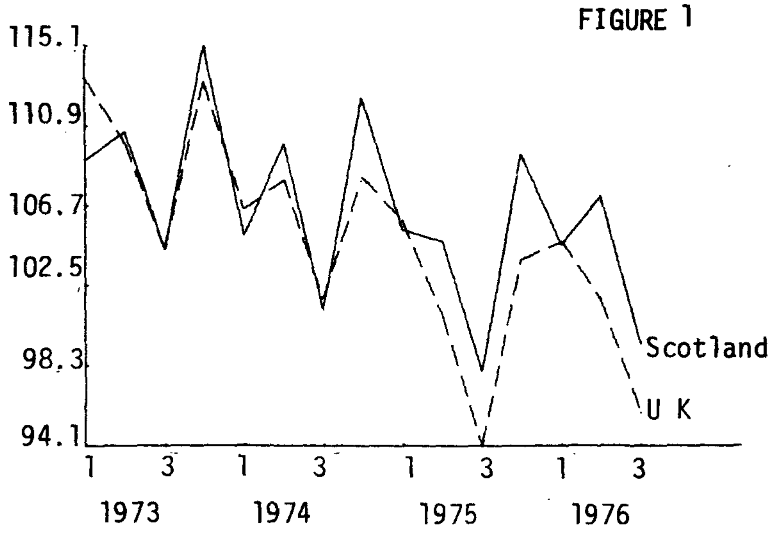
THE SCOTTISH ECONOMY

Indicators of Economic Activity

The index of industrial production for Scotland stood at 99.4 in the third quarter of 1976, (1970=100). This represents an increase of approximately 1½% on the level of a year earlier. The corresponding UK figures are 95.8 and 1¾% respectively. Figure 1 suggests that Scotland failed to maintain the favourable trend relative to the UK observed in the previous quarter. But the Scottish index is still above its UK counterpart and, as we pointed out in our last issue, has remained consistently so over the period since 1973.

INDUSTRIAL PRODUCTION: TOTAL

FIGURE 1



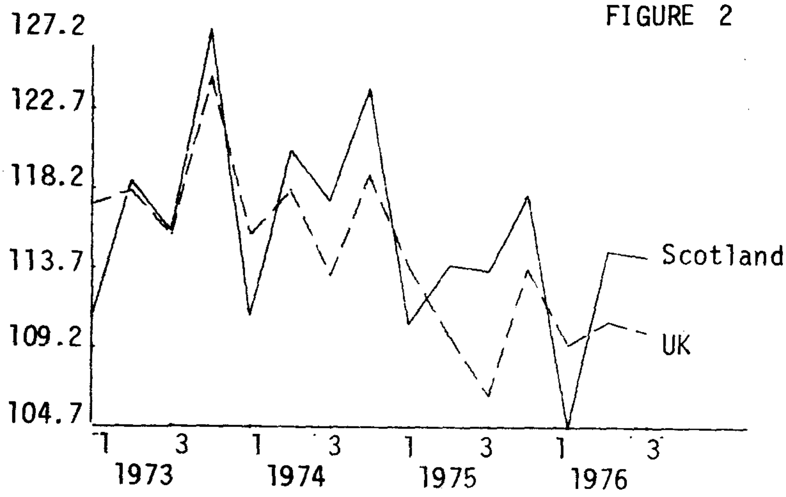
Source: S E P D

This slight year-on-year improvement in the total index arose largely from an increase in manufacturing output, with its index registering an increase of 3% for the year to the third quarter of 1976. Other important sectors were less buoyant; for example, the construction output index fell by 5%, reflecting largely the depressed state of the public housing sector, a consequence of government expenditure cutbacks.

The industrial production index is now available on a market-type basis; Figure 2 illustrates the movements of the index for

INDUSTRIAL PRODUCTION: TOTAL CONSUMER

FIGURE 2



Source: *Trade & Industry*

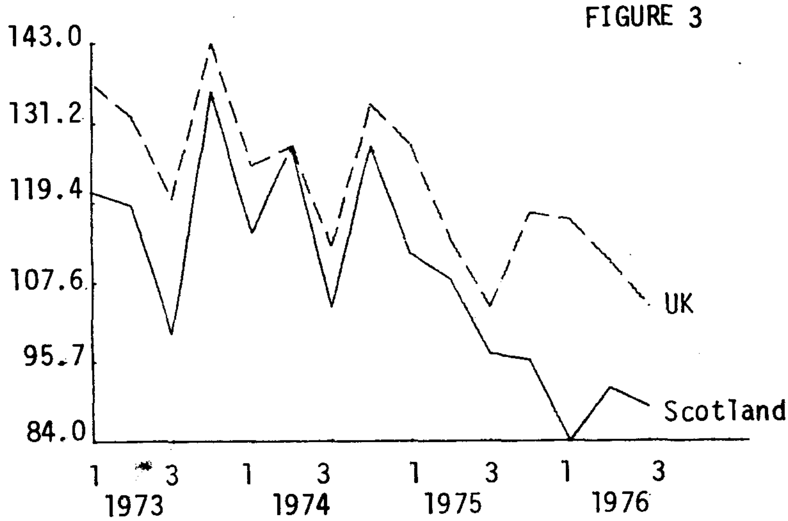
total consumer goods since 1973. In the third quarter of 1976 the Scottish consumer goods index stood at 114.4, ¾% up on a year earlier, whereas the respective UK figures were 110.1 and 3.4%. This diagram provides further evidence of a relatively better Scottish performance during the 1974/75 recession. Nevertheless, the outlook for this sector must be considered bleak as consumer expenditure in real terms has been falling in the fourth quarter of 1976 and the first quarter of 1977. This may reflect the considerable squeeze on real disposable income.

One revealing aspect of the market-type analysis is the poor performance of the Scottish consumer durable sector relative to the UK shown in Figure 2. The trend was particularly unfavourable during 1975, while a slight recovery was apparent in 1976; even so the third quarter 1976 Scottish estimate was still 8.3% lower than a year earlier.

A more up-to-date view of the Scottish economy is that it is between recession and recovery. Output would appear to be rising, albeit at a slow rate and from a low level while the limiting factor at present is order books, (i.e. lack of demand). Export prospects have improved somewhat but unless the large surplus

INDUSTRIAL PRODUCTION: CONSUMER DURABLES

FIGURE 3



Source: Trade & Industry

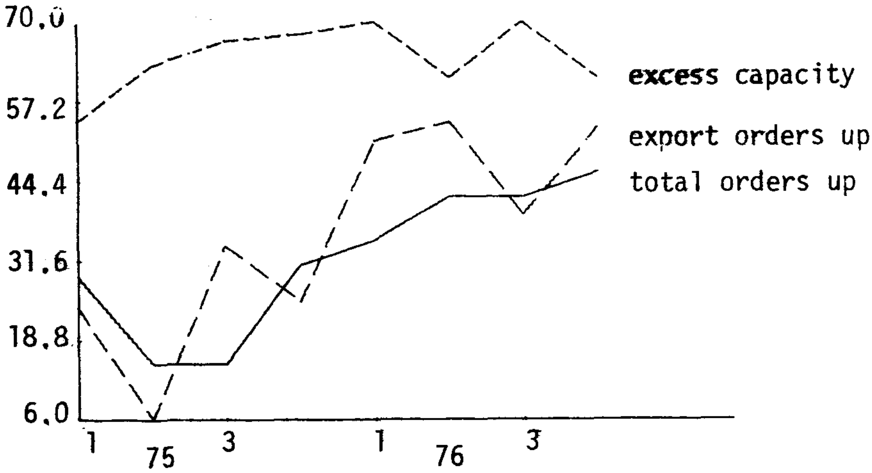
countries are prepared to accept a greater share of the world reflation burden, then Scotland may face the prospect of stagnation in her traditional export markets.

