

SYMPOSIUM ON THE SCOTTISH LABOUR MARKET

In the post-war period, up to the late 1960s, Britain enjoyed a modicum of unemployment and government policies which were geared to producing Full Employment were considered a success. It was simple - boost demand and more people would find work. But the mid 1970s the economic regency enjoyed by those advocating demand sided policies fell into disrepute as the OPEC nations raised prices dramatically and brought in a new era of both rising prices *and* unemployment. The laws of economics, which previously had viewed policy decisions as the choice between lower unemployment and higher inflation were now redundant. Both unemployment and inflation were moving in the same direction. The era of stagflation had begun.

The traditional style of conducting policy via controlling demand was overtaken by those advocating policies which tackled unemployment and inflation from the supply side. The supply side objective, throughout the 1980s was quite simple - reduce the ability of unions to bid up wages without productivity considerations, tighten benefit legislation so that people would be less choosy in their search for employment and adjust the tax system and privatise industry to provide incentives for entrepreneurship. Inflation would be taken care of by productivity advances and a tight fiscal policy which aimed at balancing the government budget over the economic cycle. Through fiscal rectitude and innovative supply side measures, unemployment would fall without producing a rise in inflation. In technical jargon, the natural rate of unemployment would fall and since this represents the rate at which inflation is supposed to be steady, policy makers could relegate unemployment to a statistical residual determined by the market process.

The latter half of the 1980s saw falling oil prices (1986), the Pound shadowing the Deutschmark (1987), the Financial crash (1987) and deep cuts in personal income tax rates. Somewhere along the line an unknown combination of policy errors led to rising inflation and interest rates hitting 15% in 1989 - ushering in recession and the Pound's ERM entry. The rate of unemployment which had fallen from 11% in 1986 to 8% in 1988 began rising again and by January 1993 had peaked at 10.5% of

the workforce. Since then, unemployment has fallen in nine out of the last twelve months and the underlying rate of inflation remained below 3%. Most economic commentators are agreed that these supply side reforms have made it easier to increase employment much earlier in the cycle and Patrick Minford, of Liverpool University, has argued that unemployment could be cut by one and a half million before wage pressure would regenerate inflation.

In Scotland, the labour market has traditionally delivered a rate of unemployment in excess of the GB average. The table below shows the yearly average for the period 1985 to 1989 and the rate in January of each of the last five years. It can be seen, quite clearly, how well the Scottish labour market has performed over the 1990s compared with the GB market and previous issues of the *Quarterly Economic Commentary* have provided a detailed discussion of its fortunes at both the aggregate and sectoral levels.

Unemployment Rates:

Year	Scotland	GB
1960s av.	4.0%	2.0%
1970s av.	6.0%	3.0%
1980s av.	12.0%	9.0%
1985	12.9%	10.8%
1986	13.3%	11.0%
1987	13.3%	10.0%
1988	11.4%	8.0%
1989	9.4%	6.2%

January	Scotland	GB
1990	8.4%	5.5%
1991	8.0%	6.5%
1992	9.1%	9.2%
1993	9.8%	10.5%
1994	9.4%	9.8%

Given this picture of relative health, and the raft of reforms which are alleged to have altered the relationship between unemployment and inflation, what is the future of the Scottish labour market in the latter half of the 1990s?

In answering this question we decided not to ask the usual range of UK and Scottish economic forecasters - which would have included the Fraser of Allander Institute itself - since these will not directly affect the determination of employment policies.. Instead, we asked the four main political parties in Scotland to provide a paper in which they were invited to answer the following three questions - from both a UK and European perspective if they so wished-:

- i) What are the prospects for the Scottish labour market over the next five years?
- ii) In which sectors are we likely to see renewed job creation?
- iii) Which policies should the government follow to create lasting employment?

Each party has done so and the Fraser of Allander Institute is pleased to present their views on the Scottish labour market. In addition, each paper is presented in its original format and no editing has been effected on the text.

