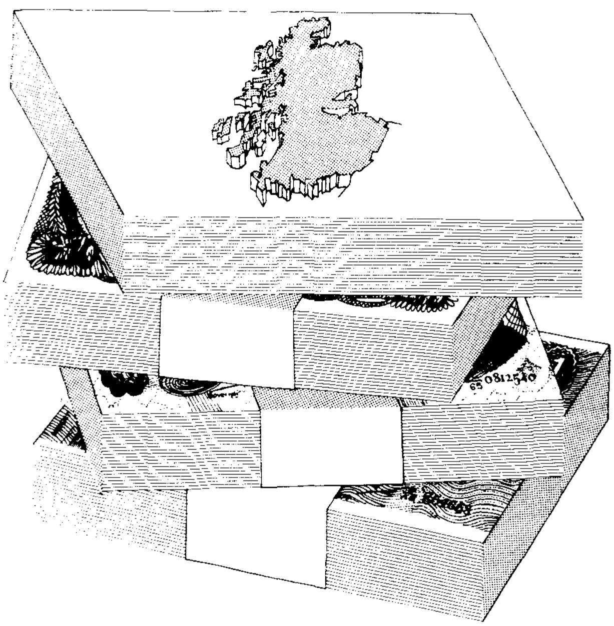
The Scottish Economy



PRODUCTION

Due to the civil servants dispute the index of industrial production for Scotland has not been updated since the last issue of this Commentary. Excluding Petroleum and Natural Gas the index stood at 91.8 (1975 = 100) in the third quarter of 1980 which was a fall of 4.1% on the previous quarter. However the data are available for the United Kingdom where the index fell from 94.8 in the third quarter of 1981 to 89.4 in the first quarter of 1981. Output in the first quarter was 12% below its level in the same period a year ago which had been depressed by the steel strike. Given that output in Scotland has followed a similar trend to the United Kingdom we can expect the index of industrial production for Scotland to have fallen below 90.0 in the first quarter of 1981 for the first time since the index was rebased.

The April 1981 CBI Industrial Trends Survey, which was carried out after the Budget, reports that although business confidence has continued to wane, the decline is less marked than in surveys in the last two years. A balance of 11% of respondents were less optimistic about the general business situation compared with 25% in the previous survey. However the outlook is still bleak with investment intentions for the next year remaining on their downward trend. An average of 48% of firms expect to authorise less capital expenditure on buildings and 54% expect to reduce spending on plant and machinery. Under-utilisation of capacity remains as widespread as in January with 76% of respondents reporting that their present level of output is below capacity. Activity levels have continued to fall over the four months covered by the survey, but the rate of decline in output, orders and deliveries has slowed further since the last survey. This slower downward movement is expected to continue with a balance of 6% of respondents (16% in January) anticipating further falls in output. Again the principal factor limiting output is the low level of orders or sales from existing stocks. Although the volume of stocks and work in progress has fallen rapidly, replies for the volume of present stocks continue to imply that these are higher than desirable. With 89% of respondents expressing adequate or more than adequate stock levels, employment prospects continue to look poor. This depressing outlook is reflected by a balance of 57% of firms (54% in January) reporting lower employment levels. A further decline in numbers employed is expected by a balance of 35% of firms, suggesting that the rate of decline may ease somewhat in comparison to last year. The high value of the pound which has frequently been cited as a major difficulty by employers eased slightly over the survey period when there was an increase in the volume of new export orders and deliveries. However exporting firms remain less confident about the export outlook, and present export order books are below normal for 49% of respondents. Uncompetitive prices and political and economic conditions abroad continue to limit firms' ability to obtain export orders.

BANK ADVANCES

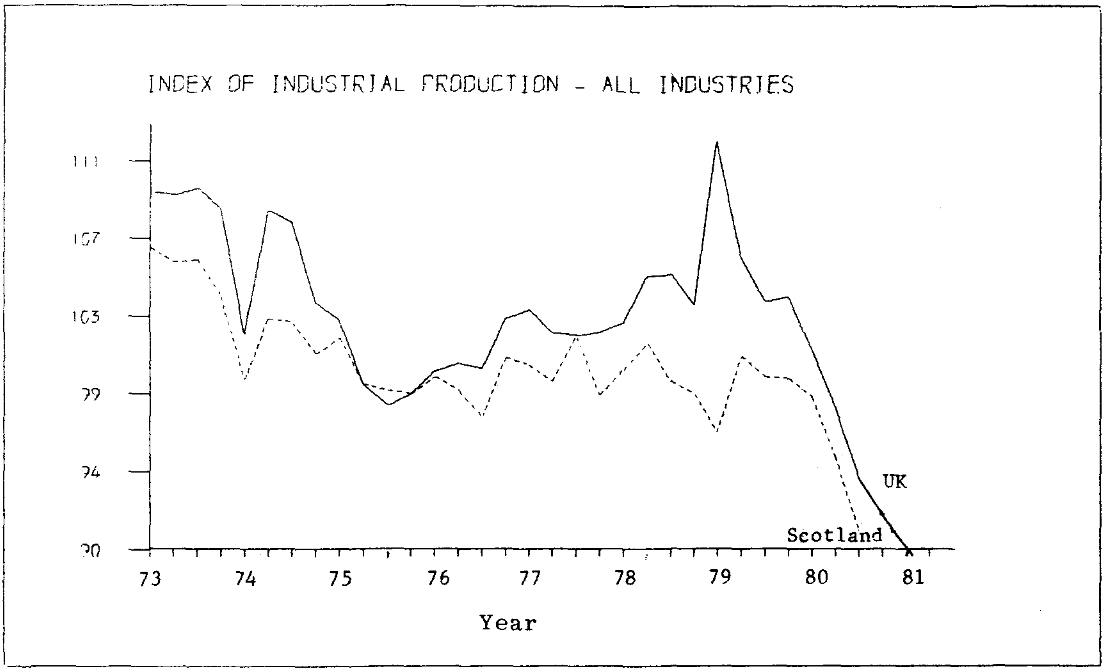
Total advances by Scottish Clearing Banks to UK residents as at mid-May 1981 stood at £3,967m, having increased by only £22m (+0.6%) over the previous quarter and by £660m (+20%) over the year. Although the figures do represent some increase in real terms over the year they do demonstrate a definite slowing down in the rate of growth of bank advances.

