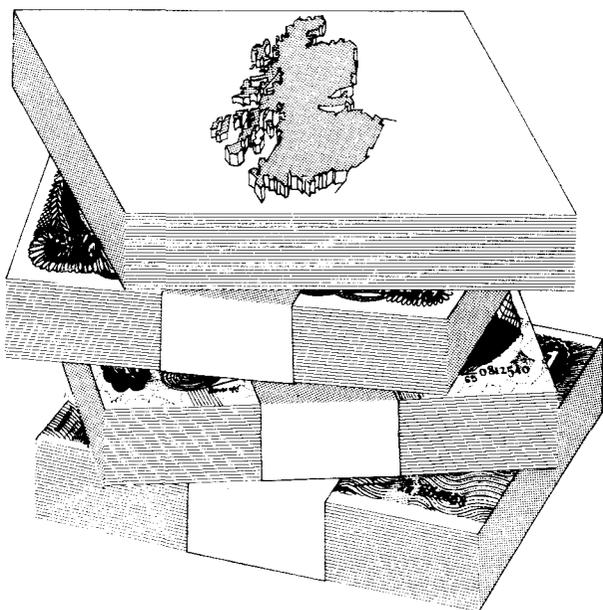


INDICATORS OF ECONOMIC ACTIVITY

PRODUCTION The Scottish index of industrial production* has now been revised to base 1975 = 100 for the years 1973-75. These indices were not published at the time of rebasing on 1975 (see July 1979 Quarterly Economic Commentary) and this has led to some revisions to the years subsequent to 1975. The effect on the Index for all industries* between 1975 and 1978 has been to revise it downwards by half an index point.

The Scottish Economy



The index of industrial production in Scotland shows that total output rose by 2.4% between the first quarter of 1979 and the second quarter (see Figure 1). This recovery in output was expected after production in the first quarter had been badly affected by industrial action and severe weather conditions. However the recovery in Scotland was not as marked as in the UK where the index rose by 5.3% to 107.1. For the latest four quarters, UK output (excluding oil) showed an overall increase in contrast to a decrease in Scotland. This again confirms the relative decline in Scotland's industrial performance.

The recovery in the second quarter was evident both in manufacturing output and in mining and quarrying. In the case of gas, electricity and water, output fell back from the exceptionally high figures recorded during the adverse weather conditions of the first quarter.

The results of the October 1979 CBI Industrial Trends Survey in Scotland will have been affected by the dispute in the engineering industry which was still unresolved at the beginning of the survey period. However, the downturn in optimism about the general business situation reported in the July Survey continued and the outlook for exports in the coming year remained depressed. A reduction over the third quarter in the volume of output was indicated by a balance of 18% of respondents, the largest negative balance reported since October 1975. Expectations of firms do not indicate an improvement in the level of manufacturing activity. Despite increased reports of skilled labour shortages as a constraint on output, a balance of 16% of firms reported a reduction over the four months to October in numbers employed in manufacturing industry. The employment outlook is not good, with

* Unless otherwise stated, figures are seasonally adjusted.

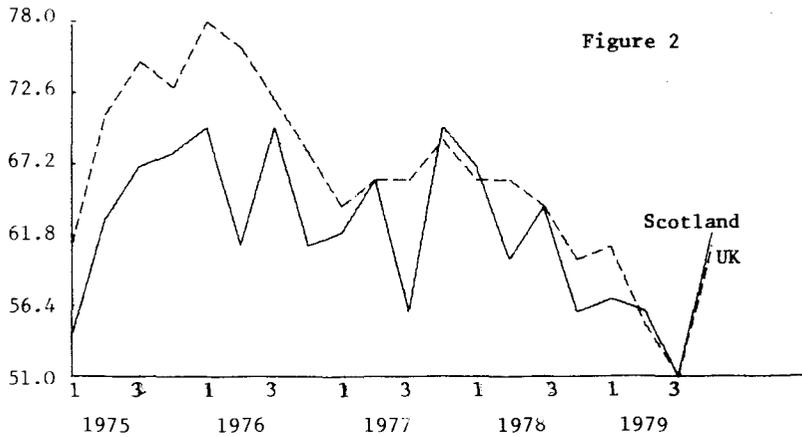
** Excludes MLH 104 (oil & gas exploration and extraction)

INDEX OF INDUSTRIAL PRODUCTION - ALL INDUSTRIES



Source Scottish Economic Planning Department

EXCESS CAPACITY : CBI SURVEY



Source: C B I Industrial Trends Survey

further reductions indicated by a balance of 23% of respondents. Lack of orders or sales remains the factor most likely to limit future output.

INVESTMENT

Investment intentions as reported by the CBI are weaker than at any time in the last three years. A balance of 21% of firms indicate less capital expenditure authorisations on buildings in the coming year measured against authorisations in the past twelve months. A reduction in authorisations for expenditure on plant and machinery is indicated by 20% of respondents, the worst balance reported since October 1975. Capacity utilisation which had been increasing, began to fall in

October 1979 (see Figure 2): 62% of firms reported that they were working below capacity compared with 51% in July.

*COMPANY FORMATIONS
AND DISSOLUTIONS*

At 694, the number of new companies formed in the third quarter of 1979 was less than half the record level reached in the second quarter (see Figure 3). The extremely high level of company formations in the second quarter of 1979, which was at variance with the other indicators at that time, was not sustained. In the fourth quarter the number of new companies formed increased to 890. The number of company dissolutions increased sharply from 253 in the second quarter to 547 in the third quarter of 1979, and dropped back to 213 in the final quarter.

OVERTIME

The percentage of workers on overtime in Scotland fell from 35.9% in the second quarter of 1979 to a record level of 28.3% in the third quarter. There was a similar sharp decline in the UK. However, the average hours overtime per worker rose from 9.0 to 9.4 hours in Scotland, and from 8.6 to 9.0 hours in the UK (see Figure 4). This is consistent with the shortage of skilled labour despite increased unemployment as reported in the CBI Survey.