The following are the prospects and policies of the Scottish Conservative & Unionist party, the Scottish Labour Party, the Scottish Liberal Democrat Party and the Scottish National Party.

THE SCOTTISH CONSERVATIVE AND UNIONIST PARTY

Scotland's economy during the years of Conservative Government has undergone a radical transformation. From being heavily reliant on the traditional heavy industries in the 1970s (many of them state-owned and subsidised by the taxpayer), Scotland is now to the fore in attracting the technologically-advanced, manufacturing industries as well as being home to many leading financial companies and service industries. It has not been easy restructuring Scottish industry but, from an economy in decline, we have created one that is well-placed to compete with the best in Europe.

We are now standing on the edge of the most exciting, challenging and competitive decade any of us in this country have ever known. Our economy is now growing faster than that of the UK as a whole, inflation in Scotland is at its lowest for almost 30 years, interest rates are the lowest they've been for a generation and business confidence continues to rise.

So what has created this climate of opportunity? The key lies in our sound economic policies which, as a result, have led to Scottish industry becoming more competitive. We have worked to keep inflation and interest rates low; our support for enterprise and innovation in the recession has ensured that Scotland has not been so badly affected in the world wide recession. We have followed policies that independent forecasters agree will lead to further economic growth in the Scottish economy of over 2% in the next two years. This enables us to view the prospects for the Scottish labour market in the next few years with an optimism that many other countries in Europe would envy.

Scotland is now viewed by many overseas-owned companies as an ideal country to invest in. In 1981, Locate in Scotland was established to assist companies, many of them high technology or high value electronics and service industries, to do just that and has subsequently been involved in the creation or retention of an estimated 96,000 jobs, with inward investment made (or planned) amounting to some £5 billion. One in 14 of the computers sold in the world are made in Scotland. Not only that but 47% of overseas-owned

manufacturing companies in Scotland undertake some form of research and development.

By continuing to unfetter business from the unnecessary bureaucracy that hinders it, so will we encourage business to flourish and expand thus creating more jobs. This Government has placed de-regulation at the centre of our job creation programme. By getting the state off industry's back, business is left to concentrate on the basics - creating wealth which in turn creates jobs.

Taking exports as an example, according to the latest available data, manufactured exports reached a record level in 1992 of £9.7 billion. At a time when European competitors are contracting their home markets, we are increasing our share of those markets.

There are many reasons while such companies are and continue to be attracted to Scotland. We have a skilled workforce, low rates of business taxation and an increasingly enterprising business environment in Scotland. There have been fewer working days lost through industrial disputes in Scotland than in any year since the War. This can be seen when comparing how many days were lost through stoppages in the 1980s - 381 days per 1000 employees - and the equivalent figure for 1992 - 28 days per 1000 employees.

There is in place an infrastructure including transport links which gives business direct and easy access to foreign markets. An education system committed to providing young people with the skills to fill the vacancies. Most of all, however, Scotland offers an attractive location for investment through the stability and prosperity provided by the Union. As part of the United Kingdom, Scotland enjoys a powerful say at the heart of Europe and benefits from the sound fiscal policies pursued by the British Government.

For the first time in nearly 70 years, unemployment is lower in Scotland than in the UK as a whole, with the unemployment rate lower than every region of England, except East Anglia. The latest estimated size of the civilian workforce in

employment shows that it has increased by 162,000 since September 1983.

Employment prospects are looking bright in Scotland as we come out of recession because industry and business continues to grow steadily. Our aim has there to be sustaining that growth to ensure continuing recovery from recession.

One way to do that is by equipping those seeking employment - particularly young people - with the skills they need in the modern Scottish economy. From April 1st this year, Scottish Enterprise will have sole responsibility for training. The Prime Minister has talked of "Reskilling Scotland". By co-operating with the private sector through Scottish Enterprise, the Government aims to ensure that young people emerge able to do the jobs of today...and tomorrow.

