

# Forty turbulent years: How the Fraser Economic Commentary recorded the evolution of the modern Scottish economy

## Part 1: Inflation, intervention and the battle for corporate independence, 1975 – 1990

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The recent economic history of Scotland, its performance and place within the UK and international economy can be traced through the pages of the Fraser of Allander Economic Commentary. Created in 1975 by a private bequest from Sir Hugh Fraser, a prominent Scottish businessman, the Fraser of Allander Institute has provided a continuous commentary on the economic and related policy issues facing Scotland over the period. In this the fortieth anniversary of the Fraser of Allander Institute, this is the first of three articles which charts Scotland's transformation from an economy significantly based on manufacturing (and mining) to one that saw rapid deindustrialisation (in terms of output), the discovery of oil and the rapid transformation of its business base with the impact of both merger and acquisition (M&A) activity as well as the varied impacts of successive governments' industrial and regional policies.

When the Fraser of Allander Economic Commentary first appeared, in quarterly installments, in July 1975, the Scottish economy it set out to analyse was very different, in texture and tone, from the one it continues to appraise, now in its fortieth consecutive year. Then UK inflation was going through the roof. From May to November of 1975 the then-benchmark RPI measure of UK price inflation was consistently running at an annualised rate of 25% or above. Indeed inflation stayed in double digits for much of that decade and on into the early Thatcher years. At the start of this anniversary year, with the now-core CPI inflation measure reaching an all-time low of 0.3%, the fear stalking policy makers is not of hyperinflation and the kind of wage-price spiral that led to the "winter of discontent" in late 1978, but of the kind of deflationary spiral that has gripped Japan for much of the past quarter century and currently stalks the Eurozone.

Nowadays the performance of Scotland's labour market broadly mirrors that of the UK as a whole. Ministers in Edinburgh vie with London, when the monthly jobs figures come out, to lay claim to any marginal out-performance they can find. In the 1970s the differentials were starkly negative. Thanks to its heavy exposure to traditional manufacturing capacity, by then in serious decline, Scotland's unemployment rate typically outstripped the UK rate by a very large margin. The very first Fraser Commentary noted that "the unemployment percentage in Scotland fell from an average of more than twice the UK rate in 1964 to a ratio of 1.7 in 1973." It then noted that "by November 1974 the Scotland/GB rate had fallen to 1.48, the lowest figure recorded since 1954." Had there not been massive net out-migration from Scotland in the fifties and sixties, one wonders how much bigger these adverse Scotland/UK unemployment ratios might have been in that period. Between 1951 and 1971, net out-migration from Scotland totalled 606,500.

One feature of the Scottish economy has been a constant thread through the past forty years. Oil. Less than a month after the second Fraser commentary appeared, on 3 November 1975, Her Majesty the Queen pressed a gold-plated button in Dyce, sending the first crude from BP's Forties field from its landfall at Cruden Bay, by pipeline, to Grangemouth. Now, with the recent slump in the global oil price and Shell announcing plans to dismantle another iconic North Sea system, Brent, which lent its name to a global benchmark crude, all the talk is of the beginning of the end for the North Sea, if drastic fiscal action isn't taken. The story from there to here has provided a continuous stream of material for debate, from whose oil it is anyway to the capacity of indigenous Scottish businesses to capitalise on the opportunities exploiting hydrocarbon reservoirs off our shores presented.

Throughout, the fluctuating price of oil has been an ever-present and challenging reality. In 1973, in protest at the United States arming Israel in the Yom Kippur war, Arab states first imposed a supply embargo and then started hiking the global price of oil. By March 1974 the barrel price had quadrupled, from \$3 to nearly \$12. There was a stock market crash as recession bit. In the UK these problems were exacerbated by what came to be known as the Barber boom. In his 1972 Budget, Edward Heath's chancellor Anthony Barber delivered a tax-cutting package designed to ensure the Heath government's re-election. He certainly stimulated an intense burst of growth. But the electorate, in February 1974, returned a minority Labour government led by Harold Wilson. That very first Fraser commentary was blunt in its assessment of the Barber boom and its likely consequences.