Investment intentions are relatively weak with fairly static inventory levels even in the face of falling interest rates. This may reflect a combination of mounting cost pressures, a low level of internal finance, and uncertainty about Phase 3 of the incomes policy, and the possible implications of the Bullock Report.

Nevertheless, the January CBI Survey of Scottish industry suggested an improvement in business confidence compared to the October survey. This confirms the mood of optimism, especially in financial markets, noted in our last Commentary. Figures 4 and 5 show that both Scottish and UK capacity trends were still registering some improvement even though both have only 40% of respondents operating at satisfactory capacity utilisation levels. This excess capacity position complements declared investment intentions; most sectors would appear to have adequate capacity to meet expected demand given the present internal and external economic situation. Order book trends in both Scotland and the

CBI SURVEY: SCOTTISH PERCENTAGES

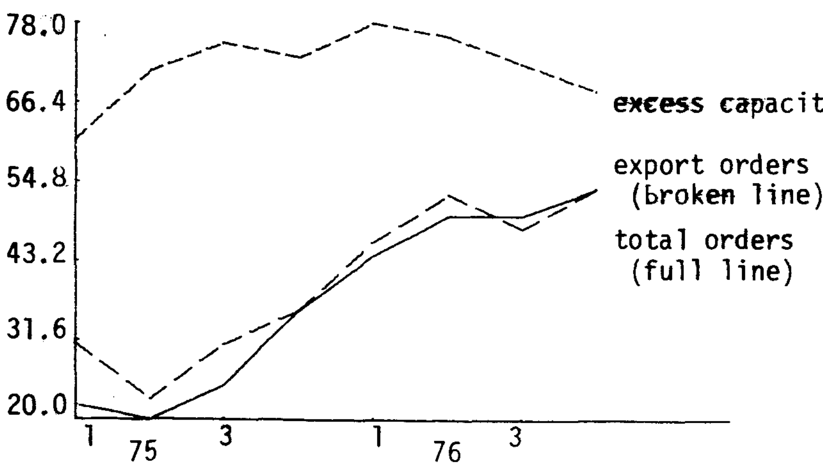
FIGURE 4



Source: *CBI Industrial Trends*

CBI SURVEY: U.K. PERCENTAGES

FIGURE 5



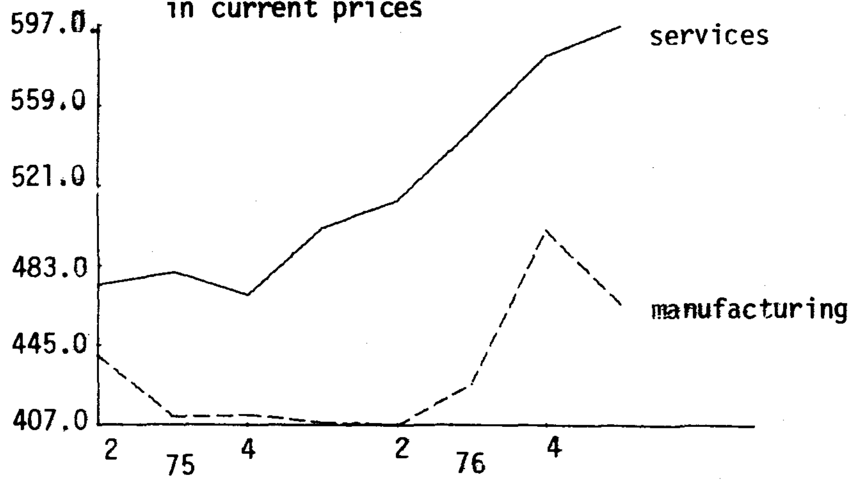
Source: *CBI Industrial Trends*

UK improved in the final quarter of last year, and expectations are for this trend to continue.

The most recent industrial production estimates, plus the more up-to-date CBI assessment indicated some buoyancy in manufacturing, although labour shedding is still taking place.

SCOTTISH BANK ADVANCES
(£m) amount outstanding in current prices

FIGURE 6

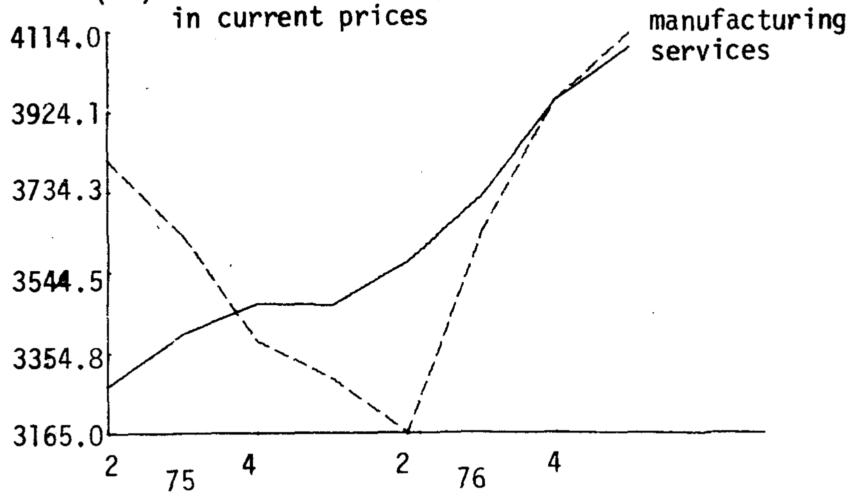


Source: Bank of England Quarterly Bulletin

Yet Figure 6 indicates a downturn in bank advances to this sector in the first quarter of 1977, which compares unfavourably with the UK position shown in Figure 7.

UK BANK ADVANCES
(£m) amount outstanding in current prices

FIGURE 7

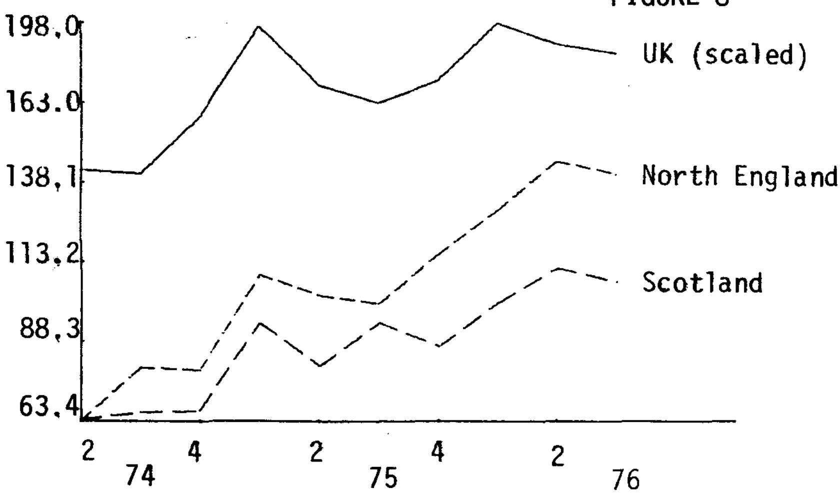


This may suggest that the December monetary constraints have had a greater effect in Scotland, possibly reflecting a greater degree of prior indebtedness. The diagrams also show that advances to the services sectors are continuing their upward trend.

Both our indicators of investment have worsened since our last issue. The Department of Industry's series on capital expenditure failed to maintain its previous upward trend, Figure 8 , although there may have been a slight seasonal effect in the latest quarter.