Education in Scotland has rightly enjoyed a high reputation both here and abroad. The system has served generations of Scots well in providing an effective and relevant education. One of the keys to securing lasting employment is the production of an educated and skilled workforce. Since 1979, the Government has often been accused of "tampering" with our education system. Of imposing political ideology, where it has no place. Yet the facts speak for themselves.

Expenditure per pupil by education authorities has increased by 50% in real terms since 1979. Today almost £2500 is spent per pupil each year. The number of pupils going on to complete a sixth year at school has doubled. A record number of Highers are now being passed. In 1981, 28% of pupils left their schooldays behind without qualifications. By 1992, this figure had fallen to 10%. The ratio of pupil teach has fallen from 14.1 in 1984 to 12.1 today. Over a third of young Scots now move on to further education. When the Conservatives came to office that figure was 17%.

Nothing short of a transformation has taken place in the education system. The goal throughout has been to improve standards and prepare tomorrow's workforce for employment. Yet schooling has in the past tended to be dominated by the need for pupils to achieve academic qualifications. Perhaps the equally important matter of vocational training has suffered slightly as a result.

The Government is addressing this situation urgently. It has made it clear that securing parity of esteem between academic and vocational

qualifications will be one of the principles underpinning its reforms of education in the later years of secondary education. Links between the classroom and the workplace are being forged and strengthened through a number of initiatives. The Technical and Vocational Education Initiative (TVEI) emphasises the importance of technical and personal skills. "Understanding British Industry" gives teaches direct experience of industry and commerce through secondment. Their experience can be translated to the way in which subjects are taught and the field of employment is discussed. Many schools are encouraging their pupils to set up and run a school company, issuing shares and employing workers. The monetary values dealt with by these companies are token - the lessons learned are priceless. Finally, agreements are springing up between schools and local employers whereby the employer undertakes to give preferential consideration for employment to pupils who achieve set standards in exams, and punctuality.

Higher Education has also undergone changes designed to increase the relevance of courses to the outside world. The upgrading of polytechnics to University status (Caledonian, Paisley and Robert Gordon), represents the importance attached to the vocational courses they have to offer. Moreover, the sandwich course whereby students spent a portion of their time in the workplace, are no longer the preserve of colleges. The older Universities are increasingly channelling efforts into securing placements for students.

The rationale behind all these reforms and innovations is the fundamental belief that job-creation while very important, represents only half the story. We have to have the people with the relevant skills to the jobs which are available.

With the Secretary of State recently announcing changes at Westminster to the Scottish Grand Committee, the constitutional issue has recently returned to the public stage. As far as Conservatives are concerned, it never left it. The vigorous arguments we made for maintaining the Union, with the rest of the UK at the 1992 General Election, are as valid now as they were then. Lasting employment in Scotland will be so much easier to facilitate in a Scotland which is part of the UK.

The advent of the European Single Market in 1992 emphasised the importance of the UK to Scotland and Scotland to the UK. In recent years the UK

accounted for 36% of American investment in the EC. 40% of Japanese presence in Europe is here also. Scotland enjoys the fruits of this investment and the jobs they provide.

What we cannot predict, however, is the effect an independent Scotland would have on foreign investment. Would foreign investors continue to locate in Scotland? Would the new fiscal system drive such companies south of the Border? Would an independent Scotland even be part of the Single Market? The Conservative Party believes that no such guarantees exist. The UK as a whole exceeds the sum of its parts and Britain is attractive for investment because it represents one of the major forces in Europe. Independent Scotland could never hope to remain a magnet for job-creating investment.

Linked in with the European dimension is the Social Chapter - so loved by Socialists and technocrats, so hated by business and employers. In signing up for the European Socialist Manifesto, did the Labour Party not realise that they were signing up for a policy which would inevitably destroy jobs and ruin economic competitiveness? The Conservative Party has long argued that the Social Chapter would hit hardest those it was meant to help - the poorly paid. The Prime Minister skilfully negotiated an opt out for the UK on the Social Chapter at Maastricht. The Government was pilloried by our political opponents and other European states. Yet two years on and the rest of Europe is left to cast envious eyes across the water at an economy which is growing while others contract. An economy which does not throttle business with social legislation. The Government will continue to resist the Social Chapter and all attempts to rob Britain of her competitive edge.