"The UK has been almost alone amongst industrialised countries in continuing to expand domestic demand, maintaining this expansion by means of heavy external borrowing," ([Vol 1 No 1](#)) it argued. "A comparatively lower rate of unemployment has been achieved at the cost of an alarming and accelerating rate of inflation and deteriorating price competitiveness. However while the necessary readjustment of the domestic economy has been postponed, it cannot be avoided."

How right they were. Within months of being elected the minority Labour government had gone back to the voters, to be voted in again with a wafer thin majority. Harold Wilson resigned unexpectedly in March 1976. Jim Callaghan replaced him as prime minister. By that November, Callaghan's chancellor, Denis Healey, had had to go ('cap in hand' was always the phrase, no?) to the International Monetary Fund, seeking a loan and submitting the UK's finances to IMF supervision. Distant echoes of the position facing the current Greek government; though its financial plans are now overseen by the 'troika' of the IMF, European Central Bank (ECB) and the European Commission.

There was a second significant surge in global oil prices at the end of the 1970s. When the Shah was ousted in Iran in 1979 and through into 1980, when the Iran-Iraq conflict started, OPEC pushed the global price higher still. In its October 1980 commentary, the Fraser of Allander Institute estimated that a 130% oil price hike would lead to an accumulated loss of output in the industrialised countries of around 5% by the end of 1981 and would add an additional 11% to consumer prices. It expected the United States and the United Kingdom to experience absolute falls in output. "Both in deeds and words, the leaders of the western countries have made it clear that, given an apparent choice between greater inflation and greater unemployment, they have chosen greater unemployment," ([Vol 6 No 1](#)) the commentary warned.

When Margaret Thatcher's first chancellor, Geoffrey Howe, unveiled his 1981 budget the following March, the Fraser authors found they had under-estimated just how uncompromising his approach would be. This was the mirror image of the Barber boom budget. Having pushed up VAT to 15% and added 10p to the cost of a gallon of petrol in his first budget in June 1979, Howe now froze personal tax thresholds and allowances and whacked a further 20p on the cost of a gallon of petrol. The April 1981 commentary called the measures "ill-advised and their claimed justification - the restoration of order to the public finances - highly questionable." ([Vol 6 No 4](#)) Its authors were not alone.

A group of 364 academic economists across the UK wrote to *The Times*<sup>1</sup>, claiming Howe's measures had "no basis in economic theory" and would threaten the UK's "social and political stability". Among them was Mervyn King, later destined to become Governor of the Bank of England. A fierce debate has raged ever since. Howe's supporters claim his approach did indeed tame inflation, leaving it at more subdued levels ever since. But the price that continues to be paid is, as the Fraser team foresaw, much higher average levels of joblessness in the UK economy than existed in the previous quarter century pre-1981.

Higher global oil prices had a significant impact on the UK's public finances. It has been argued that, without that offshore bounty, the Thatcher government might never have been able to finance the consequences, in terms of rising unemployment, of that controversial Howe budget in 1981. Revenues from UK oil and gas production grew steadily from 1980, peaking in 1984/5 and 1985/6. Then, having risen so high in the previous decade and a half, the oil price itself fell sharply again. Inevitably government revenues from oil and gas fell dramatically too. At 2009/10 prices, revenues peaked at £35bn in 1984/5. Two years later revenues had fallen in value by two-thirds. The November commentary in 1986 carried an article entitled 'The Oil Price Collapse: some effects on the Scottish economy' ([Vol 12 No 2](#)). It was written jointly by a member of the Fraser Institute's staff, Jim Walker, and the oil economist at The Royal Bank of Scotland. An 11.5% fall in world oil demand and a substantial rise in non-OPEC production had put pressure on the oil price. The dollar barrel price had virtually halved since the start of the year. The paper suggested that, while lower oil prices might be good for global growth, "Scotland would seem to be a clear loser in that group of oil exporting states and oil related industries which are feeling the immediate and adverse impact of the oil price collapse on output and employment."

