewhat more slowly, though the official guideline of 3% appears to be more honoured in the breach than in the observance. Pending settlements for nurses, railwaymen, waterworkers and teachers are likely to reinforce this trend.

INDUSTRIAL RELATIONS

The ACAS annual report, published early in May, has commented that as the economy recovers and production increases, union-management relations may well become increasingly strike-prone unless action is taken now to achieve greater employee involvement in company affairs.

Systems of participation have sometimes been seen as providing opportunities for greater involvement of employees in company affairs and hence providing arrangements which may help to solve the problems of the company. Thus Section 1 of the 1982 Employment Act which came into force in January 1984, requires companies with over 250 employees to include in their annual report a statement of actions taken during the previous financial year to establish, develop or maintain participation arrangements in the company.

Such arrangements are particularly difficult to operate where the workforce is distributed across a large number of individual units, a problem which is especially common in the public sector. It is in this sector that industrial conflict looks increasingly likely. Although gas workers, Scottish teachers and some other groups have accepted pay deals of less than 5%, civil servants, railway workers, teachers, academics and others have rejected offers at this level. Attempts to achieve such low wage agreements in 1978/79 provoked a significant reaction from the unions. Although inflation and inflationary expectations are markedly lower now than five years ago. a summer of discontent is not impossible.

Allied to conflict over wages is the growing realisation that, contrary to official expectations, the use of the law by itself has not been sufficient to produce a long-term settlement in many disputes. Thus the National Graphical Association, although accepting the legal settlement of the Stockport Messenger dispute, has now proposed revised, but still restrictive, arrangements to deal with new technology and "single keyboarding" in provincial newspapers. The proposals appear broadly to suggest that no restrictions be offered to journalists or others obtaining access to type-setting as long as they are members of the three main print unions, NUJ, NGA and Sogat '82, with these unions sharing the labour fairly equally.

The Dimbleby dispute is another case where the law by itself has brought no solution. The National Union of Journalists has been in dispute with the Richmond and Twickenham Times group of newspapers for some months; writs taken out against the National Union of Journalists, requiring it to withdraw support for a strike at this newspaper group, have been defied by the NUJ, and a complex legal wrangle continues.

Not only has the law proved considerably less potent than anticipated as a tool of conflict resolution, in addition, unions have displayed an unanticipated readiness to use the new legislation to their own ends, the most recent example being when school meals staff took their dispute to the courts in an attempt to resist pay cuts in new contracts of employment.

Important legal issues have also been raised by the most important current industrial relations problem, the miners' strike. The dispute reflects a basic difference of opinion about the future of the industry and how policy about that future is determined, an issue that might be dealt with more easily in the context of an effective system of participation. The strike itself has raised at least three important issues. Possibly most important has been the action of the police in turning away pickets some distance from the scene of any potential disturbance. This has occurred in parts of England and also in Scotland in relation to the Ravenscraig plant. The law makes it clear that road blocks may be used in this way within an area where arrestable offences are considered likely to occur. But where pickets are stopped a long way from any potential disturbance, the law is much less clear; and it is uncertain what view the Courts would take of recent police actions. A second issue has been the number of pickets arrested but not charged. This obviously raises the question of whether the power of arrest has been used excessively, and used more as an emergency action than an application of the law. These two issues lead to a third more general one. Employers, including the NCB, seem unwilling to take out injunctions against trade unions in the present dispute leaving the police to enforce the civil law and fill the gap left by the employers. This leads to the police taking on a role that they are not designed to fill and could lead to wider dangers for society in general.

It is of interest to speculate wny relatively few attempts have been made to use the law in the present dispute. Injunctions granted to the NCB against unlawful secondary picketing by Yorkshire miners have not been pressed, nor have such injunctions been sought against miners from other areas. This may well be a tactical move by the NCB reflecting a wish not to alienate miners who want to work, or it may have arisen for other reasons. Equally the law on secondary action has not been tested partly because the very existence of such legislation may have resulted in some unions encouraging rather than instructing their members to support the miners. But the limited use of the law in this dispute, compared for example with the case of the Stockport Messenger, may also reflect the greater success of the police in handling mass picketing in the coal industry. The police action has been well organised and thus far has been a major factor in the evolution of the dispute. Whether all police action in containment of picketing would stand up to testing in Court is yet to be seen.

