

The Inter-Regional Impact of a Balanced Budget Regional Fiscal Expansion: No Detriment, No Danger

Topic: New techniques, constructions and applications of Social Accounting Matrices

Author: Kim Swales

In the UK Independence Referendum, the Scottish electorate voted to remain within the UK. However, this did not mean that the institutional arrangements in Scotland would remain unchanged. Legislation already enacted under the 2012 Scotland Act plus that subsequently implemented from the Smith Report have given Scotland extensive fiscal powers. However, although there is a highly devolved structure for taxation and public expenditure, the Scottish economy is closely integrated with the rest of the UK and issues of policy co-ordination and misaligned incentives are almost inevitable.

The paper develops an extremely simple two-region demand-driven analytical model, which is used to illustrate the nature of inter-regional interaction that would occur as a result of devolved policy initiatives. We construct a set of two-region (Scotland/RUK) Social Accounting Matrix accounts. These are used to construct models to calculate the impact of decentralised and devolved policies. Whilst the specific case of Scotland is the focus here, the issues raised are of importance in general for spatially rebalancing the UK economy. The simulation results highlight the potential significance of inter-regional effects and the requirement for accuracy in size of inter-regional trade flows.