The RBS oil economist who, with Walker, penned that warning was Alex Salmond. It was his only contribution to the Fraser Economic Commentary. Nearly thirty years later, having been Scotland's first minister for more than seven years, leading his country to an independence referendum, Salmond has now stepped out of government. As he did so the global oil price was again on the slide. Having virtually halved in just four months, Scotland is once more facing that challenge to output and jobs. Only this time the North Sea province is much more mature and the prospects for ongoing investment much more problematical. Oil has indeed been a continuous thread in forty years of Fraser commentaries

When the first one appeared in 1975, the Scottish economy was already facing many, much-older, industrial challenges. Its coalfields, nationalised under the UK-wide National Coal Board in 1946, were struggling to stay competitive. Miners were fighting for wages that could keep pace with rampant price

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<sup>1</sup> Including University of Strathclyde economists R. G. Brooks, Professor A. I. Clunies-Ross, K. Hancock, J. Sconller and P. Wanless – Philip Booth (Editor) *Were 364 Economists All Wrong?*, Institute for Economic Affairs, 2006

inflation. In 1972 they called their first official strike since 1926. A second followed at the start of 1974. On both occasions the Heath government's response was to declare a state of emergency and implement a three-day week. The lights went out. Electricity was strictly rationed. Faced with that second strike, Heath decided to go to the country to seek a fresh mandate. But the electorate returned a minority Labour government which promptly settled with the NUM (National Union of Mineworkers).

Fast forward to the 1980s and the explosive issue dividing miners and government turned from wages to pit closures. The incoming Thatcher administration backed down, in 1981, over plans to close 23 pits. But as we now know from her own biographer Charles Moore, one of the first things she did on taking office in 1979 was to tell her deputy Willie Whitelaw "The last Conservative government was destroyed by the miners' strike. We'll have another and we'll win." By 1981 the logistics and planning for ensuring that victory - stockpiling enough coal; mobilising police strength in coalfield areas - were not yet in place. By 1983 she had brought a Scot, Ian MacGregor, over from America to run the National Coal Board. He had privately put a massive pit closure programme back at the top of his agenda. A bitter, protracted battle with the miners, now led by Arthur Scargill, was almost inevitable. It lasted a year and left the NUM defeated, demoralised and divided. Thirty years on from that March 1985 denouement, the three remaining deep mines in the UK (none of them in Scotland) are due to shut over the next two years.

The long decline in shipbuilding in Scotland and the rest of the UK has followed a shallower trajectory. Arguably production of ships reached its peak across these islands in the first decade of the 20th century. Had it not been for two world wars marine engineering might have emulated coal's rapid endgame. As it is ships are still being built on the Clyde, mainly for the Royal Navy. The latest, two massive aircraft carriers, are actually being assembled in huge modules at yards around the UK, then brought by barge to Rosyth on the Forth, for final assembly. When the Fraser commentary series began, there were still hopes of maintaining a viable merchant shipbuilding capacity in Scotland and across the rest of the UK.

On the Clyde, the Geddes-inspired restructuring of the late sixties foundered with the liquidation of Upper Clyde Shipbuilders in 1971, barely three years after five major shipbuilders on the upper river had amalgamated. The iconic work-in that followed, led by the late Jimmy Reid, served the workers in the yards more productively than Arthur Scargill's mortal combat with Margaret Thatcher a decade later. In 1977 what was left of UCS, together with the Scott Lithgow grouping on the Lower Clyde and numerous other yard groupings around Britain were merged into state-owned British Shipbuilders, headquartered in Newcastle. In the merchant yards the mismatch between order books and production capacity persisted. By the end of 1982, British Shipbuilders had closed half its yards.