CAPITAL EXPENDITURE BY REGIONS

FIGURE 8

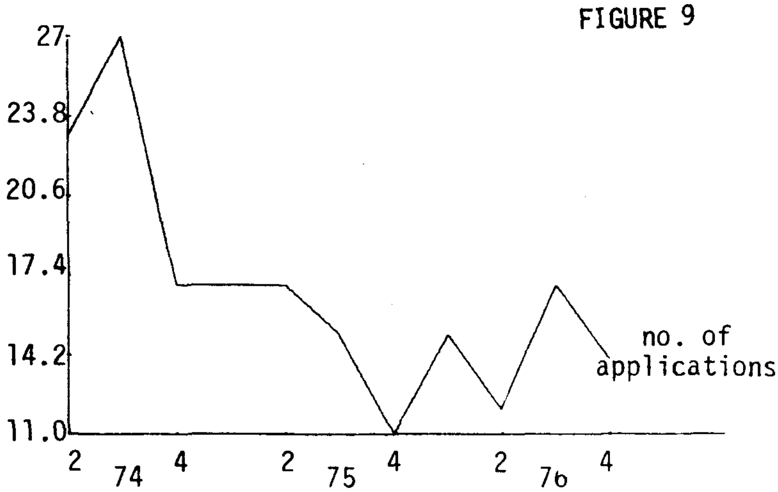


Source: Trade & Industry

The number of applications for regional assistance, also worsened in the final quarter of last year, (Figure 9). These indicators may reflect the effects of the restrictions on public expenditure.

SCOTTISH REGIONAL SELECTIVE ASSISTANCE

FIGURE 9

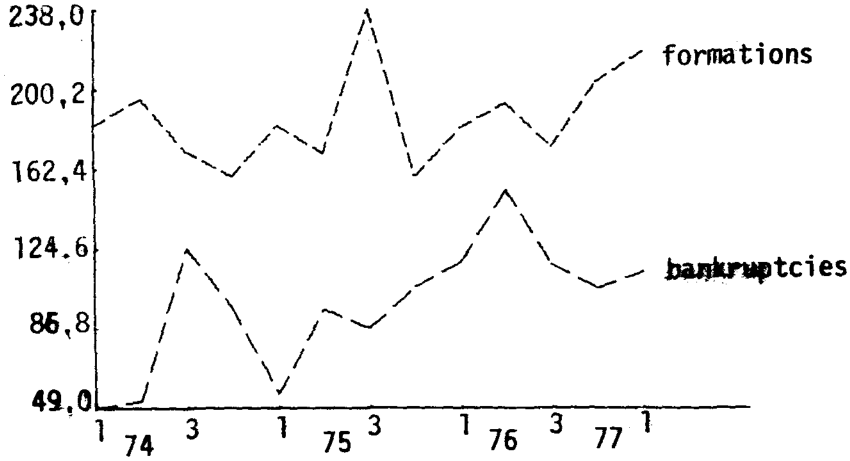


Source: Trade & Industry

Finally, Figure 10 indicates a rise in company formations in the first quarter of 1977, continuing the increase in the previous quarter. The number of bankruptcies also rose in the first quarter of this year, which may be related to the fall in Scottish bank advances to manufacturing. It may also reflect the removal of REP. At the very least, it indicates a failure to return to a greater level of profitability.

SCOTTISH COMPANY FORMATION AND BANKRUPTCY

FIGURE 10



Source: Registrar of Companies

Current Trends in the Economy

The depression in the construction industry is expected to continue throughout 1977 and 1978. At present nearly 30,000 are unemployed in the industry. The policy of containing public spending by cutting capital rather than current expenditure has been one of the major factors affecting the decline. A building trades survey revealed slightly less pessimism about the future in Scotland than in the rest of the United Kingdom.

Recent construction statistics illustrate vividly the decline in public sector expenditure. New orders received by contractors for the fourth quarter of 1976 show an increase over the same period in 1975, accounted for by a doubling of private sector orders. But public works orders comprised only 40.7% of the total compared with 59.5% over the last quarter in 1975. A regional breakdown of contractors' new orders show that Strathclyde Region only attracted 28% of new orders in the fourth quarter of 1976.

The number of private houses started in 1976 was greater than the number started in the public sector. However, the total figure has shown a steady decline since 1968. Public sector houses approved in 1976 also fell. This suggests that the downward trend in housing output may continue. There has been a rise in the number of owner-occupied houses over the last decade, although the proportion is still substantially lower than in England.

Oil production from the seven fields on stream in the North Sea is now running at 632,000 barrels, worth about £4 million, per day. Recently enhanced production from the Forties, Piper and Brent fields suggests that, by December, output will be approaching the upper end of the Department of Energy forecast of 35 to 45 million tonnes for 1977. This accounts for half the UK domestic oil requirements and suggests that the target of UK self-sufficiency by 1980 will be achieved. On the other hand, the development programme for the other fifteen commercial fields has slipped back, and new fields are not being declared commercial as quickly as originally envisaged.

Forty-four blocks were allocated under the fifth round of offshore licencing. The blocks in quadrants 13 and 14 in the Moray Firth, thought to contain the most promising prospects, are shared between the major companies. The British National Oil Corporation are participating in six licences and thus take their first equity stake in drilling operations.

At present there is an emphasis on developing existing fields rather than on exploration. Shell-Esso made a new discovery close to their commercial Auk field and drilling is being carried out by Phillips in quadrant 16 on the Thelma field. The appraisal wells on Brae field, once considered a large find, have had disappointing results. Talks of orders for a production platform for this field in the near future are now premature.

There have been delays in the development of a number of the other commercial fields. Thistle may now go on stream at the end of the year or early in 1978 rather than in October. Chevron's Ninian field has been beset with difficulties. It is due to go on stream in the first quarter of next year but production of the central platform by Howard Doris is behind schedule and there has been a strike at Highland Fabricators at Nigg where the southern platform is being built. The company has already made contingency plans if platforms cannot be installed by the summer. The Sullom Voe terminal, where Ninian oil is to be collected, is unlikely to be finished until autumn 1978 so the company will have to ship the oil by tanker until the pipeline connection is ready.

The major oil companies are maintaining a strong interest in the North Sea and have recently announced further investment plans. BP intends to invest £2000 million over the next five years, including developments at Grangemouth. Gulf will invest nearly £400 million up to 1980 and Conoco £588 million in the next five years.

The present stage of development of North Sea activity has had a significant effect on the pattern of oil-related industries that exist in Scotland and on their future prospects.

As predicted by Professor MacKay and his colleagues three years ago, oil-related employment reached a peak in mid-1976 and since then has declined slightly. A report by Terminal Operators predicts that, with a lull in exploration activity over the next few years and an increase in field development, there should be a rising demand for work vessels and maintenance, inspection and diving should become the fastest growing activities. Ferranti are in the process of developing new facilities to expand their servicing of North Sea communication equipment.

The British share of North Sea supply work was over 52% in 1975, and the figures for 1976 are expected to show a further advance. Some operators in the industry have suggested that Scottish suppliers have a reputation for late deliveries and for general inefficiency that militates against their being awarded contracts. During the last few years there has been a growing emphasis on expanding the export of offshore technology. Some Scottish firms have successfully obtained building contracts abroad, but in the long term producer countries are expected to build their own platform and drilling equipment. At this stage Scottish firms could participate in joint ventures and provide consultancy services.

The government estimates that four to six production platforms should be ordered by the Spring of 1978, although development has been slower than was anticipated at the end of last year. It is generally recognised that there was over-expansion of platform-building yrads, but a shortage of capacity may develop for steel jacket producers, which the four concrete platform producers cannot fulfil. Steel has been orderd from British Steel for a platform for Murchison field; a decision on which yard is to produce it has still to be made. McDermotts are fully engaged working on a Brazilian order and are in a strong position for further orders. Orders are needed at other yards to stop further contraction of labour and at Redpath Dorman Long in Methil to avoid possible closure. At Ardyne, they are completing two concrete platforms. There is no platform work at Portavadie, Hunterston or Methil. John Brown Engineering Offshore, the largest oil module constructors, have announced redundancies for 570 of their 850 workforce. BNOC have now placed an order at Marathon for a type 84 jack-up drilling rig. It is unsuitable for deepwater drilling, and BNOC hope to find a purchaser, although there is at present a world over-supply of these rigs. The order, a political decision, provides 9-10 months' employment for 800 at Clydebank.