Over the quarter, the manufacturing sectors accounted for the largest decreases in advances, particularly food, drink and tobacco (-£40m), chemicals (-£20m) and electrical engineering (-£24m). The primary and financial sectors absorbed increases of +£27m and +£28m respectively, whilst the service sector displayed no significant changes. The increase in personal sector borrowing, particularly for house purchase (+10%), no doubt reflects the reduction in interest rates announced in the budget.

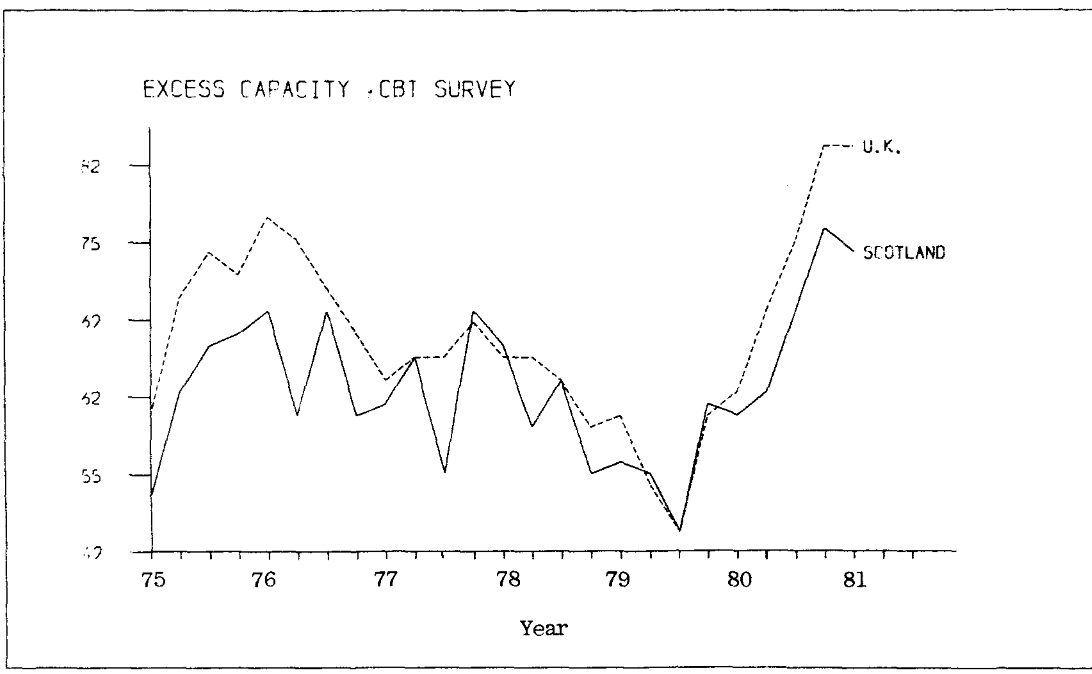
CONSTRUCTION

The value of new orders received by contractors in the first quarter of 1981 was £209m compared with £233m in the corresponding quarter of 1980 which represents a decrease in both real and current terms. For the fourth quarter of 1980 the value of new orders stood at £379m of which £182m was a public sector order for Torness nuclear power station. When the value of this order is deducted, new orders in the first quarter of 1981 actually show a slight increase (+£12m) over the last quarter in 1980. In the public sector the main increases were in roads and harbours (+£15m), and housing (+£3.5) in current prices. There was little change overall in the value of new orders placed in the private sector, with a decrease in the industrial sector (-£22m) being compensated by an increase in the comercial sector (+£21m). When judged in real terms the construction industry, which is normally a good indicator of economic activity, remains depressed with no obvious signs of recovery.

Taken together, the indicators point to a continuing decline in economic activity throughout 1981, albeit at a decelerating rate, until output levels off around the end of the year, with no hope of an improvement in employment in the foreseeable future.



Source: Scottish Economic Planning Department



Source: CBI Industrial Trends Survey

INDUSTRIAL PERFORMANCE

AGRICULTURE

Market prices of beef have been rising in the past three months and this is due mainly to a 50% reduction in imports from the Republic of Ireland. For the past six weeks Irish supplies have been rising, but this will not affect markets greatly, given that the level of imports is lower than last year and that UK slaughterings are forecast to fall between July and December. The Scottish beef market, where average prices are well above the Target Price, is in a relatively healthier state than the UK market, where the average price is barely higher than the Target Price.

Sheep prices have been falling due to a sharp rise in the level of sheep marketings since the end of May. This situation is likely to continue and the delayed fattening season in England will mean an even higher level of slaughterings in the next few months than was expected. Export prospects have improved recently because of the falling value of sterling, and a shortage of home marketings in France which has pushed prices up.

Scottish production of milk rose by about 2% in April over the figure for April 1980, but by June output had fallen sharply and was 3.5% lower than in the same period of 1980. Total production in the UK for June was down by 2.2% over the 1980 figure.

FISHING

The achievement of a common fisheries' policy satisfactory to the UK fleet seems increasingly unlikely in 1981 because of two recent developments. The first is the election of a new French President, who, it is feared, will take an even tougher line on fishing than his predecessor. The second is the UK government's chairmanship of the Council of Ministers for six months from 1 July. It is normally the function of the nation in this position to act as a mediator in disputes suggesting compromises for the good of the Community. This causes a dilemma for Britain since she is one of the major interested parties in fishing policy, and would imply that the already protracted negotiations will be extended even further.