CONSTRUCTION

New orders received by contractors in Scotland in the third quarter of 1979 declined sharply over the previous quarter, from £363 million to £281 million. The value of public construction work remained the same, but there was a sharp fall in private sector orders, particularly those from industry. Therefore the boom in construction orders was shortlived, as predicted in the last issue of the Quarterly Economic Commentary. Further increases in mortgage interest rates, cuts in public expenditure and the continued lack of business confidence suggest that there will be a further decline in new orders in the coming year. This is likely to depress output and employment.

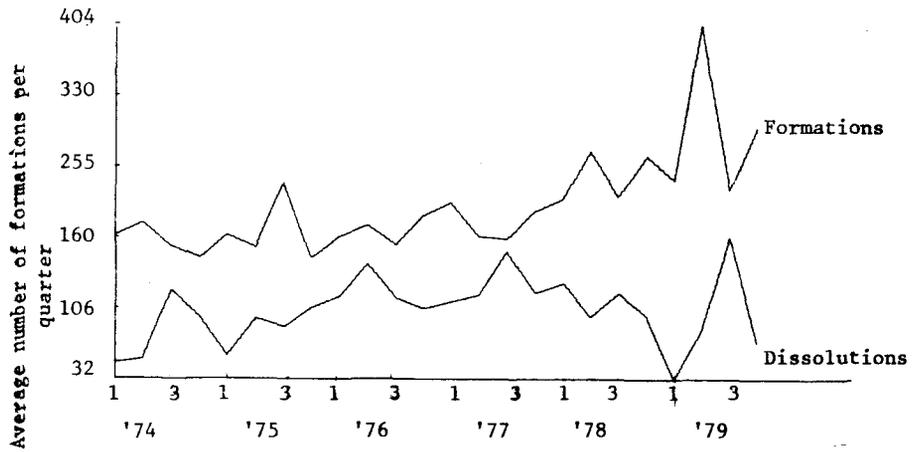
BANK ADVANCES

Total advances to UK residents (including company, financial, public and personal sectors) by Scottish Clearing Banks as at mid November 1979 were £119 million (+4%) higher than at mid August 1979 and £397 million higher than mid November 1978. In the quarter to mid-November, the increase in advances was largely due to increased borrowing by the Food, Drink and Tobacco sector (+£28 m), the Agriculture sector (+£20m), Professional Services (+£21m) and the Personal sector (+£41m). Advances to local government services only increased by +£1m and advances to the financial sector actually fell (-£9m). Despite government attempts to control the money supply, bank advances increased sharply especially for house purchase and personal loans.

Taken together, the indicators generally suggest a decrease in economic activity in the third quarter of 1979 after a moderate recovery in the previous quarter. Further decline is likely to have occurred in the fourth quarter of 1979 and will probably continue in 1980.

SCOTTISH COMPANY FORMATION AND DISSOLUTION

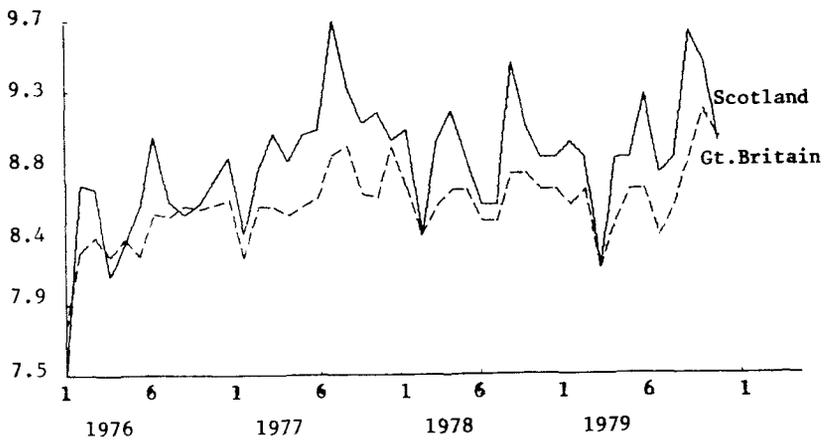
Figure 3



Source: Registrar of Companies

AVERAGE HOURS OVERTIME

Figure 4



Source: Department of Employment Gazette

INDUSTRIAL PERFORMANCE

AGRICULTURE A further 5% devaluation of the green pound was agreed in December. The EEC Commission has published some proposals for the spring price review which would include a tax on approximately 60% of EEC milk deliveries. In contrast to the rising EEC milk market production of milk in Scotland fell by 3% in 1978. Retail prices are to be increased 1.5p a pint in February.

After withdrawing the ban on British lamb imports to France, the French government have imposed a levy on these imports and consequently the EEC Commission may take the French government to the European Court for a second time. There has been some discussion in Scotland, reiterated recently by the Agriculture Minister, that British farmers might claim compensation from the French for illegal bans and import levies.

A recent report from the North of Scotland College of Agriculture considers that the industry in Scotland is particularly vulnerable due to its dependence on the bacon industry, the small size of the home market and remoteness from the export (English) market. The Scottish proportion of the UK herd continues to decline. The closure of Lawsons of Dyce will hasten the trend, noted in the report, towards locating pig processing plants in centres of consumption rather than in producing areas.

FISHING An EEC common fisheries policy is still no nearer agreement. However, a committee of officials is to include social and economic considerations in its extended terms of reference to formulate a policy acceptable to Britain on the one hand and the other member countries on the other.

The Shetland Islands Council regional plan for a fisheries management scheme appears to be in line with the current Commission thinking on social policy, although it has been criticised by mainland Scottish fishermen's associations. It is based on a licencing scheme and official reaction to it may be a guide to future proposals emanating from Brussels.

Meanwhile, the position of fishing and fish processing worsens. The government recently refused a request from the Herring Buyers Association to give special aid to the industry while the herring ban in the North Sea continued. The number of vessels operating out of Aberdeen, for example, dropped from 80 at the beginning of 1979 to 50 at the end. A restrictive licencing scheme for mackerel is to be introduced early this year to counter the build-up in mackerel catches and to allow conservation of stocks.