There exists an unfortunate tendency to isolate unemployment as a problem which can only be solved by tackling it directly. All too often it is forgotten that the person on the dole represents a wasted resource for this country, but also frequently a symptom of problems other than mere economic. We cannot peer into the future. There is no crystal ball. Fifteen years in Government has taught us of the dangers in predicting future employment trends. What we have put in place is a comprehensive and coherent strategy to create "real" jobs - not jobs which are artificially created to make political capital, but ones which will materially contribute to the economic fabric of the country.

THE SCOTTISH LABOUR PARTY

The Scottish labour market has come through a period of radical and wide ranging change in the last fifteen years as long term employment trends together with the accelerated force of free market economic policies have forced through severe employment dislocation. In general terms the change has been away from secure full-time employment, toward more marginal part-time low pay work with a declining quality of working conditions for the vast majority of the workforce. At the same time a mushrooming service sector has become the predominant employer in Scotland.

The key characteristics of these changes are to be found in the dramatic decline of engineering as the powerhouse of the Scottish economy, falling as it has from 29% of all employees in employment in June 1979, to 18% in September 1993. A clear indication of the marginalisation of manufacturing as it now accounts for less than a fifth of the workforce, where just 14 years ago it employed a third of Scotland's workers. The service sector over the same period, however, has risen from employing 59% of workers in 1979 to 73% of employees in September 1993. The figures from 1971 onwards show a long term trend, but one which has accelerated since 1979. On the face of it this seems to be a fairly straightforward equation, but the problem lies beneath the percentages.

In 1979 there were 2.1 million workers in employment of which 605,000 were in manufacturing and engineering, while 1.2 million workers in services. By September 1993, the date by which the percentages have dramatically switched, there are just 349,000 manufacturing workers left, while those in services have risen to 1.4 million. Between these two sectors of the economy there has been a net loss of 156,000 employees over the 14 year gap. The important point here is that while the service sector has certainly grown it has not replaced lost manufacturing employees - in addition the ratio of manufacturing to service sector employees within the economy has widened from just over 2 to 1 in 1979 to just over 4 to 1 in 1993. What kind of employment patterns have been generated as the service sector has made its bid for dominance of the Scottish labour market?

The most marked trend over the period from 1979, apart from the fact that the civilian workforce in employment has fallen, has been the dramatic decrease in male employment accompanied by a growth in female employment. Fully 213,000 male employees have been lost since 1979, while part-time female employment has increased by 105,000.

The third striking feature is the growth in self employment which has added 89,000 to its ranks over the same period. Not only has male employment declined since 1979 generally, but there has also been a marked growth in part-time employment as a contributor to overall male employment. Where it made up 5% of male employment in 1979, it now constitutes 10% of all male employment in Scotland. For women the trend is even stronger, with part-time employment accounting from 37% of female employment in 1979 and for 45% in 1993.

The trends set out above give us a clear enough indication of the path which the Scottish labour market has moved along over the past 15 years; we now live and work in the context of a fiercely deregulated labour market where even the wages councils have been abolished, trade unions have been repeatedly undermined in an attempt to destroy their capacity to defend the most basic working rights, and pay and conditions have deteriorated to the point where the Department of Trade and Industry has advertised in German publications for investment in our economy on the basis that our labour is cheap and our working conditions and practices are poor in comparative terms. Has this approach worked? We still have mass unemployment which in January 1994 climbed back up to 10%, we still have an appallingly low level of growth within our economy and there are still very strong symptoms of ill health in our manufacturing base.