Once again, the future of the Scottish fleet is in limbo. It has long been held that if the fleet is to survive, restructuring is essential, but this is impossible until Scotland's rights to the EEC catch are known. At present, it is still not worthwhile for many boats to put to sea because of the low level of quayside prices. There may be a temporary improvement when seasonal factors, such as the reduced imports of cod from Holland, come into play, and stabilise market prices, but this does not solve the underlying problem of prices being unrealistic vis-a-vis the costs of fishing.

OIL AND GAS

UK oil production in the first quarter of 1981 was 29.4 million tons, representing an output of almost 1.8m bpd. This was some 10.6% higher than production had been in the same quarter in 1980. However UK demand for crude in the same period was only 25.9 million tons, a drop of 14% from last year.

This surplus of supply over demand is a worldwide phenomenon reflecting oil conservation programmes, substitition among energy inputs and general industrial recession. This situation has caused important adjustments in the UK oil market in recent months. Most significantly, in mid-June BNOC announced a reduction in the price of North Sea crude by $4.25 to $35 per barrel. Shortly afterwards, Statoil (Norway) cut its crude price to $35 per barrel. The upshot of this is that North Sea crude is more closely aligned to Saudi Arabia's reference price of $32 per barrel than to that of North African producers at $41 per barrel.

The loss to the Treasury in oil tax revenues arising from this cut is mitigated by the fact that it had already realised a substantial 'windfall' gain in oil revenues from the fall in the dollar price of sterling. Since oil tax is levied on the sterling value of oil prices in dollars, it is estimated that government revenue will be roughly the same at a crude price of $32.7 at a sterling price of $2.00 as it would have been at a crude price of $39.25 when sterling was $2.40.

Petroleum refiners has been arguing strongly for a cut in the price of North Sea crude and, according to BP, the cut announced will reduce their costs by 2p per gallon. It is claimed, however, that a further 2p reduction would be necessary to make refinery operations profitable. In view of this, BP announced in June that they were abolishing implicit subsidies on retail petrol prices which could lead to a rise of 5p - 10p per gallon of four star petrol. The eventual outcome will, of course, depend on the reactions of other suppliers and customers in the retail petroleum market.

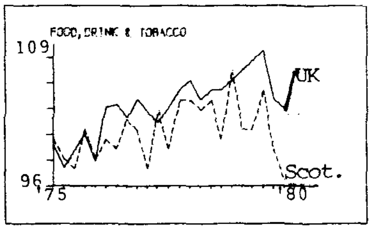
The excess of supply of crude is also likely to have ramifications on UK oil production. During the last quarter, the government has made it clear that it is contemplating restricting crude production next year and subsequently to bring domestic production more in line with domestic demand. In this context, it is perhaps significant that BP cut Forties field output by 35,000 bpd in the second quarter of 1981, though this was partly attributable to maintenance on the field's four platforms.

On the gas front, the quarter's most important news concerns the lack of progress on the North Sea gas gathering pipeline project. This was dealt a serious blow in early June when Norway announced its own pipeline proposals for Stratfjord gas. Previously it had been hoped this gas would be piped through the UK system. Though the UK project still appears to be economically viable, it is proving very difficult to attract private investment funding. Recently it has been suggested that British Gas might undertake all the initial financing and hope to attract private money subsequently.

The quarter has seen announcements on oil equipment which will have important benefits for onshore oil related employment and for the UK's offshore technological capabilities generally. Firstly, it was announced that Highland Fabricators and McDermott Scotland have won the contract for the platform for Conoco's Hutton field. Valued at £150 million, this order will save several hundred jobs in these yards and in associated contractors.

Equally importantly, this design will be the world's first operational tension-legged platform. Along with sub-sea completion, this system has been thought for a number of years to be the most promising for bad weather, deep water environments where the cost of conventional platforms is prohibitive. Secondly, BNOC announced their interest in purchasing a new drilling rig at a projected cost of £70 million. Scott Lithgow on the Clyde are currently favoured to obtain the contract if it transpires. As proposed, this rig would also be at the forefront of world oil technologically, being 'dynamically positioned' on site by computer control.

FOOD, DRINK AND TOBACCO



71% of respondents to the CBI Industrial Trends Survey, in April, have levels of output below a satisfactory rate of operation. The outlook of respondents remains pessimistic - 51% expect to reduce numbers of employees in the next four months, while a similar number expect to authorise less capital spending in the next twelve months than they did last year. The main reasons cited for the intended lower expenditure are the uncertainty of demand, and the consequent inadequate returns to investment.

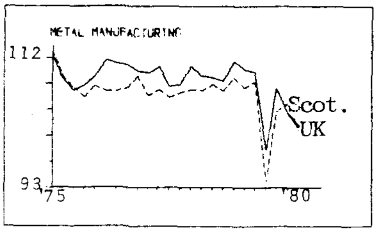
Schweppes intend to invest £4m in the expansion of their East Kilbride factory, and this will mean continuing employment for the workforce. The investment is the largest single project undertaken by the company in the UK.

WHISKY

Total production in the first quarter of 1981 was 71,320 thousand litres of pure alcohol. This is a reduction of 30.6% on the production of the previous quarter, and is 41% lower than output in the same period of 1980. This fall in production reveals the extent of the current crisis in the industry. About 5,000 workers are on short-time, and malt distilleries are working at less than 50% of capacity. The incidence of short-time working in bottling and blending plants is also rising. The short-term outlook for the industry may be slightly better, because it is expected that exports will pick up when destocking by overseas distributors ends. A further boost to demand may result from the recent strengthening of the dollar against the pound. In the longer term, however, there may be barriers, in the shape of changing social tastes, to a return to the previous high rates of growth in sales. In the US, the largest export market for Scotch, there has been a shift in tastes towards light spirits and wines, and this has dented the traditional popularity of whisky. In an attempt to restore that popularity the industry is to collaborate in an extensive marketing campaign, worth one million dollars.