The overall UK mackerel catch which in 1978 constituted one third of the total catch rose again in 1979. Landings in Scotland of mackerel for the first nine months fell from 79,213 tonnes in 1978 to 56,507 tonnes in 1979. The value of all fish landed in Scotland during the first nine months of 1979 was down £4.8m to £91.7m. Haddock landings declined significantly, while those of cod, whiting and shell fish increased.

OIL & GAS

Production of North Sea oil fell to 1,517m barrels per day in November following the July peak. The decline can mainly be attributed to the government's stricter controls on gas flaring, affecting Brent production in particular. Wood Mackenzie's latest report suggests that if any further setbacks occur it is possible that output will fall short of the (revised) expectations for 1980.

Escalating oil prices have substantially increased the profitability of small marginal fields and stimulated interest in further exploration. Before the Iran crisis recoverable reserves of 100m barrels was considered the minimum for a commercially viable field, while currently the minimum is nearer 50m barrels. It is anticipated that the seventh round of licences, to be allocated later in the year, will be similar in size to the two previous rounds. However a world wide shortage of rigs means that a significant increase in exploration activity is unlikely.

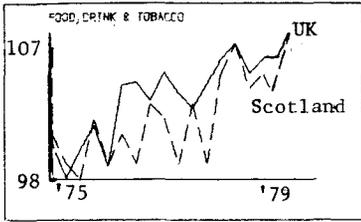
Three fields have been found below the main Maureen reservoir where development is taking place. These could greatly enhance the commercial prospects of the block. The estimated UK share of the Staffjord field has been increased 40% to 15.9% of recoverable reserves. Mobil recently submitted a £500m development plan for North Beryl to the Department of Energy. Brae and Hutton's plans are also under consideration. After the recent spurt in orders for platforms it is expected that the department will not encourage further schemes to go ahead while the gas flaring problem is unresolved and British yards do not have the capacity to compete effectively for tenders.

Although, as discussed in the October Commentary, the British National Oil Corporation's powers in North Sea development have been curtailed under the new government, it has recently embarked on a large scale recruitment drive. It plans to seek more licences under the 7th round and study development prospects for its third field as well as continuing to trade in crude oil. The experimental payment of royalties in oil to the government is to continue.

The Organisation of Petroleum Exporting Countries failed to formulate a unified price structure in Caracas in December. Just before the meeting the Saudi Arabian's raised their reference price \$6 a barrel to \$24 a barrel (to counter moves for greater increases) and a number of other countries followed suit. Since the meeting there are signs of price stability and Nigeria and Iran have both negotiated rates of \$30 a barrel with customers - lower than anticipated at Caracas. North Sea oil producers have yet to announce their January rates but they are expected to rise to near \$30 a barrel in line with similar West African supplies.

The Mobil British Gas report on the feasibility of building a pipeline to Beryl with extensions to the East Shetland basin will be submitted by the end of March. Recently fears have been expressed that Shell Esso's Brent pipeline (due for completion by 1981) might become congested if a large number of other companies use it for associated gas. There could also be adverse technical implications for the exploitation of the Brent field.

FOOD, DRINK & TOBACCO *



The output of this sector showed a marked improvement between the first and second quarters of 1979 as firms overcame the production and distribution problems of early 1979. Thus the index rose from 104 to 108 (1975=100) which is higher than at any time since 1974.

However, a balance of 32% of respondents to the CBI Industrial Trends Survey for October say that their firms are working below satisfactory capacity utilisation and a balance of 29% of respondents are now less optimistic about their general business position than four months ago. A large majority gave "quota and import licence restrictions" as the limiting factor on exports. The inability to obtain orders or sales for most firms is the limiting factor on output in the four months from October.

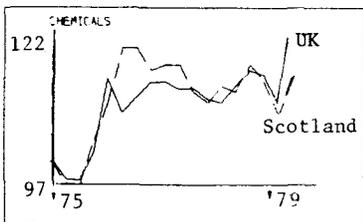
WHISKY

Production of whisky for the first nine months of 1979 was 127,720 thousand proof gallons - 3.2% higher than in 1978. The third quarter increase was less than for the April-June period when the industry was catching up after the fall back in production due to the January transport strike.

The volume of exports for the nine months improved slightly compared with the six monthly figures although they were still 5% lower than in 1978. The value of exports increased 8% to £499.6m. Within the overall reduction in 1979 bottled malts maintained their 40% volume rise. Bulk malts fell back 9.2% although the recorded price rise was greater than for other whiskies as they increased 13% in value.

The special TUC conference on the bulk whisky trade was held but like the previous meetings within the industry it produced no new solutions. It was agreed that a campaign should be launched to keep the growth in exports of bulk malts in line with total exports. A report from the Scottish Council Research Institute urges the government to act to encourage a voluntary agreement to restrict trade. It suggests that a net 2,300 jobs are at present being lost and stresses that bulk exports for mixing abroad weaken the competitive position of Scotch in world markets. The bid attempt by the Canadian firm Hiram Walker for Highland Distillers is a further example of the pressure on independent distillers.

CHEMICALS

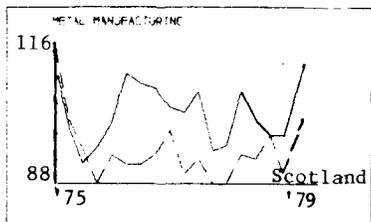


Output of the chemicals, coal and petroleum products group of industries rose in the second quarter of 1979 from an index figure of 109 (1975=100) to the 1978 levels of 115. The October CBI Industrial Trends Survey shows a balance of 29% of firms to be less optimistic about the general business situation in the industry than four months ago, and a balance of 69% to be less optimistic about export prospects than four months before.

A new £20 million plant to produce MBS is being set up in Grangemouth and should have a capacity of 22,000 tons by next year. MBS is used to produce plastic food packaging.

* Inset graphs show index of industrial production for Scotland (---line) and UK (— line) in the relevant industry over the period 1st qtr.1975-2nd qtr.1979.