The fact is that the changes wrought in the Scottish economy in the last 15 years have not improved economic performance, that the policies used have been misdirected and that the prospect for future, if similar, policies are pursued is extremely grim. We have arrived where we are now because of the Conservative agenda of; too much bureaucracy, too much trade union power and too much government

involvement. That view was simplistic, fundamentally wrong and has failed to deliver - even on their own terms - as the testimony of an average growth rate of just 1.8% over their period in office testifies. It is not by accident that in the latest year for which comparative figures are available, 1990, the UK was 15% below the OECD productivity average on a current exchange basis, while in the same period all other G7 countries other than Japan had above average productivity levels.

There is a global debate currently taking place which covers Europe, America, Japan and the other major world trading blocs and which centres on the need for these economies to embrace the knowledge based society and information based economy which is rapidly replacing the traditional predominantly heavy industrialised economy. This is the direction in which the Scottish economy must move and it must do so with an explicit rejection of the attempt in the last 15 years to gain competitiveness through the cheap option of low pay and poor conditions. That is a strategy which brings us into direct competition with the economies of more backward societies with lower social provision, including poorer health care, education and welfare. To compete in that way we too would have to destroy our own social care structures.

Globally, there is a recognition of the critical need to invest in people as individuals, helping them to equip themselves with skills which make them valuable and indispensable resources within the economy. That is the best way to improve economic productivity and the only way to improve our standard of living. At the same time, direct investment in people acts as the chief weapon against widespread and ingrained poverty - income inequality can be directly tackled because the power of the poor and low waged within the economy will be increased as their skills increase. That addresses the basic divide between the contented majority and a growing underclass which is a recipe for economic failure and social instability.

There has been a growing global understanding of the importance of constant training and retraining, high wages and good working conditions in order to ensure that higher productivity is generated and high value added products can be manufactured and sold abroad. Our chief competitors have learned this and are using this knowledge to forge ahead, unfortunately we have not.

There are three debilitating strands to the current policy failure:

1. We retain a heavily deregulated labour market and indeed the Conservatives would like to further weaken current legislation to destroy the costs of health and safety at work. These are proposals for short term cost advantage which blindly ignore the fundamental message which is that we are not currently competitive because our workforce is insufficiently skilled, we have under invested in capital improvements for our industries and our productivity remains too low.
2. Our training in Scotland is woefully inadequate, with the LECs cutting back on the number of training places they are supporting and the industry Minister complacently announcing that there is "a fall in demand" for training places. We do not know whether these "Enterprise Agencies" actually deliver value for money because they operate as closed companies which also means that we do not know whether they even meet their own operational objectives. In tandem with the quagmire of uncertainty surrounding LECs we have the deafening silence from industry and private companies over the provision of training. The Summer 1993 Labour Force Survey found that just 9% of the Scottish workforce had received training in the month prior to its survey, which is not only an appallingly low level of training in itself, but is also below the UK level of 11% of the workforce. These are not issues for Government or LECs alone to tackle and there are cost implications together with policy matters for the LECs to forcefully pursue with Scottish industry and business.
3. We still retain cripplingly high levels of unemployment in Scotland which more and more emerges as a tool of economic management for the current Government rather than the most serious economic and social scandal facing our country. The cost of having 250,000 Scots unemployed simply is not affordable and does not make economic sense, particularly within the context of a public expenditure crisis brought on by acute recession and massive

budget deficits. At an individual cost of £9,000 a year to keep someone unemployed, we can no longer accept the £2.25 billion annual bill for mass unemployment as a sensible or practical way of dealing with a quarter of a million idle Scots. This places an unacceptable strain on the Government budget and further aggravates the lack of resources to invest in the strategic economic infrastructure of training, transport and capital machinery.

All of the above add up to one common Government problem - waste. Whether it be in squandering our greatest resource - which is the potential of human capital - through lack of investment in its individuals, the financial waste of welfare dependency economics or the waste of time and opportunities to address real problems while deregulatory bogeymen are attached instead, it all adds up to policies which have waste as their key characteristic. Such waste has arisen from the endless irrelevant waging of a constant ideological war which has no obvious end or real benefit and which has left people, institutions and businesses punch drunk.