The Frigg gasfield is scheduled to go into production in October: recent surveys indicate that a greater proportion of gas than originally estimated is contained in the Norwegian sector. Agreement on the division is likely before October.

A group consisting of BNOC, the British Gas Corporation and four large industrial companies, has been set up to initiate research into a system for gathering associated gases from oil fields and heavy gases for developing new petro-chemical industries. The manufacture of considerable quantities of feedstock could form the basis for an expanded chemical industry in Scotland. The government has identified sites for four ethylene plants that could be built in the UK in the next eight years, and studies show a further three or four might be warranted if a gas gathering system is introduced. If a development decision on the gas-gathering network is made within the next few years, 3 to 4 million tons of ethane for ethylene, propane, butane and methane could all be produced by the early 1980's.

If planning permission is granted at Moss Morran for the proposed Shell-Esso gas separation plant and ethylene cracker, the plants can be operational by 1981. They plan to use gas piped via St Fergus from the Brent field. In the long run an expansion of petro-chemical based products is envisaged. It is thought that BP are considering a new ethylene cracker at Grangemouth; if a more comprehensive gas gathering network is set up, Tayside and the Cromarty Firth have been mentioned as possible sites.

The outlook for the rest of the chemical industry is fairly optimistic. The Chemical Industry Association's latest survey of investment intentions shows that UK investment is expected to rise in 1977 and 1978 after the decline during 1976. Scotland is forecast to take an increasing share of this, 19% by 1979 compared to 8% in 1976. The total value of investment expenditure in Scotland over the next three years is put at £700 million, involving 1000 extra permanent jobs, with 9000 engaged temporarily in design and construction. The large companies have all recently announced investment plans. ICI is doubling capacity for dyestuffs at Grangemouth over the next two years. BP values its chemical investment in Scotland over the next five years at £450 million. ICI and Montedison plan to build a plant at Ardeer for an intermediate used in dyestuffs.

Coal output and productivity fell during 1976. The Coal Board expects to break even by 1979 and will continue its present exploration programme centered around the Firth of Forth. A subsidy of £7 million over the next five years to reduce the price of power station coal is expected to secure a five year contract from the South of Scotland Electricity Board, the main customers of Scottish pits.

European demand for steel is still falling while there is excess capacity throughout the world. The industry hopes that demand will pick up during the middle of the year but there are no signs to indicate this. Output at Ravenscraig will be maintained at near-capacity but there will be a limit on the steel produced at the older open-hearth furnaces. The £10 million modernisation of the cold reduction mill at Gartcosh, part of the Ravenscraig expansion, is intended to improve the quality of steel produced and offer a bigger range of steel to the motor industry. An order for steel for a platform for the Murchison field has been placed and this could be the forerunner of other orders later in the year.

The shipbuilding recession is expected to continue until the mid-1980's. World orders are now at their lowest level for eight years, with 90% of orders scheduled for delivery before the end of the year. In response to EEC demands for a 50/50 division of the OECD market the Japanese have announced they will raise export prices by at least 5%, restrain exports to countries where yards are in serious economic difficulties, and reduce working hours still further if the Japanese share of world shipbuilding continues to exceed 50%. Statistics of new orders for the last quarter to January 1977, indicate that European countries, including the British, have started giving contracts to EEC firms in preference to the Japanese.

After failing to respond to the crisis in the industry, the government has finally introduced some measures that may provide the foundation for an overall strategy. Uncertainty over the ownership of the industry has been resolved. Nationalisation plans, (excluding the ship-repair section), are to be implemented by the end of April.

A £65 million government intervention fund has been introduced with conditions suggesting an inevitable contraction of the industry. Funds are available, and one grant has already been made to Scott Lithgow, to enable a yard to tender at a competitive price. Funds are only to be granted to potentially viable yards and are associated with cost reduction targets and increased productivity. A state redundancy scheme and government aid for an advance factory building programme is also involved. Some trade union opinion contends that as Britain did not expand to any great extent during the great tanker boom they should not be forced to contract at this time, but some rationalisation would seem inevitable as orders become scarcer.

Unless immediate orders are forthcoming Scottish yards will be sending out further redundancy notices before the summer. They are actively seeking export orders and have submitted designs for possible Polish and Nigerian business on a government to government basis. Scott Lithgow received the first allocation from the intervention fund and a second MFC supertanker is to be sold to the Niarchos group. This means security of employment for 3000 workers at Port Glasgow for 15 months. Govan is negotiating for three large export orders, but needs work within the next month to maintain employment. Yarrows have been expecting an £80 million order from Iran for four support vessels. Due to delays in this agreement they are dependent on Royal Navy contracts being offered before the summer. Robb-Caledon in Leith are finishing their last order in June; although previously announced redundancies have been postponed, they face closure with little hope of persuading the government to finance a speculative venture. On a brighter note, two ship repair yards, previously owned by Alexander Stephen, have reopened and have already won orders. Clyde Dock Engineering have negotiated a two year no-strike flexible working agreement. Campbeltown Shipyards, who employ 130, won another order for trawlers for the Faroes, and have work until July 1978.

There was an upsurge in new car registrations in the last quarter of 1976 compared with the same period in 1975. The Scottish increase, of 20%, was slightly lower than the UK figure. UK sales for the first three months of 1977 show a rise, but imported cars continue to increase their share of the market. In March they took 45.6%.

Car manufacturers in the UK have had a troubled three months. The major expansion plans for the trucks and buses at the Bathgate and Albion works are not affected by the disruption in the Leyland car division. However, increases in productivity are said to be essential if the investment is to be safeguarded. There was a two week unofficial dispute at Chryler's Linwood plant. The launch date for the new 242 small car has aready been put back to the autumn, and only 65% of the production target for the Avenger has been met. It is in short supply, with customers waiting two to three months for the model. Chrysler UK have a target of halving the 1976 loss of £42 million this year, and achieving viability in 1978.

The SDA has announced its first large investment in a new venture. It is to invest £1 million in Stonefield Vehicles at Cumnock to produce heavy duty cross-country vehicles. This vehicle is intended to fil the gap between the Land Rover and the Bedford truck,and the prototypes have met with an enthusiastic response. Production will begin later in the year and it is hoped to have a workforce of 400 in three years' time producing 3000 vehicles a year.

Whisky production fell for the third year running and in 1976 was 8% lower,at 139.5 million gallons, than in 1975. The decline slowed down in the second half of the year and there is cautious optimism in the trade that production will increase in 1977. Orders in 1977 have already improved. Lower interest rates and higher export and home prices have improved the cash flow and made producers more confident about laying down stocks. It is thought that where companies looked for a 6-8% world sales growth in the 1960's, this has been revised downwards to 4-5% in the light of reduced estimates of demand. Sales in 1976 rose in volume by 3.6% with the UK market showing a 14.4% growth. The fiscal policies of some overseas countries may be acting as a constraint on overseas sales growth. The French, for example, have recently raised the taxes on whisky relative to home-produced brandy. Exports overall were up by 19% in value but only 1.7% in volume in 1976. There has been an interesting shift in the composition of the export trade: bottled blends rose by 7% while bulk blends fell by 14.5%.

The January CBI Survey reported an increase in the volume of output for the textile industry in Scotland. Expectations are that the rise will continue, with a slight increase in employment. There was greater optimism about export prospects than previously. The tweed sector is particularly buoyant, Scottish tweed and textile exports were at a record level in 1976. Recent information from individual companies confirms the upward trend in output and employment, although there is some concern about future cost escalation. There have been a number of closures, mainly smaller firms.

The farm census published at the end of last month showed that although full-time male employment in agriculture in Scotland fell by 1% for the first time in many years, the overall labour force rose by 2%, by comparison with the same period (January-December) 1975. The census also showed increases in the pig herd (2%) and poultry (5%), but decreases in sheep (1%) and beef (1½%). The census reports the total number of beef heifers in calf is down 8% from the previous year, and the number of heifersintended for breeding is down 9% for the same period. The EEC's latest forecasts predict a 9% fall in beef supplies in Britain this year.