METAL MANUFACTURE

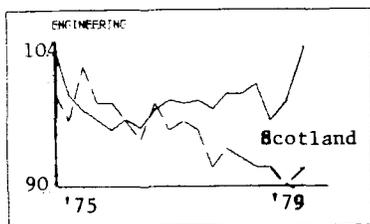


Output in the metal manufacturing group of industries rose from an index number of 90 to 101 (1975=100) between the first and second quarters of 1979. This is the highest output since 1973.

An inter-union compromise at Hunterson finally settled the dispute there and allowed the ore terminal to open and supply the large Ravenscraig steelworks.

But the prospects for the steel industry have worsened since the start of the national strike over pay which has effectively produced a complete stoppage of steel movements in Scotland. British Steel is dependent on government money, but present government policy seems likely to preclude further injections of money after any pay settlement. Hence jobs in the industry seem endangered in the near future. Furthermore the effectiveness of the strike has not been felt yet in steel using industries, who have unusually large stock of steel at present. For example the engineering industry stockpiled steel during the engineering dispute of the autumn. Steel-using industries may not feel the effects until after the strike has ended, and unless the output can be rapidly built up British Steel may suffer a drop in orders in favour of foreign, more readily-available steel.

ENGINEERING



The engineering industries in Scotland staged a partial recovery in the second quarter of 1979. Output rose by 3% but still remained 8% below 1975 levels. The expansion in the UK, at 6%, was considerably greater and was sufficient to increase the volume of production to 4% above that of 1975. Therefore, the relative deterioration of Scotland's engineering base continues. The strike by engineering workers during the autumn has probably only hastened the industries' disintegration. It is a peculiar reflection on the management and unions of this industry that, with one of the lowest levels

of productivity in Europe, they should lead the way to their counterparts in the EEC in reducing working hours. The outlook for engineering in Scotland, as reported by the CBI is depressing. Even before the steel strike started, a balance of 22% of firms expected output would fall, while 66% of firms were operating below full capacity.

The vehicles sector continues to be dogged by industrial relations problems. The recent strike by clerical workers at British Leyland's Bathgate factory and the troubles at the Linwood plant following the announcement of 1250 redundancies, are just two examples of this industry's ability to worsen its own problems. Nevertheless, a £175m investment scheme, which has received a qualified welcome from the workers, was announced by British Leyland for their Scottish plants.

Taken together, output in vehicle and shipbuilding in the second quarter of 1979 was 26% below 1975 levels.

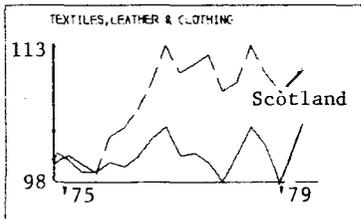
SHIPBUILDING

Orders placed with British Shipbuilders continued to fall during the third quarter of 1979 although a number of orders have been received since September. However, when the Polish consignment is completed a significant fall in orders on hand is expected. There are few signs of an upturn in world demand and a prolonged steel strike could have a disastrous effect on the competitiveness of the industry.

Under British Shipbuilder's plan Scotland was to lose 4,000 jobs and four yards were to close. After considerable opposition from the workforce, strengthened by British Shipbuilder's desire to avoid late delivery penalties on the Polish order, some concessions have been made. Robb Caledon at Dundee, facing closure under the plan, will be allowed to tender for merchant ships. It has been stressed that subsidies are not available for the yard and the future is still bleak. Yarrow have reservations about taking over the Govan Scotstoun yard which was originally scheduled to close. An order for six frigates for South Africa was expected to keep the yard occupied but this has not materialised. Confirmation of an order for two bulk carriers has given a temporary respite to the workforce at Govan, as without the order 1,000 men would have been made redundant by Christmas. The Polish ships are nearing completion and further orders are needed. Scott Lithgow has one of the largest order books in the country. They recently added contracts for a £22m tanker for BP and a £1.5m hopper dredger to their naval and emergency support vessel orders.

As usual, the most buoyant sector of engineering was electrical engineering and, in particular, electronics. Output increased by 6% in the second quarter of 1979, 40% above 1975 levels. Babcock Power, at the heavy end of electrical engineering, recently announced a major expansion programme and are likely to benefit from the government decision to begin building the pressurised water type of nuclear reactor since this lends itself to factory production. The Scottish Office have agreed to an SDA proposal to set up a micro-electronics applications centre in Scotland with the co-operation of some universities and colleges. Hopefully, this centre will manage to bridge the communications gap between those who do understand the new technology and the vast majority of those, particularly in industry, who do not understand its significance.

TEXTILES, LEATHER & CLOTHING



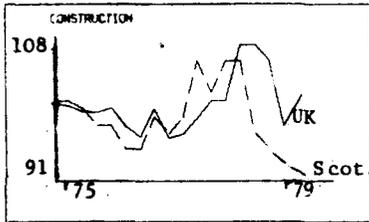
During the second quarter, output in this sector saw a small rise from an index level of 107 to 109. A balance of 19% of firms replying to the CBI Industrial Trends survey were less optimistic about the general business situation than four months before. Lack of orders and sales seemed to be the over-riding constraint on output for these firms.

Although output appears to be static for most sectors of the Scottish textiles industry, the denim and leisurewear markets are thriving with companies such as Levi's expecting to open new factories in the near future. Carpet manufacturing is facing severe competition from the US who use a dual-pricing arrangement to produce cheap carpets for sale in the EEC.

Production in this sector rose substantially in the second quarter of 1979 from an index number of 83 to 99. This performance may not continue if the expected fall in construction takes place in the next quarter, since the sector is closely associated with the fortunes of the building trade.

BRICKS, POTTERY, GLASS & CEMENT

CONSTRUCTION



In the second quarter of 1979 there was a marginal decline in the output of this sector continuing the downward trend which started in the second half of 1978. An expansion of investment in the second quarter of 1979 brought a rise in the volume of new orders, but government expenditure cuts and the high cost of money have reversed the trend. Thus new orders for private housing fell from £79 million to £60 million in the third quarter of 1979.

