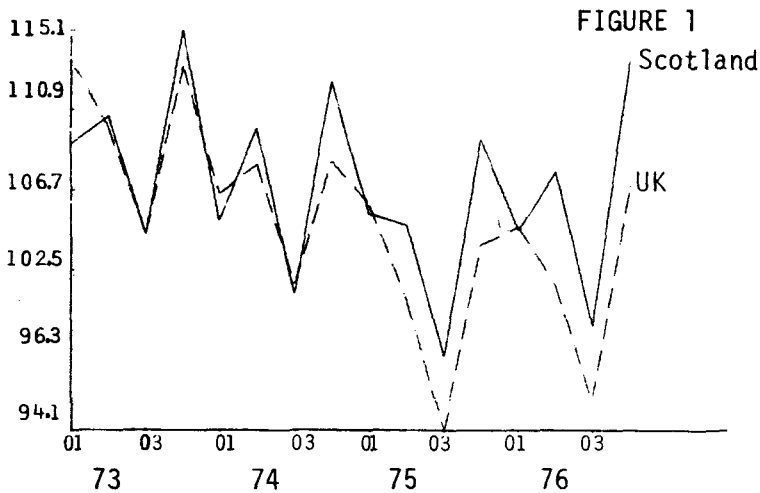


THE SCOTTISH ECONOMY

Indicators of Economic Activity

A sharp rise in the level of industrial production occurred between the third and fourth quarters of 1976 with the index of industrial production rising from 99.6 to 113.5. The rise in the UK index, from 95.7 to 106.9, was not so pronounced; a further indication of the current relative strength of the Scottish economy in terms of output. However, it would be unwarranted to read too much into the improvement since, in large part, the increase will have been due to seasonal factors.

INDUSTRIAL PRODUCTION: TOTAL



Source: S E P D

Figure 1 demonstrates clearly that each year from 1973 to 1976, there was a marked rise in both indices between the third and fourth quarters. A clearer interpretation of movements in the Scottish index will be possible when there are sufficient observations to permit the construction of seasonally adjusted figures. Nevertheless, some optimism is justified in that, at the end of 1976, industrial production in Scotland was higher than at any time since the last quarter of 1973.

Certain sectors have performed remarkably well, notably electrical engineering, where output grew from an index level of 141 to 190 and thus has nearly doubled between 1970 and 1976.

Although increases in output were not so marked, the chemicals and food, drink and tobacco industries have provided steady growth in the Scottish economy over the last six years with output in 1976 37% and 17%, respectively, above 1970 levels. Both these industries have outperformed their counterparts in the remainder of the UK.

In contrast, metal manufacture, mechanical engineering, vehicles and paper, printing and publishing have tended to decline over the last six years both in absolute terms and relative to their UK counterparts. The most extreme decline has occurred in metal manufacture where output in 1976 was 27% down on 1970 levels.

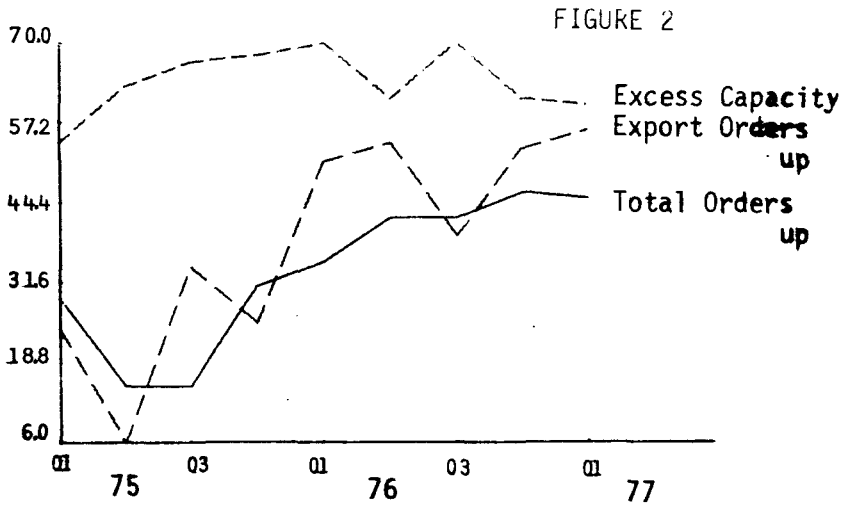
On a market sector analysis output expanded rapidly in the last quarter of 1976, with the sharpest rise occurring in the output of consumer durables, its sectoral index rising from 89 to 118. Despite this rise, consumer durables is the only market sector where Scottish output has grown less quickly than UK output since 1970. Investment goods, intermediate goods and consumer non-durables have all tended to expand more rapidly.

Between the last quarter of 1976 and the first quarter of 1977 the UK index of industrial production (seasonally adjusted) rose by 1%. A continuation of past trends suggests that Scottish production will have expanded slightly more rapidly. However, the April CBI survey of Scottish industry was marginally more pessimistic than that for the UK as a whole, suggesting perhaps that continued faster output growth during 1977 may be difficult to attain. Although in both areas only 33% of firms claimed to be working at a satisfactory rate of operation, Figures 2 & 3. The volume of output over the past four months rose for 37% of the UK respondents while only 35% of the Scottish respondents claimed to have increased their volume. The value of new orders Figures 2 & 3 rose in 54% of UK firms compared with only 45% in Scotland alone.

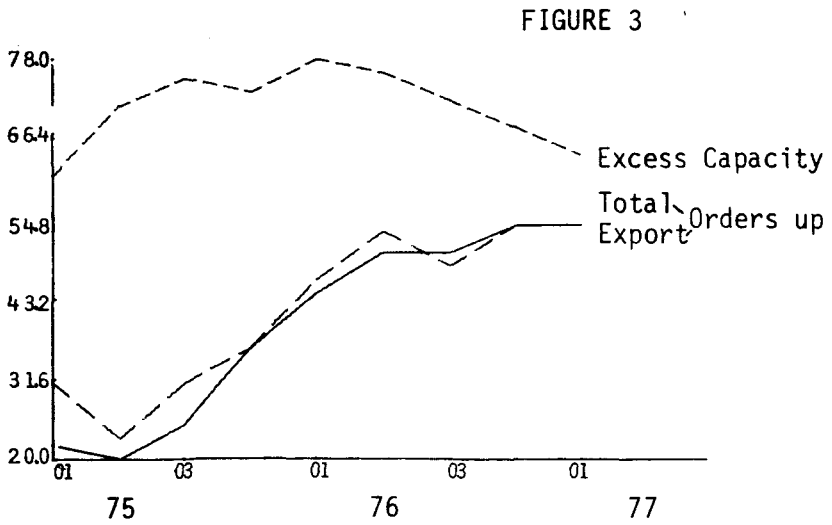
The slight discrepancy between the volume and value figures is explained by the greater pressure on unit costs in the UK relative to Scotland, which is evidenced in the survey. The expected trend over the next four months also reveals lower expectations of pressure on unit costs in Scotland than in the UK. Whether due to the composition of Scottish output or to lower factor prices, the implication of lower inflationary pressure in Scotland is one encouraging feature of the survey.