From 1 July, the industry is to receive an export subsidy, back-dated to 1977, on the theoretical cereal content of whisky exports. Distillers have paid tax on imported cereals, but have never received the EEC's export subsidy when cereals are exported in whisky. The export subsidy will be £15m per year.

METAL MANUFACTURE

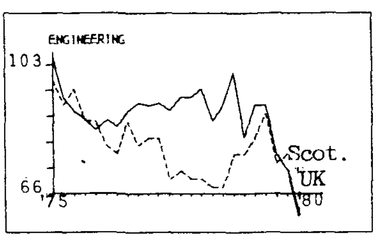


The April 1981 CBI Survey reports that, in Scotland, only 8% of metal manufacturing firms are more optimistic about the general business situation than they were four months ago. This certainly gives no indication that a recovery is imminent in this sector. At least 52% of the firms in this sector are also operating below capacity production.

Export orders give the only glimmer of hope on an otherwise bleak horizon with a continued expectation by 49% of firms that their export orders will be up on the last four months whereas only 15% believe that they will be down. On the domestic scene the figures are less optimistic with the corresponding percentages reported as 6% and 26% respectively.

One ominous note for the future of British Steel in Scotland was given by the Chairman of BSC who stated that the Scottish operation was not meeting its output quota. Part of the guarantee to Scottish steelmen was that most of their jobs would be protected only if they reached the productivity targets set. If this failure continues further redundancies and closures can be expected.

ENGINEERING



Output in the UK engineering industry fell in the first quarter of 1981 by an overall 3%. This fall was most marked in the electrical and instrument engineering sectors (-4% and -3% respectively) and least in the mechanical engineering sector (-1.6%)

The CBI Survey for Scottish firms reports that a massive 87% of engineering firms are operating below capacity even though orders are continuing to improve slightly.

In Scotland's new "boom" industry, electronics, there was a number of developments over the last three months. A hoped for deal with US firm Interlek looks like being lost to Scotland after they decided that the State aid offered to induce them to Scotland was not enough. They are to look at sites in France and Eire before deciding where the 1,200 job development will finally settle. Another factor appeared to be the excessive bureaucratic network of agencies which were involved in the negotiations. A further blow was levelled at the industry when Burroughs announced that another 370 of their workforce were to be made redundant by the end of August at the company's Cumbernauld plant. This completed a halving of the workforce (from 1,600 to 800) in less than a year. Fears in the town are that Burroughs may leave altogether however the company has indicated that this will not be the case.

There are, however, some bright spots for electronics - the Manpower Services Commission are to spend £1 million on training electronic industry technicians in Scotland. The Mitsubishi Electronics Corporation is looking for a site in Scotland in order to expand its UK TV production. The decision has been helped by the good relations the company has formed with its workforce at Haddington and up to 500 jobs are expected. Finally, a new international telephone exchange to be built at Irvine by British Telecom will provide 200 jobs by June 1983.

On the mechanical and heavy engineering front it was announced in May that the Weir Group had sold £4.5 million worth of shares to two American millionaires, although fears of a takeover were denied.

Airdrie received a jobs boost when North of England company, Tangrose Engineering announced an expansion of its operations. A 60,000 sq ft factory will be occupied at the town's Chapelhall Industrial Estate.

Rockwell Corporation who built the US space shuttle announced the opening of a valve-manufacturing plant in East Kilbride which should bring an expected 800 jobs to the new town. Some gloomier news involved Sandvik brazed tool makers and SCM Typewriters where respectively 84 and 300 redundancies were announced.

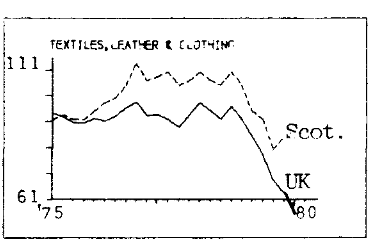
SHIPBUILDING AND VEHICLES

Events on the shipbuilding front has been bleak in the past few months. Firstly, the Ministry of Defence announced cutbacks in spending on naval vessels which could affect jobs at Yarrows and Scott-Lithgow (who manufacture submarine tubes) on the Clyde.

British Shipbuilders announced that the Robb-Caledon yard at Dundee would definitely close. The workforce had been trying to save its jobs however BS have squashed all hopes of a policy reversal and the 432 jobs are now certain to go.

World trade outlook also suggests that a recovery of shipbuilding orders will be slow in materialising with the continuance of the recession.

TEXTILES, LEATHER AND CLOTHING



Response to the April CBI survey would seem to indicate that business conditions, although unsatisfactory, are not expected to worsen significantly. However, the future remains insecure for the great majority of firms - only 8% of respondents plan a level of capital expenditure higher than that of the last twelve months, while 55% expect to have a lower level of spending on plant and machinery than they had in the last twelve-month period.

Employment in various sections of the textiles industry continues to be adversely affected by the recession. A carpet factory in Dundee has been forced to cut back operations, with the resultant loss of 120 jobs. The jeans industry in Scotland held the promise of good employment prospects until recently, but several factors have combined to make short-time working, closures, as with the Lee factory in Greenock, and the postponement of expansion plans unavoidable. The plans of a major jeans retailer to reopen the Greenock plant has yet to be confirmed. One of the major problems is the increasing supplies of cheap goods from Far East competitors, who are finding ways round the import quota regulations. Retailers have reduced their order levels, because the present level of interest rates is making high stock-holdings undesirable.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 below gives estimates of the numbers of employees in employment in Scotland and in England and Wales for the period December 1979 to December 1980.