More disturbing is the fall in industrial and commercial orders for construction from £90 million to £46 million. Manufacturing industry obtains only 50% relief against corporation tax on new construction compared with 100% against new machinery. This policy will tend to produce a bias against new construction at a time when additional factory building could stimulate the construction industry.

Total public sector new orders have not fallen, although the composition has changed with orders in public transport and energy supply, and fewer new orders for schools and colleges.

PLATFORMS

Two orders for steel jackets have been secured during the last few months of 1979. Highland Fabricators at Nigg have been awarded a £90m contract for BP's Magnus field and Amoco's £50m order for North West Hutton is to be carried out by McDermott's of Adersier. The orders were crucial for both yards as redundancies had recently been announced.

With all yards now undertaking major orders, short term prospects, with the possible exception of Redpath de Groot Caledon, look brighter. The French firm UIE is in the process of taking over the Marathon yard at Clydebank. They intend to tender for jack up rigs as well as extending facilities to offer the full range of semi-submersibles, platforms and modules. Misgivings have been voiced that the company will operate Clydebank as a subsidiary yard and transfer work to Cherbourg. Further contracts for Brae, Beryl and Hutton are expected during 1980 after Department of Energy approval.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 below gives the number of employees in employment in the four quarters to June 1979.

Table 1 Employees in Employment: Scotland, England & Wales (000)

<u>Scotland</u>	<u>Total</u>	<u>Males</u>	<u>Females</u>	<u>Females/Males</u>
Sept 1978	2,088	1,203	885	0.74
Dec 1978	2,081	1,199	882	0.74
March 1979	2,059	1,185	874	0.74
June 1979	2,093	1,199	894	0.75
<u>England & Wales</u>				
Sept 1978	20,223	11,923	8,300	0.70
Dec 1978	20,319	11,907	8,412	0.71
March 1979	20,103	11,802	8,301	0.70
June 1979	20,274	11,855	8,419	0.71

Source: Department of Employment Gazette

As the table shows, employment in Scotland was 34,000 higher in June 1979 than in March of the same year. Both male and female employment rose between the two months, though the increase in female employment was larger in both absolute and relative terms. As indicated in previous issues of the commentary, the early months of 1979 were particularly bad in employment terms and some recovery was expected later in the year. Additionally, seasonal factors tend to increase employment in the summer quarter. Nevertheless employment in Scotland in June 1979 was some 14,000 higher than it had been in June 1978.

Male and female employment in England and Wales also rose between March and June 1979, but the recovery was not quite as strong as in Scotland, so that Scottish employment as a proportion of total British employment rose from 9.29% in March to 9.36% in June.

Table 2 shows the broad sectoral breakdown of total Scottish employment in June 1979.

Table 2 Employment in Scotland by Sector, June 1979

<u>Sector</u>	<u>No Employed (000)</u>	<u>% of Total</u>	<u>Change in No Employed March '79 - June '79</u>
Agriculture, Fishing & Forestry	48	2.3	0
Manufacturing	602	28.8	- 1,000
Construction and Utilities	233	11.1	+ 6,000
Services	1,210	57.8	+29,000
TOTAL	2,093	100	+34,000

Source: Department of Employment Gazette

Table 3 Regional Unemployment and Vacancies in the UK: December 1979

<u>Region</u>	<u>Unemployed</u> ¹	<u>Unemployment Rate</u> ²		<u>Vacancies</u> ³	<u>Unemployment/ Vacancies</u>
South East	258,700	3.4	(3.4)	99,600	2.6 (2.4)
East Anglia	29,600	4.0	(4.0)	7,700	3.8 (3.5)
South West	87,000	5.2	(5.4)	15,600	5.6 (5.1)
West Midlands	122,100	5.3	(5.0)	13,000	9.4 (8.0)
East Midlands	72,500	4.5	(4.2)	13,100	5.5 (4.5)
Yorks & Humberside	111,900	5.3	(5.1)	13,200	8.5 (6.8)
North West	189,200	6.6	(6.5)	16,600	11.4 (9.0)
North	111,000	8.0	(7.8)	9,800	11.3 (10.6)
Wales	78,900	7.2	(7.1)	8,700	9.1 (8.1)
Scotland	170,500	7.5	(7.4)	21,100	8.1 (7.5)
Great Britain	1,233,800	5.2	(5.1)	218,500	5.6 (5.0)
N. Ireland	60,800	10.6	(10.5)	1,300	46.8 (49.8)
UK	1,294,600	5.3	(5.2)	219,800	5.9 (5.2)

¹Seasonally Adjusted, excluding school leavers

²Seasonally Adjusted, excluding vacancies notified to careers offices

³Figures for September 1979 in brackets.

Sa re: Department of Employment

Manufacturing employment actually fell slightly between March and June while primary employment remained static. Employment in construction and utilities rose by 6,000, reflecting at least in part the seasonal increase in construction activity which takes place in the summer months. The largest increase in employment, however, was in the service sector where 29,000 more people were at work in June than had been in March. Again this partly reflects seasonal factors since additional workers are hired in services during the summer to cope with the increased volume of tourist activity. As noted in previous issues of the commentary, however, there has been a continuing trend for service employment in Scotland to increase relative to manufacturing employment (the ratio of service to manufacturing employment in June 1979 was 2.01 compared with 1.95 in June 1978), suggesting that there may be underlying changes in the sectoral structure of Scottish employment.

Total registered unemployment in Scotland in December 1979 was 180,250 compared with 177,244 in September. The number of unemployed school leavers continued to fall in the fourth quarter, from 12,851 in September to 5,826 in December. The underlying trend in unemployment is perhaps best indicated by the seasonally adjusted figures excluding school leavers, and on this basis unemployment in the fourth quarter rose by 2,800. This continued deterioration in the unemployment situation was forecast in the last issue of the commentary, and in view of the unfavourable forecasts of the levels of activity in the Scottish and UK economies it is difficult to predict anything but a continued worsening in unemployment in the early part of 1980.