With respect to export orders, although Scottish firms claim to be less optimistic about prospects than those in the rest of the

CBI SURVEY, SCOTTISH PERCENTAGES



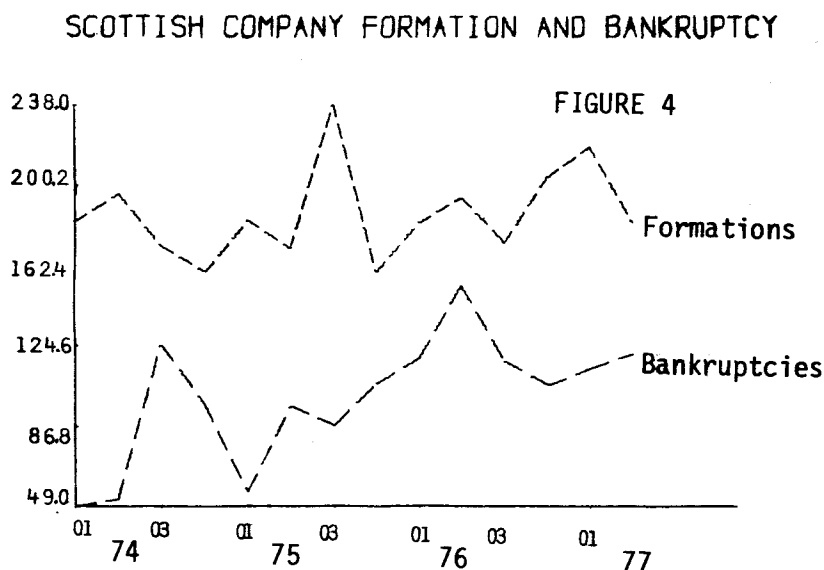
CBI SURVEY, U.K. PERCENTAGES



Source: CBI Industrial Trends

Uk, the trend over the last four months shows 61% of Scottish respondents achieving increased value of export orders while only 54% of UK firms did so, Figures 2 & 3. Further, 47% of Scottish respondents expect to increase the value of export orders over the next four months as against only 44% for the UK.

The trend in company formations and bankruptcies shows a slight increase in bankruptcies and a fall in formations, Figure 4; another indication of the current sluggishness of the economy.

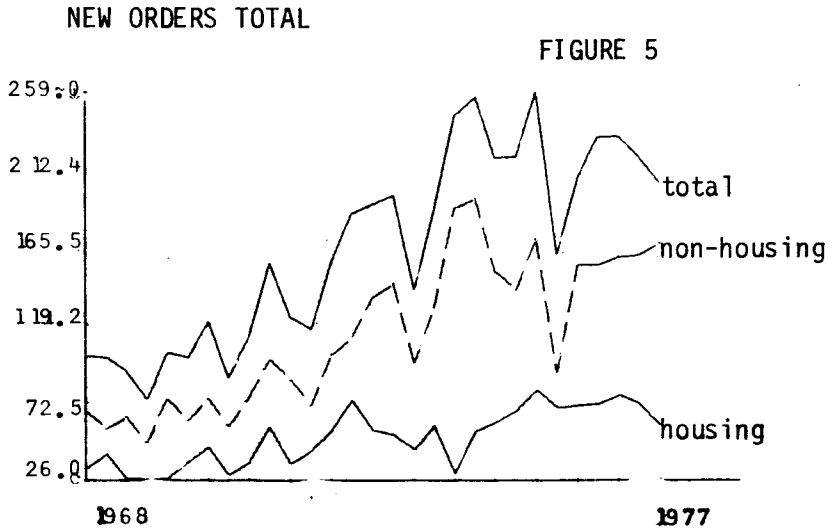


Source: Registrar of Companies

Advances by the Scottish banks rose in the second quarter of 1977, offsetting the decline which took place in the first quarter. However, the rise in advances occurred predominantly in the services sector; the increase in the indebtedness of the manufacturing sector was marginal. Given that profits are currently fairly low, the slow growth in manufacturing advances at a time when interest rates have fallen sharply indicates fairly weak investment intentions.

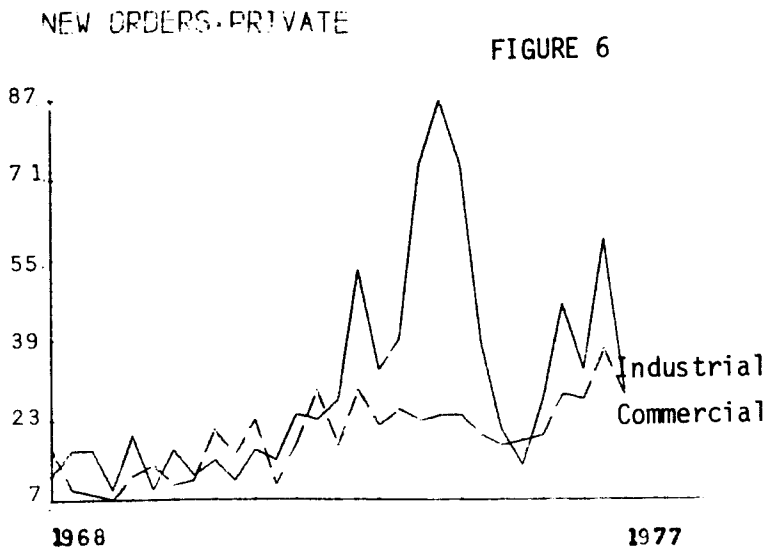
However, the Scottish position is not so discouraging as that of the UK as a whole where advances to manufacturers fell by £241 million between the first and second quarters of 1977.

Unfortunately, the regional capital expenditure figures, the most authoritative indicator of investment in Scotland are no longer available as a result of public expenditure cuts. In an attempt to gain an alternative insight into the level of investment, Figure 5 shows how the current value of new orders placed with construction firms has fluctuated in recent quarters.



Source: Scottish Development Department

After showing signs of revival in the last quarter of 1976, industrial and commercial orders, Figure 6, sagged at the beginning of 1977.