Lamb is becoming increasingly popular in France, helped by the devaluation of the pound, but home supplies are expected to drop this year. Scottish breeders exploited this potential export market at the recent Paris Agricultural Show. Most of the Cheviot sheep on show were bought by French breeders, and in a lamb carcase competition, British sheep took the first three places.

While all sides agree that conservation measures are essential for the future of the fishing industry, there is widespread disagreement as to what these measures should be, and how they should be implemented. The present measures are considered to be damaging to the industry in Scotland. For example, the restrictions on herring fishing have brought warnings that the Scottish herring processing industry may not survive the year, with the loss of 10,000 jobs, mainly in small communities such as Fraserburgh, Mallaig and Ullapool. There have been calls to the government to take steps to stop all herring fishing in the areas where herring at present are congregated. This would be a drastic step, involving considerable sacrifice for the Scottish herring fleet, but a stop-gap measure for the processing industry would be to import Canadian herring for processing here.

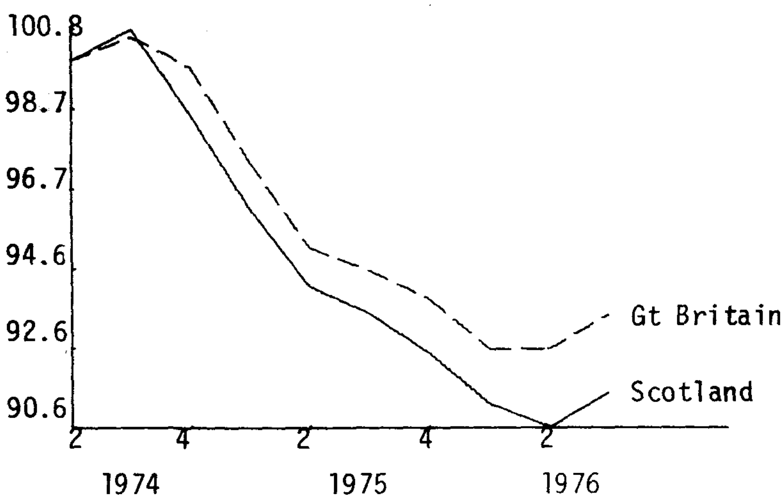
Crews working from ports in the North East are operating self-imposed quotas of 30 cwt of haddock per man per 7 day week. This is an attempt to minimise the effects of any quotas the EEC may impose. The catch of white fish was spectacularly up in value in the first two months of this year compared with the same period in 1976, but there are fears for how how much of the quota this represents. The fishermen have been told that the quota will not be as high as last year's, and could quite possibly be almost reached already.

Employment and Unemployment

The most recent Department of Employment estimates suggest an increase in employment from 2,072,000 to 2,078,000 between the second and third quarters of 1976 in Scotland. Although in part this rise may be explained by seasonal variation, the rise in manufacturing employment was the first which had occurred since the second quarter of 1974. (See Figure 11). Employment in services (see Figure 12) remained constant at 1,182,000 bringing to a halt its upward trend. The overall expansion was not distributed evenly between the sexes - a rise of nearly 7,000 in male employment was accompanied by a small fall in female employment. This decline in employment opportunities for women will have no doubt been caused by the slower growth of the services sector vis-a-vis manufacturing.

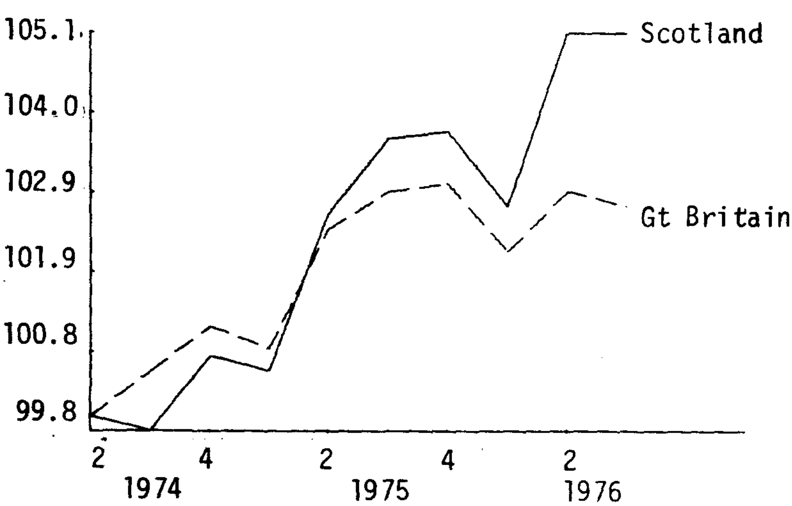
A further indication of the deteriorating position of female employment can be gained by an examination of the sex composition of the unemployed. In an earlier Commentary we pointed out that females formed an increasing proportion of the unemployed. That proportion has now risen from 18% in mid 1974 to a high of 30% in March 1977. Although, as outlined above, employment

EMPLOYMENT IN MANUFACTURING FIGURE 11



Source: Department of Employment

EMPLOYMENT IN SERVICES FIGURE 12



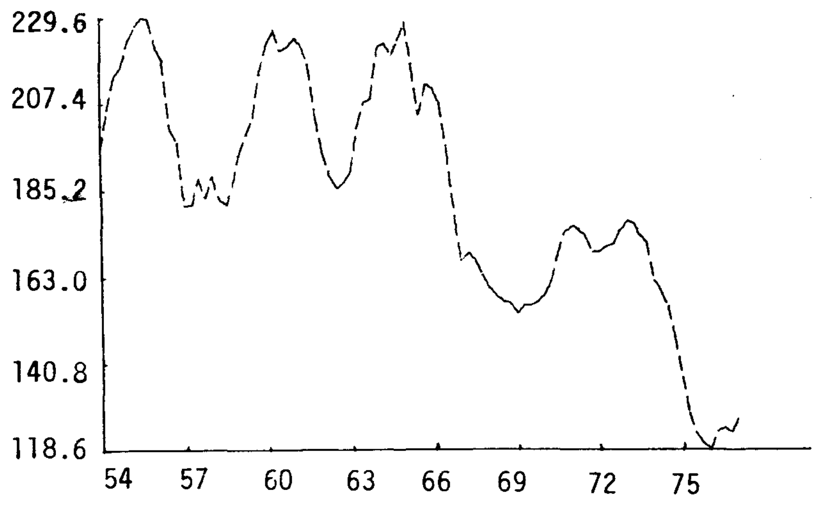
Source: Department of Employment

opportunities for females are deteriorating more rapidly than for males, some part of the increase in female unemployment may be illusory in the sense that it may result from an increase in the propensity to register rather than from an actual increase in unemployment. The majority of registered unemployed females are single, though the proportion of married females amongst the registered unemployed rose from 10.5% to 12.7% between March 1975 and March 1977. Improved social security and unemployment benefits, only available to those registered as unemployed (but not generally to married females) may have provided the extra incentive to induce registration among single females.

The unemployment relative, Scottish unemployment/GB unemployment (seasonally adjusted) - see Figure 13 - at 12.8% in March 1977 rose from 12.6% in February 1977 - 0.8% above its record low of 11.8% in February 1976. Although this small increase is

UNEMPLOYMENT RELATIVE*SCOT/G.B. 1954-77

FIGURE 13



Source: Department of Employment

disappointing the relative still shows no clear trend indicating a return to previous, much higher, levels. Nevertheless, the slight deterioration in the relative means that Scotland's unemployment rate, at 8.1%, is above that of any standard region in Great Britain (see Table 1). In March 1976, in contrast, Scotland's unadjusted unemployment rate was exceeded by those in Wales and the North, and equalled by that in the North West.