In Table 3, an analysis of unemployment and vacancies for UK regions is given for December 1979. Overall UK unemployment was higher in December than it had been in September, and this was reflected in higher unemployment and unemployment rates in most individual regions. (The exception was South West where the number unemployed and the unemployment rate fell.) The unemployment rate in Scotland rose for the second successive quarter, but for the first time in four quarters the Scottish/Great Britain unemployment relative improved slightly to 144.2 from 145.1 in September. Scotland's unemployment rate remained the third highest in the UK in December. The increase in UK unemployment in the fourth quarter of 1979 was combined with a fall in notified vacancies of 23,300 between September and December, which was also felt in most individual regions. These two factors ensured a worsening of the unemployment/vacancies ratio in every region with the exception of Northern Ireland.

Table 4 below is a new table showing the number of people covered by special employment and training measures in Scotland. The latest figures available refer to October 1979.

Table 4 Special Employment and Training Measures, October 1979

<u>Measure</u>	<u>No of Persons Covered</u>	<u>Change in Persons covered Sept-Oct '79</u>
Temporary Short-time Working Compensation	19,900	+4,000
Temporary Employment Subsidy	1,400	- 700
Job Release Scheme	4,800	+ 437
Job Introduction Scheme	12	+ 6
Youth Opportunities Programme	14,000	- 81
Community Industry	1,328	+ 38
Special Temporary Employment Programme	2,300	- 539
Training Places supported in Industry	2,479	+ 44
Small Firms Employment Subsidy	12,400	- 300
TOTAL	58,619	+2,906

Source: Department of Employment

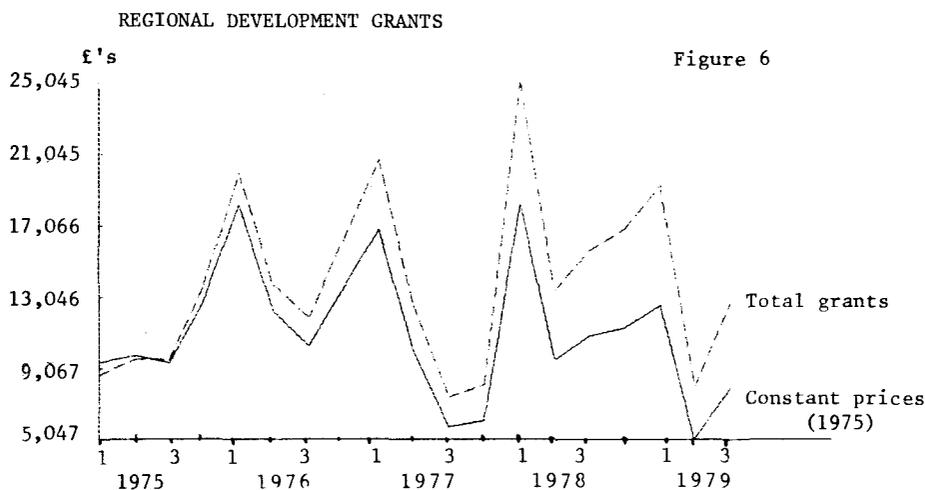
In total, almost 59,000 persons were covered by some form of special employment measure in Scotland in October 1979. It is important to note, however, that in the absence of such schemes registered unemployment in Scotland would not necessarily have been higher by an equivalent amount, for two reasons: firstly, some of the persons covered may have been employed even without a grant or subsidy, etc and secondly not all persons made redundant register as unemployed. The number of persons covered by such schemes can vary for a large number of reasons, including deliberate changes in government policy. In general, however, it would be expected that the number of such persons would increase as the unemployment situation deteriorated and this is borne out by the fact that the number of persons covered increased by 2,900 between September and October 1979 (noting, as discussed above, that the fourth quarter was one of worsening unemployment in Scotland). Particularly noticeable in this respect was the sharp rise in people covered by the Temporary Short-Time Working Compensation Scheme, since this scheme is specifically designed to encourage employers to adopt short-time working rather than enforce redundancies.

REGIONAL REVIEW

The prospects facing the Scottish regions in the 1980's can, to an extent, be gauged by the proposals contained in the regional structure plans. This review will examine these plans in turn and this quarter considers the proposals of the Borders Region. As usual this section also presents regional unemployment statistics, together with an examination of regional development grants, from the EEC and from the UK government.

Regional Development Grants

The level of regional development grants (more than £25,000) fell dramatically in the second quarter of 1979 to £8.045m from £19.3m (see Figure 6).



Source: Trade & Industry

Expressed in 1975 prices this equalled £5.05m, the lowest value since 1975. While there was an increase in the third quarter to £12.8m, in constant prices terms this was the third lowest quarter since 1975. Such trends are disturbing as the value of regional development grants are an excellent indication of the overall level of investment in the economy.

Geographically the spread of grants does not appear to benefit depressed regions as opposed to more prosperous areas. In addition many companies received funds for investments which would probably have been undertaken in any case. For example, a number of oil companies received sizable grants for developments in the Aberdeen, Peterhead and Grangemouth areas (a total of £2.7m). These grants were, of course, awarded prior to the Conservative government's revision of regional policy.

Many parts of Scotland are no longer accorded Development Area status, (This change has been discussed in recent Quarterly Economic Commentaries.) It will be interesting to discover whether the change in policy will result in an overall fall in the amount of aid to Scotland or simply in a redistribution of roughly the same overall amount in favour of those parts which have retained development area status.

The first allocation of European Regional Development Fund grants for 1979 awarded 88 Scottish projects a total of £27.3m. This is the largest single award to Scotland since the establishment of the Fund in 1975. These grants are provided for the implementation of infrastructure schemes and are paid to the authorities concerned as they incur expenditure. Public authorities in the Strathclyde Region receive £11.5m and amongst the schemes benefitting are the development of the Clydeside roads network (£5.1m) and two sewerage developments (£2.7m).

While Scotland relative to the rest of the UK does well out of the Regional Fund, these monies must be viewed in the overall context of EEC finance. Despite the aid received from such schemes as the Regional Fund, the UK expects to make a net contribution of over £1 billion to the EEC in 1980. Work carried out at this Institute estimate that in 1978 Scotland made a net contribution to the EEC of £34m. Such a situation exists because of the predominance of agricultural spending to the detriment of industrial aid. It is hoped that the 1980's will witness a substantial shift towards regional and social spending by the Community.