New legislation by the Thatcher government the following year ensured the remaining yards would be privatised once more. On the Clyde, Govan Shipbuilders became part of the Norwegian-owned Kvaerner group and the naval shipbuilder Yarrow became part of GEC's Marconi division. Together they now constitute the naval ships arm of BAE Systems Maritime. On the Lower Clyde the small Ferguson yard survives (after a recent buy-out by the Scottish industrialist's Clyde Blowers Capital), building ferries for the Scottish government and hoping for orders from the offshore and renewables sectors.

It wasn't just the historic bedrock of Scottish industry, like coal and shipbuilding, that was facing tumultuous times during these first fifteen years of Fraser commentaries. Singer, the American

corporation that then dominated world sewing machine manufacture, first came to Clydebank in the mid-1880s. It built a production complex so vast it had its own distinctive clock tower and dedicated railway halt. By 1980 it was closing its gates for the last time. Tractor manufacturer Massey-Ferguson came to Kilmarnock in 1948, but departed in 1978. British Aluminium opened a large smelter at Invergordon on the Cromarty Firth in 1971, only to close it at Christmas 1981. Diverse industries across Scotland, with life cycles as long as a century and as short as a decade, all falling like ninepins by the end of the 1970s.

There were others. The giant car plant at Linwood. The pulp mill in Lochaber. The BMC/Leyland truck and tractor plant at Bathgate. The strip steel mill at Ravenscraig. All now gone. Some forever enshrined in the Proclaimers' plaintive lament Letter from America. Only Ravenscraig kept producing into the 1990s, finally closing in 1992. In a commentary piece in 1982, reflecting on why such plants had been sanctioned and financially supported by the state in the first place, David Simpson was blunt "Their establishment and location was dictated by political, and not by economic, considerations. Since, in the modern world, change is continuing, closure of such uneconomic plants was only a matter of time."([Vol 7 No 3](#)).

Post-war regional policy was certainly deployed by governments, regardless of the party in power, to persuade companies to invest in some of the least economically dynamic parts of the country. The system of industrial development certificates, introduced by the Atlee Labour government in 1947, was used enthusiastically by the Macmillan Tory government in the early 1960s to persuade Lord Rootes, against his own instincts, to locate his Hillman Imp plant at Linwood, rather in the West Midlands. Harold Wilson, when prime minister, certainly lent on British Aluminium to build a new smelter at Invergordon.

But other major investment decisions can be traced more to heritage and personal connections. The American Singer Corporation brought its sewing machine plant to Clydeside because the executive charged with taking the decision was an emigrant from Clydebank. Alfred Yarrow, having outgrown his existing site, brought his burgeoning shipyard to Scotstoun in Glasgow from Poplar in London in 1906, having advertised around the UK for a new home for his yard. He even persuaded many of his existing workforce to make the move with him and built homes around the yard in Scotstoun to house them. And Thomas J Watson, the founding father of what came to be known as IBM, though born in America was from Scottish emigrant stock. His friendship with the then Secretary of State for Scotland, Hector McNeil, helped ensure IBM's first major European manufacturing plant came to Greenock in 1951. McNeil was Greenock's MP at the time.

In 1975 Labour, led by Harold Wilson, tried to reformulate the way government nurtured economic activity in Scotland by creating the Scottish Development Agency. The SDA was charged with furthering economic development; providing, maintaining or safeguarding employment; and promoting industrial efficiency and international competitiveness. It could invest directly in businesses (taking on the powers created for the National Enterprise Board in Scotland and paving the way for SDA's engagement in Scotland's nascent 'hi-tech' sector). SDA became Scotland's biggest industrial landlord and had widespread powers over derelict land clearance and urban renewal. It took over from the Scottish Council the task of luring more IBMs to Scotland's shores. In the jargon, inward investment. Its initial budget of £200m matched its wide-ranging powers.