TABLE 1 EMPLOYEES IN EMPLOYMENT IN SCOTLAND AND IN ENGLAND AND WALES (000')

	TOTAL	MALES	FEMALES
SCOTLAND			
Dec 1979	2,057	1,181	876
March 1980	2,030	1,165	864
June 1980	2,036	1,168	869
Sept 1980	2,011	1,152	858
Dec 1980	1,975	1,129	846
ENGLAND & WALES			
Dec 1979	20,316	11,851	8,465
March 1980	20,002	11,699	8,304
June 1980	19,972	11,663	8,309
Sept 1980	19,699	11,510	8,190
Dec 1980	19,351	11,248	8,103

Source: Department of Employment Gazette

As the table shows, total employees in employment in Scotland fell by 36,000 from September 1980 to 1,975,000 in December, bringing the overall decline in the year to approximately 82,000 (4%). In England and Wales, total employment in December 1980 fell to 19,351,000, about 4.7% below the December 1979 level.

In Scotland, male employment fell by 23,000 (2%) in the last quarter of 1980 and by 52,000 (4.4%) in the year whilst female employment declined by 12,000 (1.4%) in the last quarter of 1980 and by 30,000 (3.4%) in the year. In England and Wales, both male and female employment declined over the year, but more severely than in Scotland, with the December male and female employment totals down by 5.1% and 4.3% respectively on their December totals of the previous year.

Table 2 shows the sectoral breakdown of employment in Scotland in December 1980. Employment declined in every sector in the period December 1979 to December 1980 with the exception of services which remained static. The figures also indicate the severity of the decline of manufacturing industry in the same period. This sector experienced the largest absolute and relative fall and accounted for approximately 84% of the decline in total employment in the year.

TABLE 2 TOTAL EMPLOYMENT IN SCOTLAND BY SECTOR: DECEMBER 1980

SECTOR	NO EMPLOYED (000's) DEC 1980	NO EMPLOYED (000's) DEC 1979	% OF TOTAL (DEC 1980)	CHANGE IN NO EMPLOYED (000's) DEC 1979-DEC 1980
Agriculture, Forestry & Fishing	45	(47)	2.3%	- 2
Manufacturing	516	(585)	26.1%	-69
Construction, Mining and Utilities	218	(229)	11.0%	-11
Services	1,196	(1,196)	60.6%	0
Total	1,975	(2,057)	100.0%	-82

Source: Department of Employment

Total registered unemployment continued to rise in Scotland in the second quarter of 1981 to 305,801, an increase of 19,611 over the May total. This corresponds to an unemployment rate of 13.5% compared with 12.7% the previous month and 9.9% the previous June. The latest figures mean that 85,000 more people in Scotland were out of work in June than the same time last year.

The seasonally-adjusted unemployment figures for the year June 1980 to June 1981 are detailed in Table 3. From these figures, it is evident that the underlying rate of increase in unemployment remains high with no clear sign of permanently slowing down. Indeed, a remarkable feature of the monthly rate of increase of seasonally adjusted unemployment isits relative constancy. The increase in seasonally adjusted unemployment in the second quarter of 1981 averaged 6500 adults per month compared with an average of 5833 per month in the first quarter. It is however lower than the average of 8967 adults per month which occurred in the last quarter of 1980.

Male unemployment (seasonally adjusted) continues to rise at a faster rate than for females. Over the year to June 1981, male unemployment has risen by approximately 50% compared with 30% for females. Official figures may tend however to understate the effect of a recession on female employment. Many women who would work if the opportunity arose may not officially register as unemployed (a) because they feel there are no job opportunities and (b) because they may not qualify for any social security benefits. These effects will only be partially offset in periods of high male unemployment by women seeking work to maintain family income.

TABLE 3 SEASONALLY ADJUSTED UNEMPLOYMENT, SCOTLAND FROM JUNE 1980 TO JUNE 1981

		Unemployment (000's)			Seasonally-Adjusted Unemployment Rate
		Male	**Female**	**Total**	**%**
1980	June	130.7	68.4	199.1	8.8
	July	135.1	69.9	205.0	9.1
	Aug	139.6	72.2	211.8	9.4
	Sept	146.3	73.9	220.2	9.7
	Oct	153.4	76.0	229.4	10.2
	Nov	160.7	78.5	239.2	10.6
	Dec	167.3	79.8	247.1	10.9
1981	Jan	170.9	81.6	252.5	11.2
	Feb	175.2	82.9	258.1	11.4
	Mar	180.1	84.5	264.6	11.7
	April	185.0	86.6	271.6	12.0
	May	189.8	87.8	277.6	12.3
	June	195.4	88.7	284.1	12.6

Source: Department of Employment Press Notices

As has been noted before, without the various government schemes designed to alleviate the effects of high unemployment, the figures would be considerably higher. Table 4 provides estimates of the number of people who have been involved in these schemes in recent months, although not all would otherwise have registered as unemployed.

TABLE 4 SPECIAL EMPLOYMENT TRAINING MEASURES IN SCOTLAND FROM DECEMBER 1980 TO MAY 1981

Scheme	**1980 Dec**	**1981 Jan**	**Feb**	**Mar**	**April**	**May**
T.S.T.W.C.S.*	53,200	41,400	73,214	73,200	42,883	23,544
Job Release Scheme	4,970	4,930	4,888	4,763	4,796	4,531
Youth Opp. Programme	20,400	20,900	21,500	20,000	21,500	22,000
Community Industry	1,370	1,450	1,468	1,447	1,484	1,497
Special Temp. Emp. Programme	2,850	2,750	2,800	2,900	3,000	3,400
Training Places Supported in Indus.	1,310	1,210	1,438	1,358	1,018	1,027
Total	84,100	72,600	105,308	103,668	74,681	55,999