Unemployment and Vacancies

Regional unemployment and vacancies for December 1979 are shown in Table 1.

Table 1 Unemployment, The Unemployment Rate and Vacancies Notified by Scottish Regions December 1979

Region	Total Unemployed*		Unemployment Rate %*		Vacancies	
Borders	1,387	(1,249)	3.6	(3.2)	435	(443)
Central	7,760	(7,707)	6.8	(6.8)	929	(1,039)
Dumfries & Galloway	4,569	(4,200)	8.5	(7.8)	346	(370)
Fife	10,002	(9,743)	7.6	(7.3)	998	(1,378)
Grampian	8,468	(7,858)	4.7	(4.4)	2,884	(3,308)
Highlands	7,302	(6,078)	9.8	(8.2)	773	(1,052)
Lothian	21,971	(21,723)	6.5	(6.4)	2,972	(3,580)
Strathclyde	104,207	(104,489)	9.6	(9.6)	9,148	(11,263)
Tayside	12,863	(12,693)	7.5	(7.4)	1,299	(1,469)
Western Isles	1,098	(932)	13.4	(11.3)	98	(220)
Orkney	393	(387)	6.2	(6.1)	22	(70)
Shetland	208	(194)	3.0	(2.4)	182	(217)
Scotland	180,250	(117,244)	7.9	(7.8)	20,806	(24,720)

* Figures for September 1979 are in brackets. Unemployment totals and the unemployment rate include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Offices.

Source: Department of Employment

During the last quarter of 1979 there was a marginal increase in Scottish unemployment from 7.8% to 7.9%. Total unemployment increased in all regions with the exception of Strathclyde, its unemployment rate remaining at 9.6%. The relative

position of the regions remained constant with Shetland, Borders and Grampian enjoying significantly less unemployment than other regions. Coupled with increased unemployment is a decrease of 4,634 in the number of notified vacancies. This decline is spread over all of the regions.

Borders Region Structure Plan

With the recent publication of a number of Regional Structure Plans, the prospect of more to follow in 1980, and the comment and discussion that these provoke, there would appear to be no shortage of views concerning the medium term future of the regions. Structure, or 'strategic' planning is an integral part of the Town and Country Planning System. Under the 1972 Town and Country Planning (Scotland) Act each regional council is required to prepare a Structure Plan outlining its policy and general proposals concerning the use of land within its region. Since the prescribed land use policies will reflect to some extent the forecast behaviour of those variables which affect land use, the latter assume an important place within the plan. As these include the regional settlement pattern, the size, age and place distribution of the regional population, the regional economy, and the regional transport and communications network, it can be appreciated that Structure Plans can give an important preview of regional change.

Structure planning is not only concerned with accommodating future demands for development land however. They are more than purely responsive policy instruments. The regional councils as both agents of Central Government and on their own behalf devise and administer policies designed to influence the behaviour of the variables outlined above. Within the Structure Plan these largely reflect the priorities identified in the "Regional Reports". The latter documents, prepared during the early years of the Regional Councils, can be regarded as precursors of the Structure Plans. Additionally Structure Plans incorporate other inherited long term plans and the Scottish Office's edicts as incorporated in their "Planning Guidelines".

In recent months the Secretary of State has approved the Lothian and Orkney Structure Plans; the Strathclyde and Highland plans have undergone examinations in public and Borders Region has just published its plan. As part of this quarter's Regional Review we consider the latter.

In contrast to the experience of many other Scottish regions the 1970's were years of relative prosperity for the Borders. An infusion of migrant industry helped keep unemployment low; net outward migration was stemmed; for the first time in many years the population actually grew. However, while the plan has an optimistic background this is no guarantee that the situation will continue. A predominantly rural area, a dispersed settlement pattern, and a scattered population impose their own problems. The cost of providing transport and other basic services is higher for example, which means that the regional council's policies are constrained. Compared with more urbanised regions the same expenditure provides fewer services. and failure to provide adequate service provision in the more isolated areas can stimulate outmigration.

It is against this background that the regional council has identified the main policy areas accommodated within the Plan. While to a large extent these also include the usual vague axiomatic generalisations that are common to all Structure Plans, there are some that are more pertinent. Thus, explicit objectives of the plan include the resistance to any reversion to depopulation; to aim for continuing population growth based on the promotion and development of industry and tourism and the development and improvement of housing, and perhaps most importantly to resist rural depopulation. In contrast to many other rural area plans, therefore, it would appear that as much of the existing settlement pattern as possible will be retained.

The development strategy considered compatible with these aims has two components. First, in order to diversify the region's economy and attract new industry and incoming workers, it is assumed that the existing regional economy will not be able to generate the required jobs, priority will be given to the development of large scale industry and housing in the main areas of population, Galashiels/Tweedbank, Hawick and Kelso. Thus, it will be to these areas that migrant firms will be attracted. Second, in order to resist continued rural depopulation, settlements in the landward areas will be consolidated as rural holding points. Consequently, and in contrast to service plans, small scale and infill development will be encouraged in the small towns and villages throughout the region where basic services are available.

The Structure Plan then develops the implications that this strategy will have on the component parts of the region. On balance the Borders Structure Plan mirrors the optimism that has been prevalent within the region over the past few years. However, what must be determined is whether or not this assessment of the future is realistic, and if so, if its proposals are relevant to the points at issue.

In considering these issues, one encounters an important facet of the structure planning process - its underlying assumptions. While it is impossible to make any forecast without assumptions, it is nonetheless easier to assume the behaviour of some variables than others. It can be argued that the Borders plan rests on the following assumptions:-

- a. The regional population will grow from the 1977 figure of 100,000 to 108,000 in 1991
- b. Migrant industry will continue to be attracted into the region at a rate comparable with the 1970's
- c. Central government will provide the necessary resources to maintain and expand service provision within the region.

In all these instances doubts can be raised.