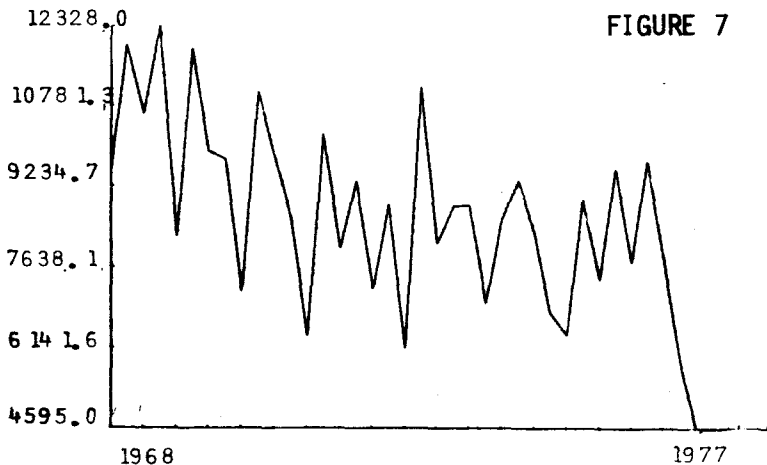


Source: Scottish Development Department

To some extent this decline will have been due to seasonal factors. However, industrial orders are substantially below 1974 levels, even in current prices - indicating the much lower level of investment in buildings which is now taking place.

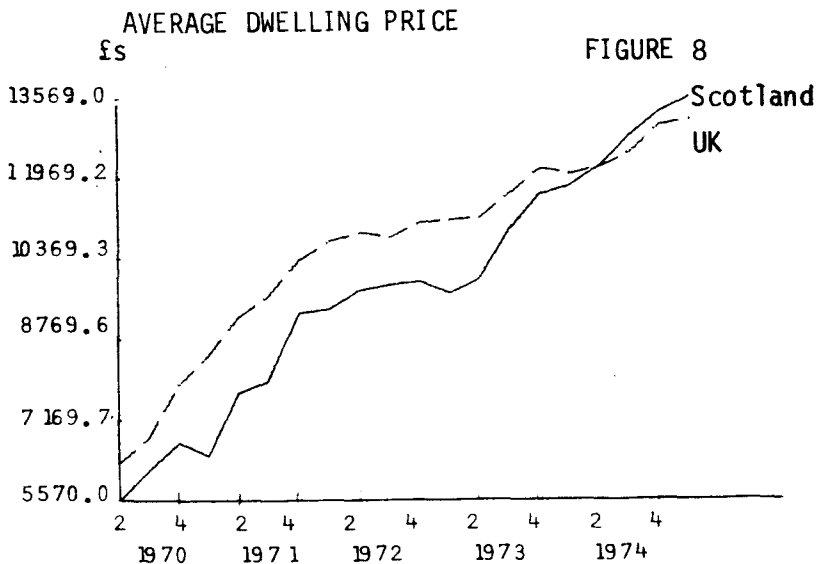
Holding up even less well currently is the level of new housing, Figure 7. In real terms the order books for housing will be the shortest experienced during the 1970s.

NEW HOUSING STARTS - SCOTLAND



Source: Scottish Development Department

For the first time in the indicators' section we present a series showing how relative house prices have varied in Scotland and the UK over the last few years, Figure 8. The sharper rise in Scottish house prices may be due to lower supply, higher demand, or both. Nevertheless, at an average price of £13,569 in the last quarter of 1976, one could expect to pay at least £500 less for a house elsewhere in the UK.



Source: Department of Environment

Current Trends in the Economy

There have been few indications of an upturn in the depressed construction industry. Although the reduction in the mortgage rate should bring an increase in new house purchases, the industry is still taking a pessimistic view of the future. A government circular to local authorities in England and Wales encourages councils to give priority in land use to industry as compared to housing. While it does not yet apply to Scotland it is an intimation of government priorities.

New orders received by contractors in the first quarter of 1977 have declined for the third consecutive year. Both private and public sector housing new orders are down compared to the same period in 1976. While public sector housing accounted for 23.6% of all new orders in the first quarter of 1975, two years later this had shrunk to 6.7%. Housing progress figures suggest that the rate of decline in public housing may have finally slowed up. New orders by public corporations and for road construction increased significantly, while in the private sector, industrial work also showed a marked rise. For the second quarter in succession, Strathclyde's share of new orders slipped back. They now account for 37.8% of the Scottish total.

Oil production from the North Sea in May was 3.5 million tonnes. Output is on schedule for the target of 40-45 million tonnes for 1977. Recently there have been increases in the estimated recoverable reserves of existing oil discoveries and higher expectations from, as yet, non-commercial fields.

The blowout at Ekofisk in April has drawn attention to the safety and environmental issues raised in North Sea exploration and production, and could have an important effect on the design of future structures.

There is a difference between stated government policy and the major oil companies views on the proportion of North Sea oil which should be refined in Britain. This could have an effect on the construction of a refinery on the Cromarty Firth. The oil companies argue that to obtain the correct product mix only one third of crude oil need be of North Sea grade and the remainder, heavier crude oil, should continue to be imported. The residual premium grade North Sea oil should be exported. The Department of Energy believes that two thirds of North Sea oil should be refined in Britain. A recent report by Wood Mackenzie estimates that this policy would have a negative effect on the balance of payments.

The British National Oil Corporation presented its first annual report in May; it plans to spend some £420 million over the next few years in exploration and development. It has an equity stake in six fields and it is believed that it is about to be allocated operating licences for prime blocks. The Corporation recently secured a \$825 million loan through twelve British and American banks, partly to repay its public sector borrowing.

The pace in North Sea exploration has quickened as companies hasten to fulfill fourth round drilling commitments before their licences expire. Shell-Esso have made an important new discovery 170 miles east of Dundee. They have had an encouraging flow from the single exploration well and estimate recoverable reserves at 250-500 million barrels. They have named the field Fulmar and there is the possibility of a platform order within 18 months. Such a discovery must bring renewed interest in this section of the North Sea. A new well on Brae field has given a brighter picture than recent drilling indicated, but there remains considerable uncertainty about the size of this field. Phillips have had good results from their Toni well in the north of Thelma field. BP recently bought a stake in Buchan where two further wells are to be drilled later in the year.

The Mesa field 12 miles off Brora has been named Beatrice. A development plan has been submitted to the Department of Energy but delays are expected in ratifying development procedures. It is the first field in the new phase of development and, although it is fairly small, the government may wish to give a lead on any intended depletion policy. Mesa's plan has been criticised by the local council and fishermen on environmental grounds, and because of the absence of any local job creation. The company favours offshore tanker loading: the Highland Regional Council fear that the oil would be transported away from the proposed Cromarty refinery with, as they see it, a consequent loss of jobs.

Development on the Sullom Voe terminal is behind schedule. Wood Mackenzie estimate that the final cost will be 40% higher than their previous estimate.