The October 1974 general election had sent eleven SNP MPs to Westminster, most from Tory-held constituencies, on the slogan: It's Scotland's Oil. Labour's creation of the SDA was widely seen as a political ploy by Wilson and his Scottish Secretary Willie Ross to blunt that nationalist charge. Labour had, of course, created a template for the SDA a decade earlier, in 1965, when it launched the Highlands & Islands Development Board, with a radical mandate to revitalise the economy of the fragile North of Scotland. But while the HIDB drew strength from the less partisan nature of politics above the highland fault line, the advent of the SDA breached the old cross-party consensus on regional policy that had flourished in the fifties and sixties. The SDA became something of a political and ideological football.

It wasn't that conservatives, even those led by Margaret Thatcher from 1979, were consistently hostile to state intervention when markets looked like doing things they'd rather they didn't. At the start of the 1970s, when an insolvent Rolls Royce went into receivership, Ted Heath nationalised it to secure its future. The next Tory to enter Downing Street as prime minister faced a similar challenge. With a similar result. When the Glasgow-based engineers, the Weir Group, chaired by Viscount Weir, got into serious financial difficulties in 1981, the SDA was prevailed upon to participate in a rescue package.

And in the same year, when the Royal Bank of Scotland board was minded to accept a takeover bid by the London-based Standard Chartered Bank, only to find itself on the receiving end of a much-higher hostile bid from the Hong Kong and Shanghai Banking Corporation, Mrs Thatcher's Scottish ministers went public on their hostility to both bids and helped ensure the Monopolies and Mergers Commission threw both of them out. As a memorandum from Professors McGilvray and Simpson to the MMC in the July 1981 edition of the commentary put it: "In terms of market capitalisation, the Royal Bank is the second largest company with its head office in Scotland. It is not putting it too strongly to say that if the Royal Bank goes, it will be the beginning of the end of the indigenous private sector in Scotland, with all which that implies for the regeneration of Scottish industry." ([Vol 7 No 1](#))

One of the dominating features of that whole decade was the wave of takeovers of major private sector players in the Scottish economy by rival businesses. Having fended off a takeover bid from Tiny Rowland's Lorrho in 1981, thanks to another MMC veto, the department store chain House of Fraser was sold to the Al Fayed family in 1985. Harrods is now owned by the Qatari royal family. The rest of the chain, having passed through Icelandic hands, is now in Chinese ownership. In 1983 South African-based Charter acquired mining equipment maker Anderson Strathclyde, based in Motherwell. Britoil, which started life in 1975 as the state-owned British National Oil Corporation, was privatised in two stages by the Thatcher government, first in 1982, then in 1985. Just three years after that floatation of the fourth biggest oil and gas producer in the North Sea was completed, it was acquired by BP. In 1986 the Glasgow-based thread maker Coats Paton was taken over by David Alliance's Viyella group.

The messiest of the 1980s takeover wave engulfing Scotland's private sector hit the whisky sector. In 1984 the Irish brewer Guinness launched a surprise takeover bid for the Perth-based whisky distiller Arthur Bell. Having swallowed Bells, it then downed the much-bigger Distillers Company, home to a whole family of well-known brands of Scotch. Distillers accepted the embrace of the Ernest Saunders-led Guinness, rather than succumb to the mercies of the Argyll Group supermarket chain, led by the upstart Jimmy Gulliver. The outcome split the Scottish business establishment. The then governor of the Bank of Scotland Sir Tom Risk and a leading Edinburgh lawyer Sir Charles Fraser had agreed to serve with Saunders on the enlarged United Distillers group board. But when promises made to them weren't

kept, the flak began to fly. Saunders and three others were subsequently charged with fraudulently manipulating the Guinness share price to win the battle for Distillers. Saunders served ten months of a thirty month sentence in an open prison.

The fear expressed by McGilvray and Simpson over the fate of the Royal Bank, that its loss of independence would spell “the beginning of the end of the indigenous private sector in Scotland” was widely shared at the time. There was sustained debate, even in boardroom and professional circles, about what kind of protectionist measures might stem the tide and retain more headquarters control in Scotland. Could some kind of tartan ring-fence, enforced by the competition authorities, be erected? But as we will see, in later stages of this three-part story, that trend was not reversed. Indeed it spread to areas like finance and professional services. And the Scottish bank that was saved from itself in 1981, RBS, ended up going on a massive takeover spree of its own that plunged it into a near-death experience.