Source: Department of Employment Press Notices

*Temporary Short-Time Working Compensation Scheme

In a climate of deteriorating labour market conditions, pressure on resources available for these schemes has become acute and many programmes have become less effective. For example, fulfilment of the aim to provide unemployed young people with valuable training and work experience and to facilitate their entry into permanent employment has been hampered by a combination of factors stemming from a rising tide of school leavers on to the job market and the continuing recession. Contributing to the total registered unemployed in June were 27,377 school leavers, (ie those under 18 who have not entered employment since terminating full-time education). The figures in Table 4 provide an indication not only of the scale of the youth unemployment problem but also of the priority given to the young unemployed school leavers. The Manpower Services Commission has already made a commitment this year to provide a place on the Youth Opportunities Programme to all unemployed school leavers by the Christmas following their leaving school. A provisional estimate of expenditure on the Youth Opportunities Programme in Scotland for the year 1980/81 is £29.5 million and this and expenditure on other special schemes for young people is expected to increase substantially in 1981/82. It remains to be seen however, whether the Prior plan to guarantee every 16 year old leaving school in 1983-1984 access to either a job, further education or a place on the Youth Opportunities Programme, will be accepted by the Government. The main consequence of this proposal would be to effectively eliminate registered unemployment among school leavers. Its cost, however would be approximately £1 billion for the UK as a whole and the quality of the training provided may prove questionable.

REGIONAL REVIEW

UNEMPLOYMENT AND VACANCIES

The latest figures show that 305,801 people are now unemployed in Scotland, representing an unemployment rate of 13.5%, an alarming increase of 18,557 over the first quarter of this year. With the closure of the Talbot car plant at Linwood and the seasonal increase due to school leavers the total number unemployed in Strathclyde alone has risen by 11,383 since March 1981, representing an unemployment rate of 16.1%. Strathclyde along with the other more industrialised regions of Scotland such as Tayside, Fife, Central and Lothian have suffered particularly badly with no discernible slowing down of their unemployment rates. Indeed there are few reasons, if any, why unemployment in these regions should not continue on its current upward trend given present national and regional economic policies. Whether high unemployment in these areas will lead to scenes similar to those recently experienced in Toxteth and Brixton in England remains to be seen.

The figures for notified vacancies across the regions of Scotland are no more optimistic. Although there has been a national increase of 847 vacancies since the first quarter of 1981, relatively high unemployment regions such as Central and Tayside have experienced falls in the number of notified vacancies. With the likely increased levels of unemployment across all regions of Scotland the unemployment to vacancies imbalance will continue for some time to come.

REGIONAL DEVELOPMENT GRANTS

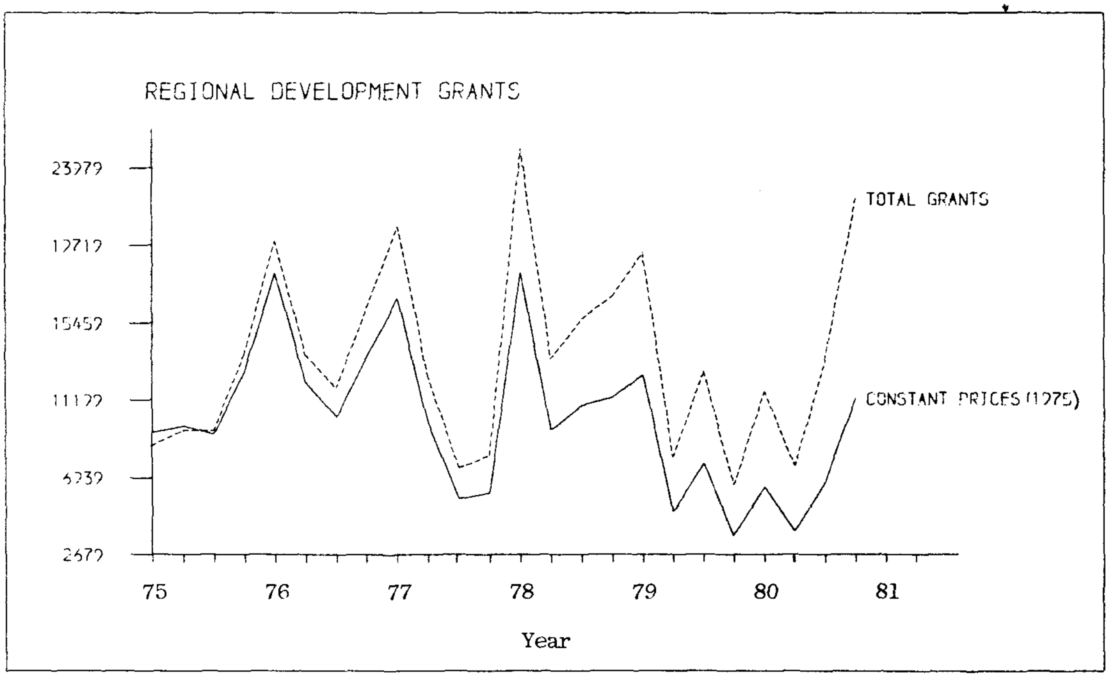
The UK government awarded £25.7m of Regional Development Grants (more than £25,000) to firms located in Scotland in the first quarter of 1981. In constant 1975 prices this represents £12.8m, a rise of 13% since the end of 1980. Within this total figure the employment office areas of Irvine, Grangemouth, Motherwell, Peterhead, Glenrothes, East Kilbride, and Dumfries benefited most from the allocation of grants. The largest share of the grants paid in the first quarter of 1981 went to firms involved in electronics, steel, chemicals and oil related industries. Whether these development grants are going to what can be termed true marginal investment projects, as they were originally intended to, is certainly debatable.

The European Regional Development Fund paid Scotland £4.2m out of its total UK allocation of £34m for the second quarter of 1981. Most of these grants usually go to local authorities to aid their infrastructures, thus reducing the amount they have to borrow to finance their investments. In this allocation however £2.4m will be divided between Burroughs Machines in Livingston, who produce data processing and computing equipment: Strathleven Bonded Warehouses for whisky blending and bottling in Dumbarton; and Nimslo for their three-dimensional photographic equipment in Dundee. In addition to these projects Associated Maltsters in Airdrie received £508,800. Although Scotland has benefited relatively well in the past from these allocations it is still the case that funds devoted to regional and industrial aid is a small proportion of total EEC spending.