With oil production building up in the North Sea £50 million is expected to be spent in 1977 on the inspection and maintenance of platforms, pipelines and well systems. Over the life of North Sea fields it is forecast £10 billion will be spent on these services. Experience with gas production has shown that structures tend to need greater maintenance than originally envisaged. A number of comprehensive contracts are now being awarded. Tayside Regional Council has engaged consultants to assess the potential of developing Dundee as a centre for the offshore and maintenance market.

The Department of Energy predicts that four or five platform contracts will be awarded this year. Highland Fabricators are already working to an 18-month deadline on the order for Chevron's Ninian field. Tenders for a huge steel platform for the Murchison field have been submitted and it is believed that the order is to be placed with McDermotts at Ardersier. An order for Tartan is confidently expected and possibly for Beatrice, Magnus or Buchan. McAlpines have recently predicted a swing back to concrete from steel but other observers feel their optimism is not justified. The platform yards are running out of work and the future for concrete producers, in particular, is bleak. At Hunterston and Portavadie no platforms have been built while McAlpine's workforce, presently 600, has been reduced to a care and maintenance operation employing 50. At its peak, the yard employed 3,000. Howard Doris at Loch Kishorn have work until the end of the year. The steel platform firms of Highland Fabricators and McDermotts are fully occupied but Redpath Dorman Long at Methil have finished their last order and employ only 160 working on tenders for new orders. John Brown Offshore have confirmed 500 will be laid off in August. BNOG are thought to have found a Bulgarian buyer for the jack-up rig being built at Marathon.

Further gas reservoirs and oil-associated gases have been identified in the North Sea. An agreement has been made on the geographical division of gas reserves in the Frigg field, where all gas will be piped to St Fergus. As generally expected, over 60% of reserves are deemed to be in Norwegian waters and the extra 'Norwegian gas' element will raise the overall price. Full scale production should begin by the autumn with Brent supplies starting early in 1978.

The Department of Energy are actively discouraging the flaring of natural gas associated with oil production. Shell-Esso's oil production plans for Brent have been cut back and only limited flaring is to be allowed. The restriction will have only a marginal effect on total oil output. A gas-gathering pipeline feasibility plan which is being drawn up by a government-led consortium has been criticised in a paper by a BP chemist. He considers a pipeline system would become obsolete in 10 years and suggests that more flexible arrangements could be made using offshore-loading facilities.

A planning inquiry is being held into the proposed Shell-Esso gas separation plant at Moss Morran and a tanker terminal at Braefoot Bay. The proposal has the support of Fife Regional Planning Committee.

A decision on whether to go ahead with building a commercial fast breeder reactor, probably at Dounreay, is to be made in the summer. Studies are being carried out by the North of Scotland Hydro-Electricity Board on the possibility of building a power station on the east shore of Loch Lomond.

In response to pressure from European shipbuilders the Japanese have agreed to limit their share of the world market to 50%: new orders figures indicate that they may account for a smaller proportion in 1977. However, world over-capacity will continue to be a major problem, with orders being keenly contested and shipbuilding subsidies a major feature of most countries.

After a series of delays the larger British yards were nationalised on 1 July and British Shipbuilders was formed. British orders for the first six months of 1977 were higher than the previous year but still reflect considerable over-capacity. Some contraction would seem inevitable.

British Shipbuilders say they intend to run on a fully commercial basis with maximum decentralisation, no transferring of orders, and each yard being individually financially accountable. Yards are expected to be profitable or to have potential profitability after the present recession is over. Robb Caledon at Leith have received a £3 million ferry order from the Scottish Transport Group. The yard is hoping that a liquid gas carrier nearing completion will be the forerunner of a growing market. Robb Caledon's Dundee yard has orders until the Autumn. Govan Shipbuilders will have to give 1000 redundancy notices before the end of July unless new export orders are forthcoming. Their reconstruction programme is nearly complete, and is costing slightly less than the original estimate of £33 million. Concurrently, there have been significant increases in productivity. Scott Lithgow are to submit detailed designs for a specialised navy research ship and the £20 million order is expected imminently. Ailsa Shipbuilders, who have asked to join British Shipbuilders, obtained a £3.5 million order for a vessel for the Persian Gulf. This was achieved with the Department of Industry and State Intervention Fund assistance. It ensures the present workforce of 450 is no longer under the threat of immediate layoffs. Hall Russell in Aberdeen have healthy order books. Yarrow's, where two thirds of their capacity is tied up with Royal Navy contracts, are still expanding and endeavouring to secure export orders.

The CBI survey for the vehicles industry, as a whole, is particularly pessimistic about the future. Chrysler (UK) are having trouble meeting the planning targets agreed with the

government earlier in the year. The poor productivity record at Linwood was a major factor in the low output achieved by the group. The new 424 prototype is scheduled to go into full production at Linwood in August. An additional 300 workers were taken on at the end of June and the new launch date is now the last quarter of the year. Leyland are to move the headquarters of the newly formed medium/light commercial vehicles division to Scotland from Lancashire. At Bathgate sales of trucks and tractors are expected to exceed 50,000 for 1977. Daf trucks are building their first UK sales and service centre in Grangemouth.

New car registrations in the UK for the first quarter of 1977 rose for the third year running, while in Scotland registrations dropped back. They now account for 8.4% of total UK registrations compared with 9.1% for the first three quarters of 1976.

The CBI April Industrial Trends Survey reported considerable optimism in the electrical engineering sector. In contrast to the general picture, there had been no slackening in the upward trend in the volume of output in this industry. There had been an increase in the reported and expected value of new orders and below-capacity working had improved markedly. A shortage in skilled labour was reported and a small increase in employment had taken place with a further rise expected over the next four months.

Individual firms in the electronics industry, for example, have experienced sustained growth in home and overseas markets. There has been a particularly strong demand for components and products used in the oil industry. One source in the industry suggested that the public capital expenditure cutbacks had affected construction spending to a far greater degree than equipment expenditure. The power engineering industry, dependent on the Drax B project for survival, is waiting for the government's intended order to be confirmed. In Renfrew 1300 jobs at Babcock and Wilcox are at risk unless the order is placed without further delay.

In the CBI Survey there was less optimism observed in the mechanical engineering industry than in electrical engineering. However, investment plans were particularly buoyant compared with Scottish industry as a whole. A receiver has been appointed for Glenfield and Kennedy, the Kilmarnock firm who employ 1000.

The ten year British Steel Corporation development plan has been

abandoned in favour of a more flexible five year strategy. It was based on a forecast 2.6% annual growth in demand which has been revised down to 1.7%. A loss for the Scottish division is expected until the current plant reorganisation is completed in the early 1980's. The development of Ravenscraig and Gartcosh is being maintained although BSC has been accused of slowing down investment in Scotland.