The short message for the medium to long term is that service employment will continue to predominate but that the ratio of manufacturing to service jobs is already worryingly out of kilter. We must seek to redress that balance so that the high number of service sector jobs which exist in our economy, particularly in the social provision areas of health, education and housing, can continue to be supported through the improved competitiveness and increased productivity of manufacturing and engineering jobs. This means that we must produce the high value added goods to sell abroad which generate income and profitability in our own economy, to allow investment in our social provision and the attendant jobs in those areas. There is no one sector in which we should expect renewed job creation, but we should certainly seek productivity growth predominantly in our manufacturing and engineering companies in order to fund the employment levels we need in the service sector.

Without such an aim the economic weakness which lies at the core of all our other problems will go unchecked. Whether the issue is the budget deficit, trade deficit, social policy retrenchment, or the scapegoating of the vulnerable, they all come back to economic enfeeblement. A prerequisite of

such a recovery, however, must be the conducting of a wide ranging new economic and social debate which embraces the most fundamental questions. That debate must bring forward an unstoppable new agenda for change and the areas which must be addressed are clear; the shrinking of our industrial base (and the crisis in manufacturing in particular); low productivity - with growth the key to improved competitiveness and increased quality of life; widening and divisive income inequality; the need to tackle poverty through opportunity and access to work; a new workplace agenda for women; an effective regional policy within the emerging European context; our declining skills base and our failure to invest in human capital and the nation's consequent inability to compete; an end to paralysis through radical constitutional reshaping without which innovation is frustrated and expectations diminished; investment in infrastructure - scientific technology and Research and development; the need to embrace the social Europe and reverse the decline in workplace conditions.

A bundle of measures ought to be implemented immediately to start to address the problems we face. An emergency jobs package falls into this area and sits alongside the acute need for the LECs to be opened up to expertise from all sides. That means an end to the Government's confused belief that businessmen alone are needed to run our national institutions. Instead these bodies need to be run in a businesslike way but with a plurality of guiding influences. In addition, we need to see the LECs working in partnership with the local authorities, with clear lines of accountability established. Their success and their acceptance as legitimate bodies for the carrying out of enterprise and training policy on behalf of Government depend on their development in this way.

A constitutional question sits astride the issue of the health of the Scottish economy. The creation of a Scottish Parliament is without doubt a necessary catalyst for a new economic dynamic in Scotland, which will signal the beginning of a new period of economic development with a fresh start for Government as well as industry. It will act as a focus for a constitutional question sits astride the issue of the health of the Scottish economy. The adoption of the European Social Chapter also is integral to the intention to create meaningful and productive employment and an economic recovery which is based not on cheap labour but on a well educated, well paid, workforce at the forefront of constant retraining and innovation to adapt to changing global market developments. These are

both vital factors in the need to tackle endemic short termism and create a shift in the attitude of the nation towards the importance of making and selling products abroad. They underpin our ability to reinforce the culture of work and expectations towards full and fulfilling employment and the central importance of a fundamental and radical review of the agencies contributing to economic development.

While others look beyond old left-right debates to try to define and shape their futures, we are left with a Victorian social agenda and a steam-age economic programme. Our task is reawaken the demand for a fully inclusive rather than exclusive society. We need to reach out internationally and within Scotland to bold and dynamic realignments of social and economic policies because it is imperative that our economic foundations for progress in the next century and millennium are set out with clarity and vigour in a world economic climate that will otherwise severely punish any further slippage in our economic standing. In this objective the need for a productive economy and a civilised society are interlined parts of a common agenda.

THE SCOTTISH LIBERAL DEMOCRATS

Although the Prime Minister and his Scottish Office team have taken to boasting about Scotland's lower unemployment rate compared to the UK average, there is little to be proud of with just less than a quarter of a million Scots registered as unemployed and receiving benefit.