It is also worth considering why the miners have received only limited support from other unions. This may be partly from fear of the law governing secondary action, as already noted. It may also reflect sectional interests and belated perception by union members in other industries that the narrow interests of the miners do not necessarily coincide with those of the nation's workforce as a whole. The concern of the steel unions for the future of some steel plants is a case in point. Such limited support may fundamentally reflect a broader change which seems to be occurring in the nature of the labour movement. The movement may be evolving from the role it filled in the inter-war and early post-war years when it was concerned as a unified movement with wide social issues. Now, it is argued, the British labour movement has moved significantly towards the 'business unionism' of the US, in which sectional interests become much more important than the aims of the overall movement, and wage interests become predominant. Something of this change has been reflected in recent major strikes and is appearing today in the miners' dispute.

PROGNOSIS

From searching for signs of an upturn, attention has now refocussed on the timing of the next downturn, on it's sources and on measures to forestall it. Post-Budget forecasts have generally tended towards greater optimism about prospects for 1985. The reduction in the burden of direct taxation should sustain consumers' expenditure, corporate tax changes, though discouraging stockbuilding, should lead to some front loading of investment projects into 1985, while a modest stimulus from public expenditure seems likely, government spending plans notwithstanding. Growth in 1985 is still expected to be somewhat slower than in the current year, but without the dramatic slowdown envisaged in many of the earlier forecasts.

The danger signs on the horizon, indeed already well above it, are recent developments in wage inflation and interest rates. Consider each in turn. Wage inflation failed to decelerate as markedly, or indeed as rapidly as did retail prices. Though the latter troughed at under 5%, the annual rate of increase of earnings in the whole economy never fell below 7%, while settlements in the private sector did not register even that degree of deceleration. Earnings in the public sector seem set to respond to the pent-up pressures of the last three years, with some assistance from long awaited comparability studies, which merely postpone rather than defuse demands. The largesse promised for future budgets, doubtful in any case given the unrealistic spending assumptions underpinning it, seems increasingly likely to be diverted in part to the public sector wage bill.

Interest rate trends are somewhat more problematic. British monetary aggregates continue within their target ranges, partly for technical reasons though with some assistance from Treasury overfunding. There are few domestic pressures for a renewed upward trend in interest rates. Indeed it is difficult to find such pressures in any of the major economies outside the US. It is the domestic consequences of not allowing British rates to drift upward in line with US rates which make such an increase likely. British rates, and indeed those of any major trading economy, cannot persistently diverge from American rates without some compensating adjustment in the dollar-sterling exchange rate. Attempts to hold British rates in the face of a generalised rise abroad would merely focus pressure on the exchange rate with the resultant fall reflected in the trade-weighted index.

The inflationary consequences of such a depreciation are likely to lead the authorities to acquiesce in some upward movement of British rates over the coming quarter. In particular, the perceived leeway which a fall in the effective rate, through its effect on competitiveness, would allow in wage bargaining is seen as particularly undesirable. Wage pressures are already building up in the economy, depreciation would accomodate them.

The extent of any slowdown induced by rising interest rates will obviously depend on the magnitude of the upward movement. If small, its effects will be primarily on investment. The larger the increase in interest rates, the greater the likelihood of an increase in mortgage rates and the larger the dampening effect on consumers' expenditure. Since any increase in British rates would merely mirror worldwide trends, British exporters would not be especially disadvantaged compared to their competitors and loss of sales would result from demand deflation abroad rather than any inherent loss of competitiveness.

Prospective increases in interest rates will not provoke a renewed downturn, but will slow the pace of expansion. Such an outcome would further reduce prospects for a sustained fall in the numbers out of work - prospects which are not particularly bright anyway.