Under the Beswick plan eight high cost plants were to be phased out by 1980. There are fears that some plants are being run down before their agreed closure date. Production at Clyde Ironworks, for example, has been cut to levels that cannot sustain the present workforce. Glengarnock open hearth plant is also considered vulnerable.

After three years of declining whisky production there has been an upturn in the first quarter of 1977, which showed a 7% rise as companies started to re-build stocks. There is still uncertainty about world demand, and distilleries are working at 75-80% of the peak 1975 output. Renewed confidence may be seen in the granting of provisional planning permission to the J & B group for a distillery at Nethy Bridge. There was a substantial decrease in UK sales for the first quarter of 1977 which can be largely explained by the high sales before the autumn budget and the expected new year price increases. Exports rose 4% in volume for the first five months of the year compared to the same period in 1976. It is expected that the threat of an American east coast port strike will "pull forward" exports to the United States. Concern continues to be expressed about the high rate of taxes on whisky and the import restrictions imposed in certain consumer countries. The reduction in fillings laid down and the consequent anticipated shortage of mature fillings from 1979 onwards may assist in bringing about the increase in prices sought by the industry.

There is interest in the industry in the possibility of growing tomatoes utilizing the heat and CO₂ obtained from the distillation process. In a pioneer venture at Glengarioch 30 to 40 tons of tomatoes are expected to be harvested this year. Other horticultural products are envisaged.

The continuing fall in real incomes, now at their lowest level since the beginning of 1973, has naturally led to a parallel decline in the proportion of expenditure given over to luxuries. Recent figures also suggest a switching by consumers to the cheaper foodstuffs and a sharp cutback in entertainment, beer and tobacco consumption. With the largest price increases over the past few months - seasonally adjusted - being on the

necessities of food, fuel and light, the burden of 17% price inflation is being felt most acutely by those on the lowest incomes.

The annual report of the Department of Agriculture & Fisheries for Scotland published last month shows clearly how inflation has distorted agricultural results recently. Even the significant rise in all the major input costs in 1975-76 threatens to be surpassed this year, mainly through raw material price rises. This is reflected in gross output, which, at current prices is expected to rise by 33% to £874 million in the year to May 1977. The value of output, however, is expected to fall by 2% in the same period, after a 2% fall last year. A decrease has been recorded in the output of beef and dairy cattle and sheep. These, being the more expensive, some would say "luxury" foodstuffs, have experienced a considerable drop in demand as real living standards continue to decline. The long-run fall in the numbers of farm employees continues, in fact 60% of the UK's full-time workforce is now accounted for by "family farms".

The cost of importing timber and timber products to the UK was over £2 billion last year. Concern about depending on overseas suppliers for 92% of the UK demand is heightened by reports that the traditional timber-exporting countries are close to exhausting their readily available resources. Following the Colombo Conference, it seems unlikely that those developing countries which do possess stocks of timber will allow themselves to be used as a low-price alternative source of supply. It is generally felt that changes in government policy over the years have weakened supplies in both the public and the private sectors. Consequently, an integrated and accepted land use policy, (as most recently proposed by the Hill Farming Research Organisation and the Highlands and Islands Development Board), is a priority target for the domestic industry to supply 20-30% if UK demand is to be realised.

Although the value of fish landed by the Scottish fleet increased by over 50% to £26.7 million in the first quarter of 1977 compared with the corresponding period last year, the volume of landings was slightly down. With the average price of white fish rising by 26% to £226 per tonne and herring by 98% to £184 per tonne, the chronic shortage of fish is clearly evident. However, as nature or the EEC will sooner or later stop all fishing as stocks are exhausted or quotas are filled, the fishermen are understandably apprehensive about the duration of the boom. Not only would they prefer their earnings to be spread throughout the year, but they also appreciate the harmful consequences of "seasonal" fishing for processing factories.

In the longer term, the need to regulate all types of fishing is urgent, as stocks are now at a critical level. Relations between fishing countries are strained, to say the least with unilateral action becoming widespread (as witnessed by the UK herring ban). A comprehensive policy for fishing is essential when one considers future developments. In particular the SDA's takeover of W S Unkles, the fish processing company, and the proposals of the HIDB for a year-round industrial fishery with associated processing facilities at Breasclate on the Isle of Lewis, based on the exploitation of blue whiting and Norwegian pout, are notable. The latter is particularly important as it is seen as the best long-term prospect for employment in the Western Isles, generating considerable benefits for the fishermen and the people of the area.

Employment and Unemployment

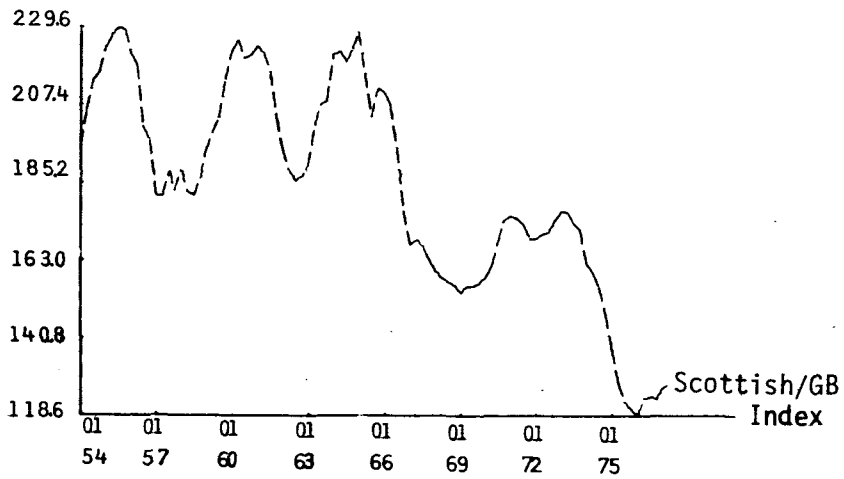
With the gradual national rundown in Regional and District Council staffs gathering strength there was a fall of 19,000 in service industry employment in the final quarter of 1976 in Scotland. As the effects of recent government expenditure cuts have not yet been fully felt either by those still employed or by the consumer, further falls can be expected. There was an increase in manufacturing employment of 2,000 but this could only have a marginal effect on total employment, which fell from 2,078 to 2,059 from the third to the fourth quarter of 1976. Furthermore the aggregate fall was wholly accounted for by a large drop of 1.5% in male employment. The contrast with the South East and Midlands is stark. There, employment has increased markedly for both sectors and both sexes.

The deterioration in the position of the development areas as a whole vis-à-vis the South is reflected, in Scotland's case, in the unemployment relative - now at 128.1 - which continued its upward climb of the past 18 months.