In explaining Scotland's relatively poor position in March 1977, three factors ought to be taken into account:-

Table 1 — Unemployment and Vacancies in the Regions of Great Britain, March 1977

	Unemployment 000's	Unemployment Rate	Vacancies 000's	Unemployment/ Vacancies
South East	325.4	4.3	67.8	4.8
East Anglia	37.0	5.3	4.4	8.4
South West	109.1	6.9	10.1	10.8
West Midlands	123.0	5.4	11.4	10.8
East Midlands	75.0	4.9	11.5	6.5
Yorks & Humberside	109.5	5.3	13.7	8.0
North West	192.3	6.8	13.9	13.8
North	102.6	7.7	10.1	10.2
Wales	79.0	7.5	6.4	12.3
Strathclyde	102.1	9.5	7.3	14.0
Rest of Scotland	73.3	6.5	8.2	8.9
Scotland	175.4	8.1	15.0	11.0

Table 2 — Unemployment in the Scottish Regions

	October '76 000's	March '77 000's	% Change	Unemployment rate
Highland	4.6	6.0	+31	8.7
Shetland	0.2	0.2	+17	4.2
Orkney	0.2	0.2	- 9	3.9
Western Isles	1.1	1.2	+ 7	14.8
Grampian	6.2	7.4	+19	4.4
Tayside	10.7	12.4	+15	7.5
Fife	8.5	9.8	+15	7.5
Strathclyde	94.1	102.1	+ 9	9.5
Lothians	20.0	22.6	+13	6.8
Central	6.9	7.6	+11	6.9
Dumfries & Galloway	4.0	4.3	+ 6	8.5
Borders	1.5	1.6	+10	4.2
Scotland	158.0	175.4	+11	8.1

(1) Scotland had a school leaving date in December which was not shared in England and Wales. Thus a large proportion of unemployed school leavers in Great Britain - 30.5% - were registered in Scotland in March 1977. The seasonally adjusted unemployment rate excluding school leavers shows a substantially narrower margin between Scotland and the English regions and Wales. Scotland's seasonally adjusted rate of 7.4% is equal to that of the North and only 0.2% above that of Wales.

(2) It should be borne in mind that seasonal adjustment procedures impose a fairly rigid pattern on data and lack flexibility to take account of "unseasonal" conditions. The relatively severe weather conditions recently may have not been fully accounted for by the current set of seasonal adjustment weights and in consequence, the seasonally adjusted unemployment figures may be somewhat overstating the trend level of unemployment. Again this effect may well have been stronger in Scotland, which is always subject to relatively large seasonal variations, than in the rest of the country - thus adversely affecting the seasonally adjusted unemployment relative.

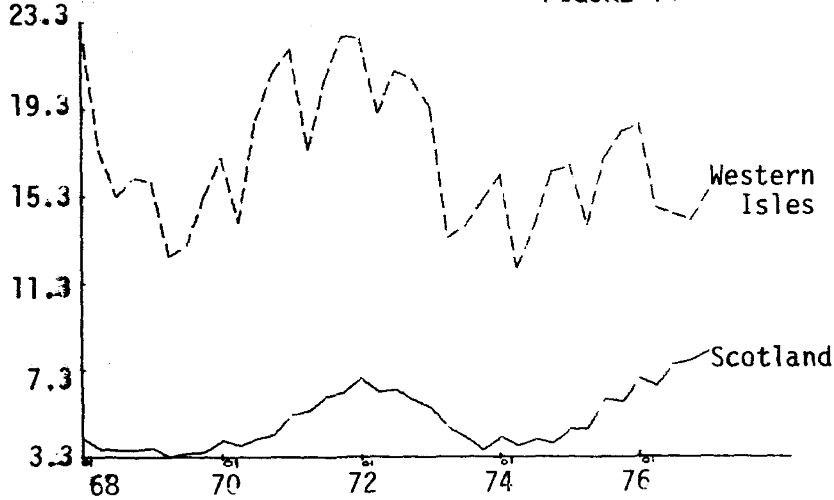
(3) Lastly, and most ominously, Scotland may now be lapsing into its traditional position as being the last area of Great Britain to emerge from a recession. Whereas the previous two factors give rise to some hope for improvement in Scotland's relative position in the near future, this last point implies continued deterioration. However, as stated above, no clear trend in the relative has emerged over the past six months, so it remains to be seen how the above factors will affect the unemployment relative over the next six months.

Regional and Local Unemployment

Within Scotland, regional unemployment rates rose considerably between October 1976 and March 1977 (with the exception of Orkney where, as a result of high demand for labour in oil-related activity, unemployment actually fell by 9%) - see Table 2. Orkney, Shetland, Grampian and Borders regions were the only regions where unemployment lay below the Great Britain rate of 5.8%

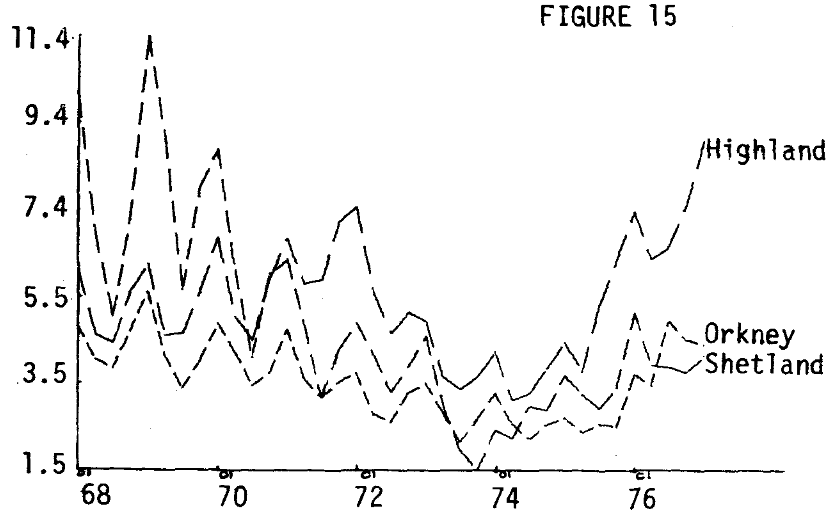
REGIONAL UNEMPLOYMENT RATES, 1968-77

FIGURE 14



REGIONAL UNEMPLOYMENT RATES, 1968-77

FIGURE 15



Source: *Department of Employment*

In the larger Scottish regions rises in unemployment over this period were clustered around 11%. Strathclyde, which started from a higher base than other regions and where the seasonal component is smaller, experienced a rise of 9%. The lull in development work in the oil industry is reflected in particularly sharp rises in unemployment in Grampian (19%) and Highland (31%). Unemployment rates in the regions are plotted in Figures 14-18.

District Variations in Unemployment Rates in Scotland

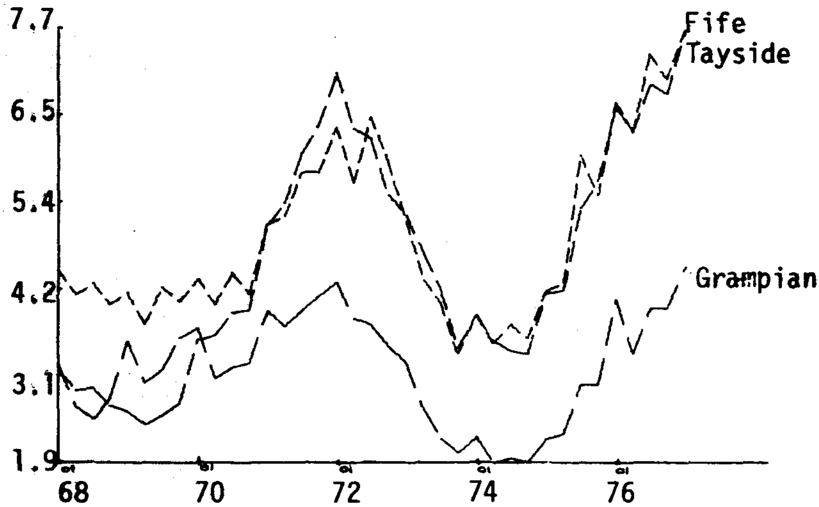
Focusing on aggregate regional rates of unemployment (which are high enough in themselves) obscures the extent to which there are wide differences within regions: some areas are consistently, and significantly higher than the regional rate, with others being lower. Moreover, localised extremes of high unemployment rates are common to both "low rate" regions and "high rate" regions. These extremes are perhaps overlooked, because on the basis of disaggregated figures of the unemployed concerned, they seem "small" relative to the national figures. Nevertheless, it is precisely at the level of the local economies that distress and waste through unemployment are experienced. These pockets of persistently high rates of unemployment reflect perhaps the extent to which traditional structures that fail to adopt to new opportunities, tend to bear the brunt of adverse economic trends.

