

# National Institute Economic Review

## 2/98

*"while there has been helpful fiscal tightening since the election, the budgets have not had anything like the impact they might have had in reducing consumption"*

*"The downturn in Asia is starting to be felt in the West."*

### COMMENTARY

- The Economic Situation
- The Single Market

### THE UK ECONOMY

- Prospects for the UK
- Slowdown in Sight?

### THE WORLD OUTLOOK

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### RESEARCH ARTICLES

#### Macroeconomic Modelling and Uncertainty

- Treasury Forecasts Examined
- Technology Shocks and the Economy
- Output Stability in EMU
- The Simple Policy Rule as a Base for Policy Setting



## ... FROM THE NATIONAL INSTITUTE

### **Thinking the unthinkable about EMU: coping with turbulence between 1998 and 2002** edited by John Arrowsmith

It is now widely expected that on 1 January 1999 up to eleven EU Member States will form a monetary union. But before that can happen there are difficult decisions to be agreed and domestic political hurdles to be surmounted. A further 3½ years must then elapse before the euro fully replaces national currencies in 2002. The risk of a major upset occurring may be small but the consequences could be grave. A recent Institute conference considered how to reduce the risk or contain the effects of a setback to the EMU process.

*National Institute Occasional Paper no. 51*

Price: £15.00 (pp. 151) ISBN 0 952 6213 4 7

**Institute Discussion Papers are available on subscription at the discounted rate of £30 for 10 papers. Call the Institute for details.**

### **Coping with recession: UK company performance in adversity** P.A. Geroski and P. Gregg

Published by Cambridge University Press, this book looks at how UK companies dealt with the pressures unleashed by recession. Using the data compiled from a survey of 600 leading companies, Geroski and Gregg examine four main issues:

- What makes companies vulnerable to recessionary pressures?
- How do companies typically respond to these pressures?
- How have recessionary pressures been transmitted back into labour markets—and what kinds of institutional changes have they induced?
- Do recessionary pressures stimulate innovative activity?

Price: £30.00 hardback and £14.95 paperback. (pp. 214.) ISBN 0 521 62276X hardback—ISBN 0 521 626013 paperback

### **NIESR Discussion Papers**

*No. 131 Export Performance and the Role of Foreign Direct Investment by Nigel Pain and Katharine Wakelin*

This paper explores the relationship between the location of production and the trade performance of 11 OECD countries since 1971. The paper augments a standard export demand model, which includes relative prices, market size and measures of relative innovation, with indicators of both inward and outward investment levels. Common long-run parameters are accepted for market size, relative prices and relative patenting, but not for the direct investment effects. The size and magnitude of the direct investment effects vary by country. Outward investment has a generally negative impact on trade shares, while inward investment has a generally positive one.

*No. 134 Job Creation and Destruction in the Corporate Sector: The Relative Importance of Births, Deaths and Survivors by Peter E. Hart and Nicholas Oulton*

A major new database (OneSource) of UK companies is used to estimate the contribution of independent companies of all sizes to employment change in the corporate sector over the period 1990–1992. The estimates cover jobs gained and lost by corporate births and deaths as well as employment change in surviving companies. There is no tendency for the corporate birth rate to decrease monotonically with increases in company size and there is certainly no case for postulating that new companies tend to have one optimum size such as Minimum Efficient Scale. In contrast, the corporate death rate does decrease with increases in company size. Over this period the net effect of births and deaths was negative for virtually all sizes of company. Taking account of births, deaths and survivors, only companies with 1–8 employees were net creators of jobs over this period. But the absolute numbers created were fairly small to set against losses amongst larger companies.

*No. 136 The British Stake in Hong Kong: Direct Investment by Simon Broadbent and Chao-Dong Huang*

Hong Kong is one of the main locations of British direct investment abroad, but discrepancies exist in official data on the scale of it. Hong Kong figures put the (end-1995) book value of the British stake in Hong Kong at about £10.6bn, nearly three times the British figure. The authors examine the reasons, largely definitional, for the gap, and conclude that £10.1bn, some 5.1 per cent of British FDI, is a reasonable estimate. Total earnings of £2.5bn a year are only exceeded by the US. The value of end 1995 British investment was about £34bn rising to a recent peak of £55bn before falling to £26bn and then once again rising. Hong Kong's FDI in Britain only amounts to about £3bn, a third of which is property based.

For further details of all National Institute Publications please contact Annie Stewart at NIESR on tel 0171 654 1923 or e-mail [a.stewart@niesr.ac.uk](mailto:a.stewart@niesr.ac.uk)



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Dr John Kirkland  
National Institute of Economic and Social Research  
2 Dean Trench Street, Smith Square  
London, SW1P 3HE  
Tel no. 0171 654 1920  
Fax no. 0171 654 1900  
E-mail [j.kirkland@niesr.ac.uk](mailto:j.kirkland@niesr.ac.uk)  
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The *Review* welcomes the offer of high quality articles. Content should relate in some way to the explanation of economic performance (broadly defined) in the UK or internationally. There is some emphasis on quantitative research. Articles should normally be research based, and comprise 4–10,000 words, excluding tables. All articles are externally refereed, but the *Review* is able to organise quick publication in appropriate cases. Full notes for contributors are available from *Gill Clisbam*.

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