As well as the 186,249 registered unemployed in Scotland there are up to an additional 30-35,000 who are not officially registered; the vast majority of this total of almost 220,000 are able, willing and waiting to work. Concurrently the average duration of unemployment has increased over the years; by over 10% for males and over 17% for females in the last year alone. The lowering of morale and increasing discouragement felt by the unemployed worker was his period out of work lengthens gives real cause for concern.

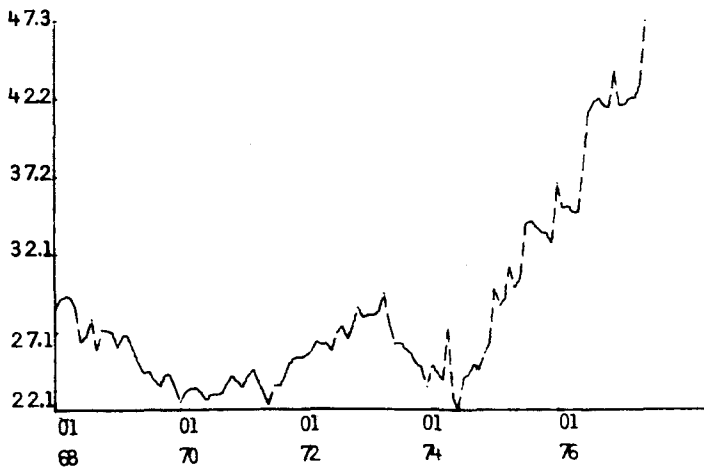
The economic effects of this particular aspect of the business cycle are generally not seen till well into the following upturn and beyond: a diminution of attachment to the labour

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



Source: Department of Employment

UNEMPLOYMENT RELATIVE , FEMALE/MALE * 100



Source: Department of Employment

market, a reduction in overall work experience and on-the-job training, greater instability in individual career patterns with a commensurate drop in activity rates. The effects on the individual and his family are more striking and immediate; reduction in past savings, lowering of living standards, in essence a never-to-be regained loss in lifetime earnings, and a resulting decrease in the opportunity to regain stable employment.

As these effects are cumulative and self-reinforcing they are more acute when faced by a large proportion of the population of an area e.g. the Western Isles and extensive parts of the central Clydeside conurbation.

As is to be expected at this time of year, the number of unfilled vacancies has increased: they now stand at 19,500, giving a corresponding 13% fall in the unemployment/vacancies ratio.

Regional and Local Unemployment

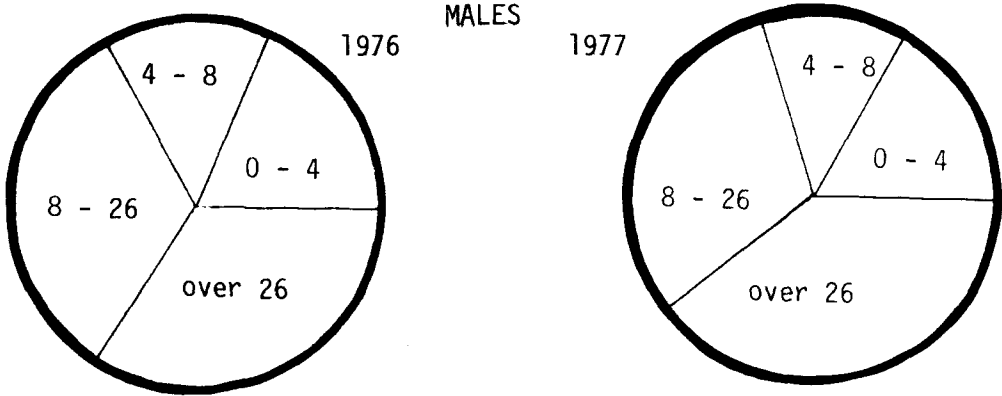
Because the official labour data is often given as aggregates, formed by combining employment exchange districts into travel-to-work areas, the social effects connected with high concentrations of unemployment - especially in inner urban areas - are not immediately apparent. * When such an area is already one of the most socially deprived in the most socially deprived region in Europe - Strathclyde - the threat of further redundancies is particularly despairing.

Thus, the rundown and closure of much of the steel industry in the east end of Glasgow could result in over 2,500 jobs being lost in the coming months. This area already suffers large scale male unemployment and any further significant increase would create what can only be described as an employment disaster area.

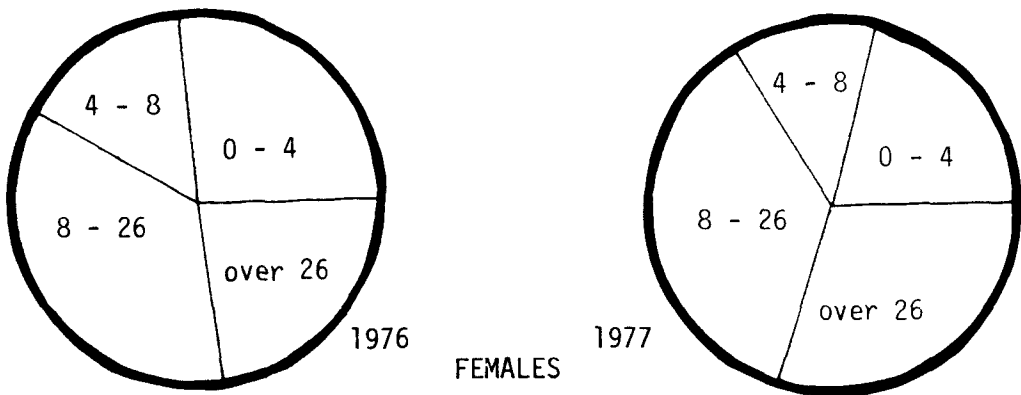
The problems of another very large housing estate - Drumchapel - have been increased by the refusal of a Temporary Employment Subsidy for the 600 local employees at Beatties. The abolition of the Regional Employment Premium and its replacement with the discretionary TES has undoubtedly been a major factor in the loss of these and other jobs.

* House of Commons Expenditure Sub-Committee Report 24.5.1977

DURATION OF UNEMPLOYMENT IN WEEKS



1976	MALES	1977
18.84%	0-4 weeks	17.00%
14.31%	4-8 weeks	12.92%
32.65%	8-26 weeks	30.72%
34.20%	over 26 weeks	39.37%
111192	MALES	129306
38880	FEMALES	54112
	FEMALES	
26.40%	0-4 weeks	20.78%
15.19%	4-8 weeks	12.77%
35.38%	8-26 weeks	36.24%
23.04%	over 26 weeks	30.21%



Elsewhere in Strathclyde the situation is equally gloomy: the unemployment rate is 10.2% and as noted above the large employers of engineering and shipbuilding are competing for a limited supply of orders to save jobs. Central and local government cutbacks are hitting Strathclyde particularly hard. Central Ayrshire faces a large increase, over 1,000 in unemployment following the decision of Crane (UK) Limited to cease operations in Kilmarnock.