With respect to regions displaying higher than average unemployment rates, the Western Isles stands out at more than double the Scottish average, and among males the situation is even worse, standing at 23% average over the last two years. The problems of this region are well documented, and provide a constant reminder that the Scottish economy does not consist solely of a belt from Aberdeen to Glasgow. Among factors contributing to the extremely high rate in the Western Isles are the problems in fisheries, local construction and textiles, and the related problem of underemployment in some crofting districts.

But even within regions that have been consistently lower in unemployment rates than the Scottish average, local extremes of unemployment exist. For example, Fife Region has been relatively successful in overcoming the economic dislocation of the 1960's when the contraction of cola mining caused over 12,000 jobs to disappear. The region, by positive action of regional and local authorities (with recently the contribution of the SDA) has successfully developed a broad, modernised industrial base (plastics, electronics, paper, engineering, oil related

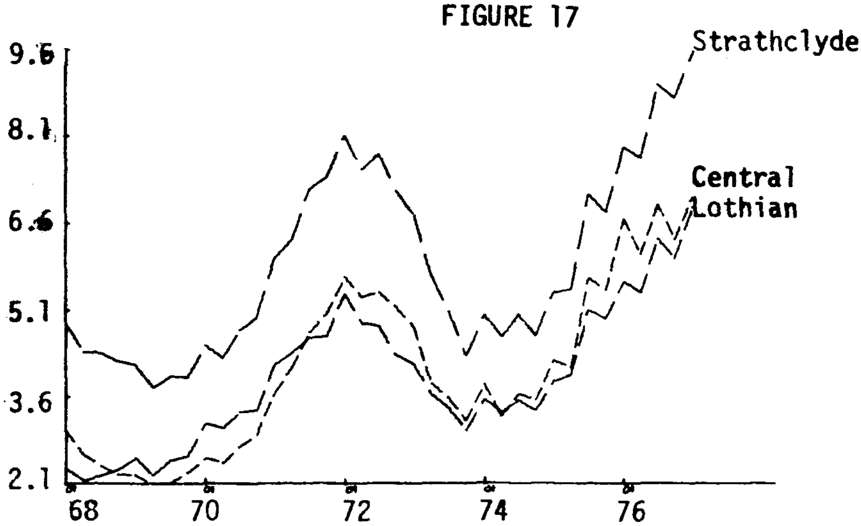
REGIONAL UNEMPLOYMENT RATES: 1968-77

FIGURE 16



REGIONAL UNEMPLOYMENT RATES: 1968-77

FIGURE 17



Source: *Department of Emploment*

developments etc.) which has seen a net gain of 20,000 jobs to the region, reflected overall in a rate of unemployment lower than the Scottish average over the last two years - 6.5% compared with 6.8%. Amongst males the difference is particularly marked: 6.5% compared with the Scottish average over the period of 8.3%. However within Fife some employment districts do not reflect the position of the region relative to the national unemployment rate: for example Cowdenbeath (traditionally a mining district) and Anstruther (seaport, boat-building, holiday resort). Anstruther over the period has had an average rate of unemployment of 10%.

The Grampian Region has benefitted most from oil-related developments, and this is reflected in a relatively low average rate of unemployment over the period of 3.6% (4.4% for males and 2.4% for females). But even here,there are employment districts such as Buckie and Forres which display very high rates of unemployment. The latter district has averaged 9.6% over two years, with 7.9% among males and 12.8% among females. These districts have not in general been integrated into the oil-economy; while their traditional structure (some textiles, fising, boat-building, net and rope-making, distilling, saw-milling, agricultural engineering etc.) has shared in the general economic malaise with few job-expansion opportunities. And to the west of these districts, entering the Highland Region, similar problems of high unemployment rates are faced by districts such as Dingwall and Invergordon.

Strathclyde Region over the period has been higher than the Scottish average; 7.9% compared with 6.8%. while among males the difference is 9.6% comared with 8.3%. Within the region employment districts as far apart as Cambeltown, Kilsyth and Lesmahagow have employment rates conspicuously higher than the high regional rate. Lesmahagow for example, has an average rate of unemployment over the period of 17.6%, with 19.6% among males, and 14.7% among females. Kilsyth and Lesmahagow share some common features; both suffering from the contraction in mining, and to some extent from the depression in textiles, with little provision in the local economies of new job opportunities. (Though in the Lesmahagow district one major employer is involved in oil-related work. But perhaps significantly the company involved is not indigenous - it is non UK - having arrived in 1968.

The Dumfries and Galloway Region is marginally higher in its unemployment rate than the Scottish rate, at 7% overall, 8.9% among males and 5.8% among females. But again some employment districts display extremely high rates - such as Newton Stewart, Stranraer and Sanquhar. The latter employment district has an average over the period of 15%, sharing some characteristics with such as Kilsyth and Lesmahago in that mining was a major employer, and a tradition in textiles.

To some extent the problem of localised extremes of high unemployment is recognised by central government. In this light can be seen the recent "upgrading" to Special Development Area status of Dundee, Arbroath, Kilbirnie, Cumnock and Lanark - covering 130,000 employees. The essence of their new status in terms of measures to create new jobs is that:-

(a) firms in Special Development Areas qualify for a grant of 22% on new buildings, plant and machinery (as compared with 20% in Development Areas),

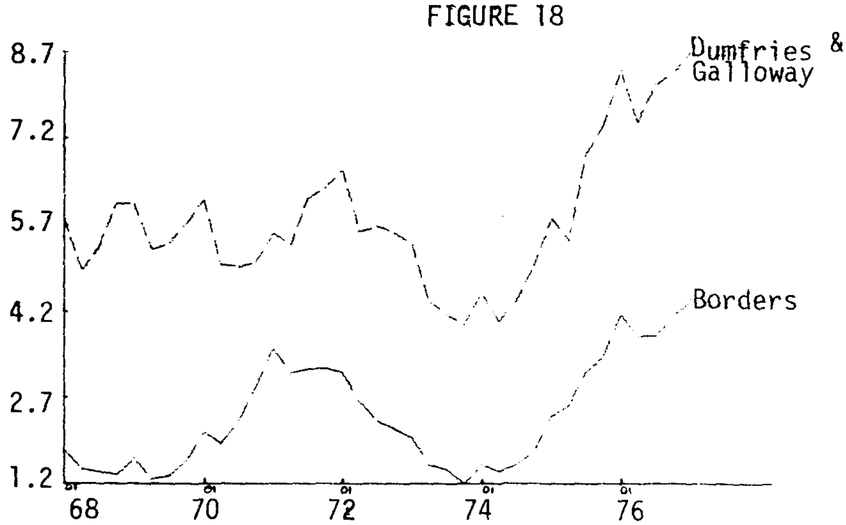
(b) there is access to a fuller range of selective financial assistance, and,

(c) firms qualify for job creation assistance.