TABLE 1 UNEMPLOYMENT, UNEMPLOYMENT RATE AND VACANCIES NOTIFIED BY SCOTTISH REGIONS, JUNE 1981

	TOTAL UNEMPLOYMENT		UNEMPLOYMENT RATE %		VACANCIES	
Borders	3,057	(3,005)	7.8	(7.7)	252	(267)
Central	15,489	(14,262)	13.1	(12.1)	439	(584)
Dumfries and Galloway	7,072	(6,982)	12.7	(12.5)	318	(295)
Fife	17,556	(15,995)	12.8	(11.7)	795	(497)
Grampian	14,198	(13,686)	7.6	(7.4)	2,005	(1,705)
Highland	8,295	(8,641)	10.5	(10.9)	1,046	(1,005)
Lothian	36,328	(33,558)	10.6	(9.8)	2,131	(1,890)
Strathclyde	177,835	(166,417)	16.1	(15.1)	5,646	(5,531)
Tayside	23,285	(22,110)	13.4	(12.8)	623	(695)
Western Isles	1,663	(1,671)	20.1	(20.2)	103	(68)
Orkney	555	(553)	9.0	(9.0)	28	(12)
Shetland	468	(403)	5.3	(4.6)	107	(88)
SCOTLAND	305,801	(287,243)	13.5	(12.7)	13,484	(12,637)

Figures for March 1981 are in brackets. Unemployment totals and the unemployment rates include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Offices and the Employment Services Division. Since double-counting occurs the vacancies figures have to be viewed as slight overestimates in most regions.



Source: British Business

UNEMPLOYMENT BLACKSPOTS

The burden of unemployment is borne inequitably over the regions of Scoland. Within some regions there are wide fluctuations in levels and rates of unemployment when figures for employment exchange/career office areas are examined. Unfortunately a number of these are grouped together,particularly in the cities. Nevertheless the most recent figures relating to June 1981 show that forty-two out of the sixty groupings of employment offices are recording unemployment rates above 10%. This compares with the July 1975 situation where only five offices were reporting equivalent unemployment rates.

TABLE 2 THE DISTRIBUTION OF UNEMPLOYMENT

% Unemployed	No of Employment Offices 1975	1981
1 - 5	27	0
5.1 - 10	35	18
10.1 - 15	4	20
15.1 - 20	1	19
20.1 +	0	3
	67	60

Source: Manpower Services Commisson

The emergence of unemployment blackspots not only creates serious economic and social problems in these areas but also highlights the need for employment policies which are predominantly selective rather than national in their scope.

The general rise in levels of unemployment experienced throughout Scotland are reflected in Table 3 which compares the worst affected areas in July 1975 with those in June 1981. However there are also some notable changes. Stornoway, although it is no longer the worst affected area, has increased its unemployment rate from 15.8% to 20.1%. Areas such as Campbeltown, Stranraer and Cumbernauld, despite featuring strongly in 1975, are no longer represented in 1981. The Irvine/Kilwinning/Saltcoats area on the other hand has experienced a rapid rise in unemployment from 7.9% in 1975 to the present 21.8%. Even within these areas however the statistics conceal that certain localities are experiencing extremely high unemployment rates. Unfortunately it is not possible to extract from published statistics a more disaggregated picture. This probably explains why so few central belt areas appear in Table 3 as might have been expected, if only from intuitive impressions.

The closure of large manufacturing plants in some towns has been a major factor explaining the sudden increases in unemployment in many areas. For example the recent closure of the Linwood plant has been largely responsible for the increase of 1,390 to the unemployment register in the Paisley area between May and June 1981. This statistic is heavily skewed with 1,244 male jobs lost and only 146 female jobs. Within Paisley itself the impact of this closure is perhaps even more problematic, with newspaper reports suggesting that in at least one housing estate around 70% of the tenants have been directly affected.

Some tourist areas, such as Rothesay or Portree, must contend with significant fluctuations over the course of a single year. The highest unemployment is of course recorded during the winter months, but even during the peak season unemployment remains at unacceptably high levels.

TABLE 3

UNEMPLOYMENT BLACKSPOTS 1975 AND 1981

	1975	%	1981	%
1.	Stornoway	15.8	Irvine/Saltcoats area	21.8
2.	Lesmahagow	13.1	Sanquhar	21.3
3.	Stranraer	11.5	Stornoway	20.1
4.	Campbeltown	10.2	Airdrie/Wishaw area	19.5
5.	Cumbernauld	10.1	Arbroath	19.1
6.	Sanquhar	9.9	Newton Stewart	18.6
7.	Newton Stewart	9.9	Bathgate/Broxburn/Livingstone	18.2
8.	Lanark	9.8	Forres	18.2
9.	Wick	9.5	Alexandria/Dumbarton/Helensburgh	18.0
10.	Kilbirnie	9.1	Rothesay	18.0
	Scotland	6.0		13.5
	GB	4.5		10.9

Source: Manpower Services Commission.

Variations in male and female unemployment are significant in some areas. For example Buckie has 21% male unemployment and 8% female unemployment. This situation is mirrored in the Glasgow travel to work area where equivalent figures are 18.7% and 10.2% and in the Edinburgh area where male unemployment is 11.8% and female unemployment 6.2%. Many of the new jobs created have been for skills traditionally associated with women and as such have failed to absorb the male unemployed who do not have the necessary training. As such, male employment is likely to remain relatively higher than female unemployment.