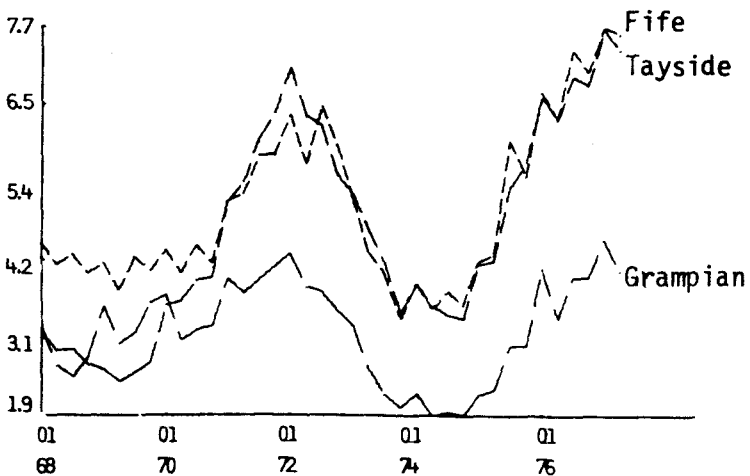
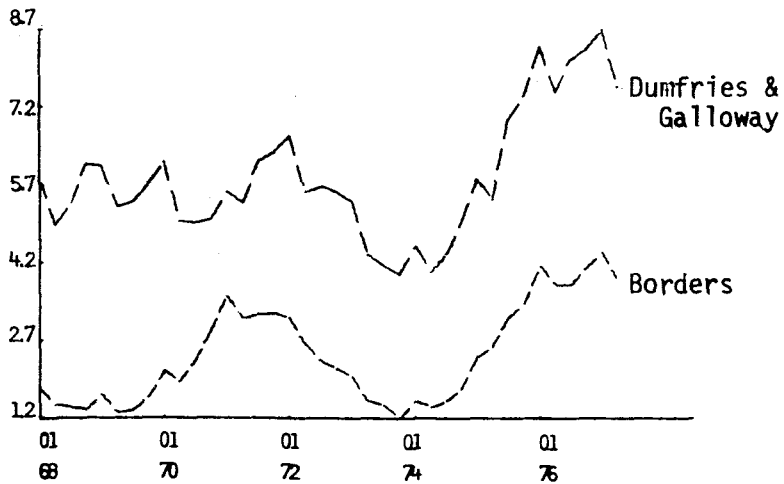
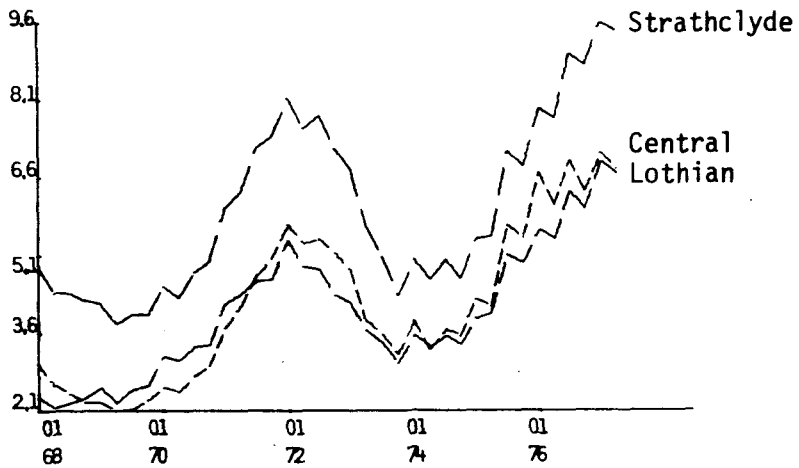
Dumfries and Galloway are experiencing the usual seasonal increase in employment, unemployment dropping by 5.1% on the last quarter. Local black spots such as Sanquhar (15%) continues to look in vain for prospective employers.

In the Lothian and Central regions the unemployment trend is still upward, increasing by 5.9% and 9.5% over the quarter respectively. Even a general revival in the economy will not be sufficient to lower rates uniformly, however. There are important qualitative differences to be considered between the skills of those recently made redundant and the skills required for any new job openings. Such are the statistical ambiguities of aggregating figures in a labour market segmented by skills where redundant skilled men, e.g. miners, will remain on the dole while at the same time shortages of skilled labour threaten expansion in such industries as electrical engineering.

The evidence of the past few months suggests that Fife, and the West in particular, has suffered a big increase of 12.6% in unemployment. The SDA has safeguarded some jobs in the Denny and Kirkcaldy areas, and successful local authority support for co-operatives has encouraged it to consider further limited help for the potentially viable enterprises. Given this need for labour intensive development the current public inquiry into the Moss Morran development is interesting for highlighting two aspects of much of the investment planned for Scotland:-

- (1) the high cost per job created reflecting the capital intensive nature of most large scale developments and therefore the relatively poor job prospects. It is estimated that only 180/300 permanent direct jobs will be created by the entire development at a cost of roughly £1.4 million per job.
- (2) the high proportion of costs borne from public funds. In this instance, not less than 70% of the total £400 million, i.e. £280 million come from public funds.

REGIONAL UNEMPLOYMENT RATES, 1968-77



The wisdom of committing these scarce resources on such a scale has been instinctively questioned for years, and put on a more theoretical basis recently. *

The Tayside picture of 7.7% unemployment is still dominated by the continuing large scale problems in Dundee and Arbroath, with 9,729 unemployed in these two towns. National uncertainty on fishing and shipbuilding does nothing to suggest optimism. The catastrophic rundown in Dundee's traditional industries has prompted the Department of Employment to sponsor a study into redundancy in the city, with a sample survey based on the 12,000 made redundant over the last year.

The Highlands and Northern Isles have now absorbed all oil-related employment for the present with some areas showing an unfortunate return to normality. Apart from the Inverness district, the boom areas of the Moray Firth are facing unemployment rates 40% above the national rate. The completion of the Flotta terminal and similar work has resulted in a very sharp rise of 23.8% in the Orcadian rate with few relevant vacancies for locals. Again fishing problems are adversely affecting the economies of the North. In particular the fate of many island communities hangs in the balance as their fish processing co-operatives are hit by ever higher fuel costs.