Ever since the Development Plan system has existed, that is since 1947, population projections have proved difficult. During the early planning exercises population growth was consistently underestimated; in the major planning projects of the 1960's the reverse was true. Projecting populations forward for ten years, the basis of any land use plan, is fraught with difficulty. In the Borders context the projection of net migration is the most difficult aspect of this exercise. Net immigration has been a major factor behind the region's modest increase in population. Since this has probably occurred as a result of the regions's success in attracting migrant industry, the population question is intimately linked with the economic one.

During the last two decades, the Borders was particularly successful in attracting new firms. As a result employment has been maintained and the economic base of agriculture, forestry and textiles diversified. Unfortunately, as a result of this very success the region has lost its development area status. While the area does have a number of qualitative advantages which could compensate for this loss, continued job expansion based on migrant industry becomes a little more questionable.

However, it is the government's recent expenditure announcements which really undermines the plan. As we have already stated, the maintenance of a decentralised settlement pattern necessarily involves greater expenditure on social infrastructure and services. The effects of the intended cut-backs in local government expenditure are easily to comprehend. With the disappearance of transport subsidies, rural schools, and the non renewal of social infrastructure, migration to the towns becomes more popular. This would be unfortunate. Borders Regional Council has so far shown commendable spirit in its efforts to improve life in rural areas.

OUTLOOK AND APPRAISAL

This Commentary has never gained a reputation for taking an optimistic view of the prospects for the Scottish economy. Unfortunately, its gloomier prognostications, on the whole, have turned out to be accurate. Examination of the preceding sections suggests that there is no reason to expect any reversal of Scotland's economic fortunes over the next six months. Unemployment will rise, output will stagnate and living standards are likely to fall.

The short-term effects of current government policy (see UK section) are likely to deepen the recession. Present policy is concentrated on controlling the size of the money supply and the public sector borrowing requirement, (see the special article on public borrowing in this issue) almost to the exclusion of all other targets. To some extent this effort has been counter-productive if its ultimate aim is to reduce the rate of inflation. For government insistence that public corporations adhere to strict cash limits or target rates of return on investment has led to some well-publicised price increases, notably in the energy sector. Inflationary expectations are bound to increase in consequence and wage bargainers will build these expectations into their claims, thus maintaining the momentum of inflation. As yet, there has been little evidence to suggest that the public corporations (aside possibly from the steel industry) are making serious efforts to increase productivity and so avoid the necessity of fully passing on the effects of tighter government policy to the consumer. This is depressingly predictable, given the monopolistic position of most of these bodies. Stricter cash limits in local authorities and control government will result, no doubt, in those changes which will encounter least political resistance: the postponement or cancellation of investment and redundancies among low grade staff. Already, public sector investment has fallen to dramatically low levels. Whether further reductions will impose capacity constraints on the economy and impair a future recovery remains to be seen. Redundancies amongst low-skilled labour have the unfortunate consequence of throwing on the labour market those least able to find alternative employment. There are clear dangers therefore in shifting the balance of expenditure further toward current spending on the wages of high grade staff.

Most forecasters expect that investment in 1980 will fall below 1979 levels. This implies that there will be even less 'free-floating' investment available to relieve Scotland's chronically low rate of growth and high rate of unemployment. There is little chance of a return to the situation of the 1960's, when there was a considerable degree of inward investment in Scotland, particularly from North America. Nevertheless, the reduced volume of investment seems to have had no effect on the level of promotion in which various authorities in Scotland have indulged to further the interests of their own area. New town authorities, regional councils, district councils, the HIDB, the SDA and SEPD are all, to some extent involved in attracting new investment to Scotland as a whole, or to their particular area. Further, there are the efforts of those more closely aligned with the private sector, such as the Scottish Council or the chambers of commerce.

There are so many disparate groups involved in industrial promotion that the whole structure is in danger of lapsing into chaos. This contrasts strongly with the Irish situation, where the IDA has complete control over promotion, and can steam-roller local authorities and civil service departments into making provision for incoming firms. While such a structure might not be ideal from a Scottish point of view, there is a clear need for a rationalisation of the processes of industrial promotion and attraction in Scotland.

If we take it that the overall aim is to maximise the amount of inward investment with the proviso that where two locations appear equally attractive to the investor priority should be given to the location with higher unemployment or to that which requires the lower net outlay by the taxpayer in terms of either loans and grants or infrastructure provision. Then the present arrangements are unlikely to achieve this goal for a number of reasons:

1. Firstly, the potential investor may be bewildered by the range of different authorities which must be consulted before any real development can take place.
2. Secondly, the investor will probably be uncertain of the political role of the body which has approached him. One cannot expect an overseas investor to pick up an immediate understanding of our exceedingly complex political structure. He may therefore ascribe powers to this body which it does not possess and be discouraged by its subsequent inability to give cast iron assurances on the grants and planning clearances which he expects.
3. Thirdly, it may be that the industrialist realises that he is in a monopolistic position, with the ability to trade off one authority against another. The result may be competitive bidding for investment, with each authority trying to supply a better 'package' than its adversaries. Competition is almost built in by definition to the bureaucratic structure of economic planning in smaller authorities. Local politicians and bureaucrats will seek to justify themselves in terms of their success in bringing 'new jobs' to the area. They feel themselves duty bound, therefore, to try to demonstrate the advantages of their particular region, district or new town over all others. It is not at all clear whether this approach to the attraction of investment is in Scotland's overall best interests.

A somewhat more unified approach is needed: the success of the IDA in recent years clearly demonstrates this. The first step which government should take, however, is a radical reconsideration of the inter-relationships between the various planning bodies and their activities in order to make recommendations for restructuring.

In our July 1979 Commentary we predicted a seasonally adjusted level of unemployment of 173,000 in December. Again, the outturn at 170,500, was fairly close to our predicted value. In January, an influx of school leavers onto the labour market is likely to swell the unadjusted level of unemployment considerably. Employment prospects for these young people are very poor as the economy moves into recession. For March an adjusted level of unemployment of 179,000 was predicted. We would expect this to rise to 184,000 by June.