OUTLOOK AND APPRAISAL

The current economic situation is extremely depressed and recent events suggest that, without significant increases in economic activity, the political and social fabric of this country may be severely strained. However, as argued in the UK section, the prospects for recovery are bleak and reliance on a purely financial strategy to restore growth is in itself inadequate. The source of real economic growth lies in the ability of labour, capital and enterprise to come together in a manner conducive to increased productivity over time. It is therefore worthwhile examining these factors of production to determine the effect of current policies upon them.

The government has made much out of the fact that the recession has created 'a fitter leaner' manufacturing sector with industrialists and unionists displaying 'a new sense of realism'. Certainly the fall in manufacturing employment has been severe. Department of Employment figures show that in Great Britain the seasonally adjusted index of employment in manufacturing industries fell to 73.7 (av. 1970 = 100) in April 1981 compared to 86.2 in April 1979. The scale of this fall is partially due to a past reluctance to deal with problems of overmanning and the recent shake-out is reflected in the gains in productivity reported recently. These gains are also partially due to the closure of many firms whose productivity was below average. However, in both cases, the increase in productivity represents a once and for all gain and not a dynamic and sustainable improvement. In order to achieve this the labour market must operate in a manner which constantly improves the quality of human capital. Consequently, training has to be provided for young people and those with redundant skills, an educational system conducive to high technology must be provided, and finally, an infrastructure developed by which the various flows of labour are facilitated.

Current policy has failed to achieve these goals. The number of trainees in British manufacturing industry has fallen by about a half between 1970 and 1980 from 420.7 thousand to 239.5 thousand. The rate of decline in training has increased and has been at a more rapid rate than the decline in total manufacturing employment. Further, the government has announced cut-backs in higher education, a move likely to hinder the provision of high quality labour and reduce the research capacity of the universities.

Of these, the fall in the number of trainees may prove the hardest to reverse. The government has to date shown little imagination in dealing with this problem, preferring to grudgingly expand safety net provisions such as the Youth Opportunities Programme inherited from their predecessors. Little emphasis has been given to schemes which might provide more meaningful training for both young people and the older worker. For example, in Economic Perspectives, it is argued that the national insurance scheme induces businesses to economise on the amount of labour they employ. It should, at least, be possible for government to exempt a firm from additional national insurance payments if they provide an unemployed person with training. Indeed, even the cost of providing a direct subsidy inducing employers to take on additional workers is small when one takes into account increased tax revenue and the removal of unemployment and supplementary benefit payments. Such schemes constitute a more productive use of government expenditure and as such should not prove too much of an anathema.

Government policy towards capital in the form of public and private investment has been punitive. This Institute has long argued that if public investment programmes are likely to show a positive rate of return then they should be allowed to respond to market signals. The current doctrinaire approach to public investment neglects a more important distinction, that is between the efficient and inefficient allocation of expenditure. The increased expenditure on current government consumption at the expense of viable public capital expenditures (given inflexible PSBR targets) is the 'crowding out' problem that should be of most immediate concern.

With regard to private industry, high interest rates, a lack of domestic and foreign demand, excess capacity and a widespread loss of confidence have resulted in a serious fall in investment. The level of fixed capital expenditure of manufacturing industry (seasonally adjusted) fell by 21% from £964m in the first quarter of 1979 to £758m in the same period in 1981. This fall in expenditure not only detracts from present final demand but more importantly inhibits the possibility of future growth. If Britain is to compete in world markets it must adopt technologically advanced equipment. Even if smaller wage increases can be achieved and the exchange rate remains at its present level, many British manufacturers will be unable to meet the strict specifications, both on quality and time, demanded by customers if they continue to use out-dated plant and machinery. The few firms who invested through the recession may now be rewarded for their adventure, but are unlikely to be numerous enough to offset the declining sectors.

While this government is extremely unlikely to adopt any form of industrial strategy, an active effort can be made to encourage capital investment beyond exchange and interest rate policies. More specifically, a selective system of investment grants could be developed to encourage firms and sectors showing potential for growth. This might evolve out of the current regional development grant system but importantly must direct funds to encourage projects which are marginal and/or promising. Currently, much of the aid given in regional development grants goes to investment projects which would have taken place regardless of receipt of a grant.

The lack of success in stimulating enterprise has perhaps been the greatest disappointment in the government's economic strategy. It was this, more than anything, that was to provide the catalyst for growth through an encouragement of incentives based on tax cuts (although the evidence for such a claim was never unequivocal). Nevertheless, the government has failed to deliver and indeed have succeeded only in engendering pessimism amongst the business community. Given the financial constraints the government have set themselves, it is increasingly unlikely that they can introduce their tax incentive based policies.

Current policies have therefore acted to inhibit the ability of capital, labour and enterprise to gel in a manner conducive to the increased growth of the economy. In fact, much of the dynamism has been removed from each of the indiviual factors of production. There is however hope for the British economy. In particular, management and unions have seldom shown more agreement in their attitudes towards outmoded industrial practices and a common determination to rebuild British industry. What is needed more than anything are policies which stimulate the supply side of the economy rather than punitive measures which reduce its productive potential.

QUARTERLY ECONOMIC FORECASTS

Forecasts of output and unemployment until the second quarter of 1982 given current economic policies are given below.

	1981				1982	
	1	2	3	4	1	2
Manufacturing Output UK (1975 = 100)	86.5	86.2	86.1	86.1	86.0	85.9
Manufacturing Output Scotland (1975 = 100)	86.4	86.2	86.2	86.1	86.0	85.9
Unemployment - Scotland (000's)	285	305	315	330	340	355

There is little evidence to suggest that the level of manufacturing output will increase in the foreseeable future. However, it is unlikely to decline over the next two quarters given a likely increase in stockbuilding and the recent fall in the value of sterling against the dollar. In fact, the Scottish economy is in a better position relative to the rest of the UK as the US market is of greater importance to Scottish exporters. Our forecast of 305,000 unemployed in June was accurate and it is our expectation that by the end of the year Scottish unemployment will be 330,000. By next summer, we forecast that unemployment will rise to over 350,000.