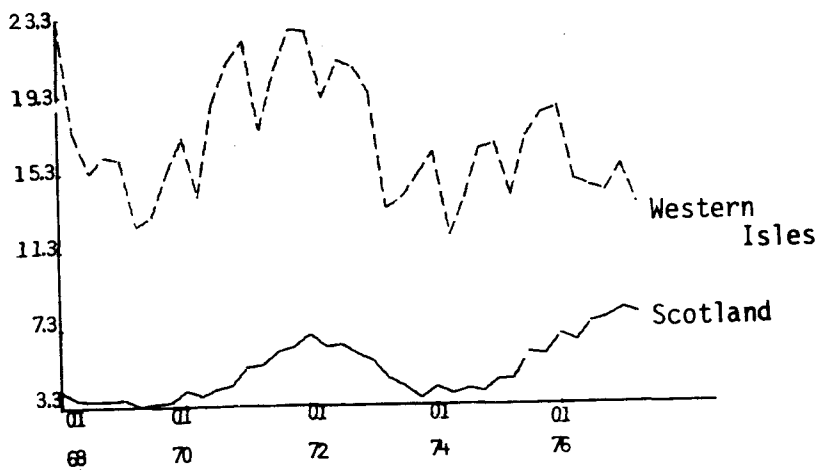
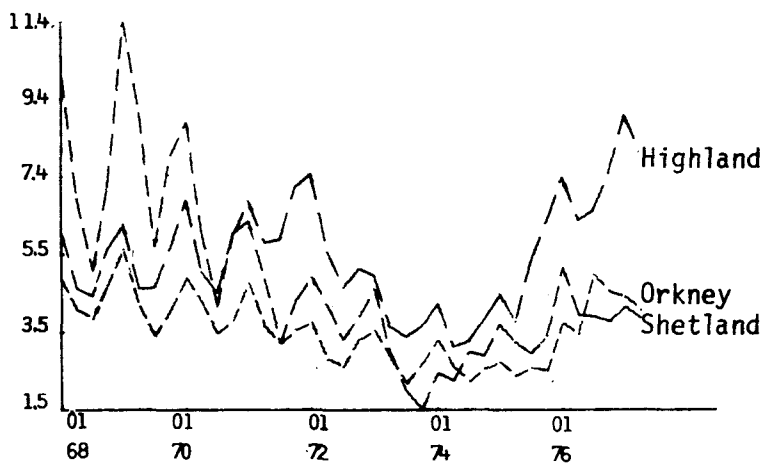
There were calls at the Conference of Maritime Regions of the EEC for greater discrimination in EEC funding for marginal areas, both between the peripheral and the ultra-peripheral areas, and, in parallel, between capital intensive industries and services/light industries. The inflexibility and apparent arbitrary application of public policy has made itself felt in Grampian Region most recently following the decision to reduce the development grants in the Aberdeen district, with a possible loss of 900 jobs over a 5 year period. This is especially disheartening to the traditional firms who lose most to the incoming multi-national oil-related companies in times of pay-restraint. Indeed, the employment situation in the North East will, in all probability, start giving cause for concern in the near future as the decline in the traditional industries overtakes the ability of oil-related industries to take up the surplus.

Moreover the breaking of the old horizontal linkages between local industries and institutions and their replacement with vertical linkages outwith the region is an almost impossible process to reverse. **

*T J Hazeldine. Warwick University Economic Research Paper No 37

** D Hunt "The Sociology of Development" in Scottish Journal of Sociology, April 1977

REGIONAL UNEMPLOYMENT RATES: 1968-77



*Source for all Regional Unemployment graphs:
Department of Employment*

Perhaps significantly the reduction of the Western Isles unemployment rate relative to the rest of Scotland has been achieved not only with Job Creation resources but, more importantly, also in the first period of an integrated local government for centuries.

Outlook for the Future

In previous years the July issue of the Commentary has included an analysis of recent and prospective trends in Scottish Gross Domestic Product. GDP estimates, formerly prepared in the Scottish Office but now the responsibility of the CSO, are published in the Scottish Economic Bulletin, the Scottish Abstract of Statistics, and Economic Trends. The most recent issue of the Scottish Economic Bulletin (Winter 1977) however, does not contain any GDP estimates beyond 1974, and these were already available and discussed in this Commentary in July 1976. At the time of writing, the CSO has just announced publication of the June issue of Economic Trends, containing an estimates of Scottish GDP for 1975, but the detailed data are not yet available to us; consequently, our analysis of GDP trends is being held over until the October issue of the Commentary. It appears, however, that the differential between GDP per head in Scotland and UK GDP per head continued to narrow in 1975, confirming our prediction that Scotland fared relatively less badly than the UK as a whole during 1975.

The short-term outlook for employment and unemployment is not encouraging. The expected rise in output during the remainder of 1977 will be insufficient to reverse recent falls in employment, which have been concentrated amongst males and in the services sector. Consequently, it is difficult to envisage unemployment falling below its current seasonally adjusted level of 167,900 during the remainder of 1977. Indeed it seems more likely that the seasonally adjusted level will be around 175,000 in December, implying an actual figure for that month of around 180,000 (including school leavers).

It is clear also from the current special article that the long term outlook for unemployment, given continuation of past trends, is equally gloomy. In current circumstances it seems extremely improbable that the Scottish economy can attain the required growth rate to absorb the increase in labour supply between now and 1981. Given these forecasts, it is extremely unfortunate that the government have recently abandoned the Regional Employment Premium, the only measure which could partially offset the extremely high taxes which firms have to pay for labour. Given the size of employers' national insurance contributions etc.

it is much more rational for firms currently to utilise their existing labour force more intensively than take on additional workers. In contrast to the taxes on labour, capital investment, such as that being envisaged at Moss Morran, is heavily subsidised by the state. Such developments, which might have taken place anyway in the absence of capital subsidies, can make little impact on the employment problem. If sufficient growth and therefore demand for labour is not forthcoming, the government will probably consider radical measures to alter the supply structure such as earlier retirement, an upper limit to overtime working, shortening of the working week etc. These solutions, as it pointed out in the special article, may not be politically or financially feasible.

However, a return to a subsidy akin to the regional employment premium is possible. One particular disadvantage of this subsidy in its original form was that it subsidised industries which were low in skill and technology input and where, for these reasons, Scotland's comparative advantage could rapidly be eroded by countries at an earlier stage of industrial development. As a consequence, these industries where long term competitiveness, and therefore viability was being eroded, were being subsidised in just the same way as industries where a high level of skill and technology input could be utilised to guarantee continued competitiveness.

A subsidy to skilled labour, whether it be in manufacturing or services, could be used to discriminate both against industries with high capital intensity where the labour input is low and against industries where a high level of unskilled labour input is likely to render them unviable in the long run. Possibly financed by reductions in the levels of capital grants this type of subsidy could perhaps encourage increased employment of labour without causing a deterioration in the competitive position of Scottish industry.