The extent of the problem of high unemployment is reflected in the fact that now more than half of the total Scottish workforce will live in areas which qualify for the maximum governmental help in attracting and encouraging industrial development and job expansion. However, whether Special Development Area status is in itself sufficient to tackle the problem of localised extremes of high unemployment must remain doubtful, especially since the existing Special Development Areas have long contained employment districts characterised by such extremes.

REGIONAL UNEMPLOYMENT RATES · 1968-77

FIGURE 18



Source: Department of Employment

Outlook for the Future

The Scottish economy is between recession and recovery. If one were to judge the future only by prospective aggregate demand, then the outlook would be one of prolonged stagnation. Certainly, the slow growth which is foreseen for world trade is bound to keep order books low for many of Scotland's traditional export industries. Whatever the outcome of the negotiations concerning the next state of incomes policy, even if there is no agreed policy at all, it is difficult to foresee any rapid expansion of the UK market. While particular groups may benefit from the absence of an incomes policy, the government will feel bound to contain the overall growth of domestic demand.

However, factors affecting specific industries may be as important a determinant of the level of output and employment in Scotland as the level of aggregate demand. The factors depressing demand in the construction and shipbuilding industries show no signs of lifting over the next twelve months. On the other hand, prospects in the textiles, chemicals and certain branches of the engineering and the services sectors are encouraging. Even in construction, if some of the major projects in oil and gas-related activities which have recently been envisaged, were to be started soon, then the problems of the industry in some regions of the country would be considerably alleviated. Once again, one is compelled to recognise, when studying economic conditions in Scotland, the very different circumstances in each industry, and in each region. Overall, the indicators which are available suggest that aggregate output is growing very slowly, while the total number of unemployed may be slowly increasing.

There was an unprecedented rise in the seasonally adjusted unemployment - from 150,500 to 160,300 between October and January. Though some commentators expected a further sharp increase after January the trend level of unemployment has increased only slowly since then - and stands at 162,100 in March. We expect that the seasonally adjusted figure will gradually increase to 167,000 by October 1977, while the actual figure may well exceed 190,000 in July when the full impact of the summer school-leaving date is felt.

There have been one or two recent developments in the Scottish economy which may be significant for the future, and therefore are worthy of comment.

First, it has now become clear that official estimates of the amount of oil which can be produced from the North Sea in the early 1980's had to be revised substantially upwards. Despite the delays in the development of the fields declared to be commercial but not yet on stream, evidence is that production could reach 150% of UK self-sufficiency by 1985. There are already some indications that the government is dragging its feet on new exploration, which suggests that a change of official policy towards a slower rate of depletion is in the offing.

Secondly, and perhaps related to the first point, is the apparent firming-up of investment intentions in downstream oil and particularly gas activities. Although these may not exert a perceptible effect on the economy over the next six months, except on business confidence, nevertheless they are encouraging portents for the future.

Thirdly, the Scottish Development Agency has demonstrated its serious intentions to act as a provider of risk capital, by taking equity in a wide variety of businesses, ranging in size from very small to multi-national, mostly in engineering. It is true that no-one can tell whether venture capital is the critically scarce factor in Scottish business, or as suggested elsewhere in this issue, it is the shortage of entrepreneurs themselves which is the limiting factor. Nor can one tell whether the structure of incentives is right, nor whether the commercial judgement of the Scottish Development Agency is sound. What does seem certain is that the Scottish Development Agency is at least trying to do the right thing. In view of the huge sums of public capital annually wasted on activities which are counter-productive, it is to be hoped that the SDA's attempts to stimulate productive investment will not be limited by shortage of funds.

NOTE

Entrepreneurs in Scotland

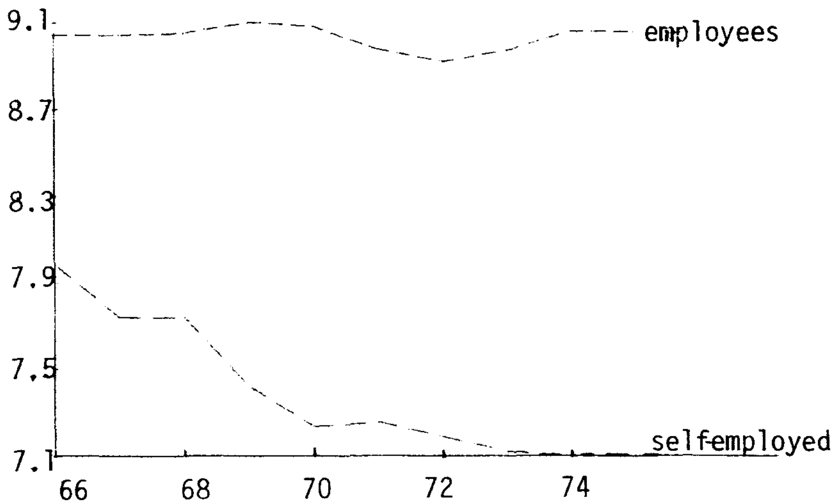
Many commentators have argued that a root cause of Scotland's economic malaise is a shortage of entrepreneurial ability. Of course, such a shortage is difficult to quantify and, as yet, no definitive study of this area has been undertaken. Recently, however, some indirect evidence has been provided by the Department of Employment. Estimates of the number of employers and self-employed people in each region of the UK have been compiled from census and Department of Health and Social Security data for the years 1966-1975. The most significant features of these data are:-

(1) Scotland has a much lower proportion of total UK employers and self-employed than it has of employees. Between 1966 and 1975 9.1% of all UK employees worked in Scotland. The corresponding proportion for employers and self employed was much lower, at 7.4%.

(2) Although the number of employers and self-employed people in Scotland increased marginally from 135,000 to 137,000 between 1966 and 1975 the rise in the UK as a whole was substantially larger - from168,100 to 192,500. Thus the proportion of Scots employers and self-employed in the UK total has diminished over the period - it now stands at 7.1%. See Figure 19.

SCOTLAND/U.K. EMPLOYMENT RATIOS : 1966-75

FIGURE 19



Source: Department of Employment

(3) At the UK level, where industry totals are available it is clear that declines in industries such as agriculture and distribution have been more than offset by a rise from 173,000 to 438,000 in the number of self-employed workers in the construction industry between 1961 and 1974. This increase will, no doubt, reflect the advantages to construction workers operating on a "lump" system.

(4) Slow growth in the number of employers and self-employed is common to the other depressed regions - the North and North-West of England, and Wales as well as Scotland. Aside from Wales these regions also have a lower average proportion of employers and self-employed than their employment relative would lead one to expect.

Main implications from these findings are:-

(a) that, as many people have suggested, there is a relative shortage in either the supply of, or the demand for, risk-takers in the Scottish economy. Unfortunately,one cannot identify, from these data, the sectors in which shortages are most marked. It might well be argued that the Scottish education system is biassed towards encouraging people to seek employment rather than conditioning them to accept the risks of self-employment.

(b) a shortage of employers and self-employed people within Scotland will imply a relatively low level of domestic control of the economy. This is a corollary to the arguments of Firn* and others on the level of external control of the Scottish economy.

(c) these data only identify the quantity of entrepreneurs operating in Scotland - in no way is it possible to make deductions regarding the quality of entrepreneurial skills without a more detailed survey.

* See, for example J Firn in
* G Brown (ed) The Red Paper on Scotland. Edinburgh 1975

(d) Paragraph 4 above suggests that there may be a coincidence between areas of low economic growth and areas with relatively small numbers of employers and self-employed persons. However, the causal mechanism behind such a correlation is not clear. It may be (i) that the lack of risk-taking entrepreneurs has caused the local economy to stagnate, or (ii) that economic stagnation has caused persons with entrepreneurial skills to take them elsewhere, or not bring them to their fullpotential.

The true explanation may well be some combination of (a) and (b). However, in the Scottish case, the more (a) can be shown to be valid the more important it is to consider policies, slightly different from the current set and more aimed at encouraging risk-taking (perhaps in specific sectors).