The Thatcher government's comparative pragmatism over intervening directly in markets, as it did over the possible collapse of the Weir Group and the Royal Bank's corporate independence did not extend to buying in to its Labour predecessor's vision of the role of the fledgling SDA. At the start of 1980 more restrictive guidelines were issued on when Agency could invest directly in businesses and in what form – and dropping its Labour-inspired aim to extend trade union representation in Scottish industry. The following year the business of attracting more foreign direct investment into Scotland was hived off to a new joint SDA/Scottish Office agency Locate In Scotland. In the latter half of the decade, the SDA was told to sell off its large industrial property portfolio and leave more of the task of housing Scotland's industries to the commercial property sector. In between there was a select committee inquiry and various National Audit Office and HM Treasury trawls to keep the SDA on its toes.

The vast Glasgow Eastern Area Renewal project (GEAR), coordinated by the Agency – at the Government's direction - and launched the year after the SDA was up and running, was allowed, under the Tories, to complete its ten-year journey. However the fact that has taken a project of the scale of last year's Commonwealth Games to revisit the physical regeneration of much of that same area of Glasgow's East End speaks volumes about how difficult it is to renew economic vitality in physically run-down inner city areas. The creation of Locate in Scotland had a positive impact on the flow of inward investment to Scotland, notably the steady stream of electronics ventures coming to swell the residents of Scotland's 'Silicon Glen'. Some, of course, had been coming long before that. There was a wave in the 1940s and 1950s. Ferranti, IBM, Burroughs, Honeywell, NCR. Motorola brought its first chip plant to East Kilbride in the 1960s. National Semiconductor brought another to Greenock in the 1970s.

But the wave of plants that opened in the 1980s, mainly in Scotland's New Towns, many assembling the hardware for the first generations of desk top computers, seemed to herald a new industrial dawn. Sadly, thanks the speed of innovation in the technology and the emergence of even lower-cost locations to do such work, notably in Eastern Europe and the Far East, it was to prove a transient boom.

Attempts were made to attract other emerging technologies. In 1985, to much fanfare, Damon Biotech was supposed to be coming to Livingston, with \$40m of investor backing, to build the biggest monoclonal antibody plant in the world. It did not happen. Risk is, of course, unavoidable for any national development agency, seeking to replace outmoded industries with tomorrow's growth businesses. But,

by the late eighties, it was becoming clearer that the Thatcher government had never quite forgiven the SDA for being Labour's initiative. Its death knell was sounded in 1988 when a Tory supporting businessman Bill Hughes came up with a new model - a network of enterprise agencies with strong business representation that would not only reignite Scotland's entrepreneurial spirit but take over responsibility for skills training too. How Scottish Enterprise came to be forms past two of this series.

And how did the state of the Scottish economy look as the first fifteen years of the Fraser commentaries drew to a close? I'll leave the last word to Dr John Hall TSB Scotland's Treasury Economist. In his economic briefing in the last issue of 1989 (Vol. 15, No. 2) he writes "Companies, already faced with a burgeoning financial deficit and a squeeze on profits and liquidity, may then be forced into a period of intense labour shedding, thus tipping the economy towards recession. The intensity of pressures in the labour market have once again raised the spectre of stagflation, albeit of a milder form than previously experienced and in the context of a far more benign international environment: slugflation may be a more appropriate term." ([Vol 15 No 2](#)) Slugflation? It's a period of sluggish growth and rising inflation. An Age of Diminished Expectations perhaps, to borrow the title of one of Paul Krugman's books. To see what the 1990s did bring for the Scottish economy, read the next installment of SERIES TITLE in June's Fraser Economic Commentary (Vol. 39, No. 1).

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