Unemployment figures on their own can present a confused or misleading picture. A reduction in the numbers claiming unemployment benefit claimants is just that. It does not necessarily mean an increase in employment. People drop off the register because they join training schemes, because their benefit category changes (to income support or long term sickness) or because, for a variety of reasons, they cease to register. Even when claimants find work it is often part-time or temporary. Whilst this kind of relief is welcome, it may not fulfil the needs of the individuals concerned.

A more disturbing and specifically Scottish feature is to be found in the statistics concerning unfilled vacancies. For at least five years, the numbers of unfilled vacancies per thousand claimants (currently 62.9) has been around twice the number for the rest of Great Britain (Northern Ireland excluded). On the face of it, this might reveal an institutional failure to match applicants to opportunities. In fact, the more likely explanation is a training failure. Scotland's ability to retrain displaced workers seems to lag the national average by a very wide margin. This in turn may be explained by the permissive nature of training schemes operated by the Enterprise Network. Training places appear to be provided according to the demands of prospective employees rather than the needs of actual employers. What kind of Scotland tomorrow requires quite so many hairdressing trainees today?

Scotland's real problem is not, however, a failure of effective distribution of existing opportunities amongst the registered unemployed. Even if, overnight, we were able to meet unfilled vacancies at the national rate, the effect would be around 7,000 new jobs. Against an overall total of 238,000 this could only be described as a very modest improvement. The hard reality is that the Scottish

economy is now so diminished in scale that current unemployment rates are mainly structural. The challenge is to increase the overall volume of labour-using economic activity.

Such a straight-forward approach to reducing unemployment is bedeviled by the complexity of the modern Scottish economies. The increase in employment occasioned by a given increase in output varies widely between different sectors of industry, commerce and public administration. Indeed, it is the existence of these variations and the way in which they alter absolutely and relatively which presents the most stubborn obstacle to formulating an institutional response to unemployment. Twenty or so years ago when the Scottish economy was dominated by relatively labour intensive industries, general economic growth was a tide which lifted all boats. These old certainties have gone. It is not uncommon nowadays for an enterprise to have impressive growth targets which are predicated on stable or decreasing employment numbers.

This phenomenon is especially evident in manufacturing which may be experiencing the kind of employment trends which emerged in agriculture about fifty years ago. Before World War Two around 25% of Scots had their living off the land. Nowadays that figure is less than 2.5% but output has increased tenfold over the intervening period. All the same, manufacturing must remain the mainstay of our economy. To pretend otherwise would be folly. Alas, the success of manufacturing in creating economic growth will not be mirrored in the labour market.

These are just a few of the problems which beset our endeavours to improve the quantity and quality of employment opportunities in Scotland. However, the prospects for employment growth are not uniformly dismal. In the immediate term, Liberal Democrats have refused to be beholden to the political correctness of the new right. At a time of recession and high unemployment, investment in the public infrastructure not only creates jobs but creates valuable public assets which, themselves, can facilitate growth and recovery.

However, our eyes must surely be fixed on the longer term. Policies to keep up in the 1990s should not distract us from the task of planning to be a step ahead in the year 2000 and beyond.

Arguably too much effort is spent on responding to events rather identifying ways in which Scotland can get ahead of the game. I don't want to decry much of what has been achieved. Scotland's success in having a higher proportion of manufactured goods exported, rather than being dependent on the home UK market was almost certainly a factor in protecting Scotland from the more severe ravages of the early part of the recession.

But well over 50% of our manufactured exports are destined for European Union markets. Where is the drive to break into the rapidly expanding markets of Eastern Europe and the Pacific rim ? The occasional trade mission will not be sufficient. Perhaps when Scottish Trade International has a profile and resources equal to or greater than Locate in Scotland will we know that the challenge is being taken seriously.

We must also be prepared to raise our sights and show boldness and imagination in education and the use of new technologies. Twelve computers in a school is but a token gesture when tomorrow's generation of economically active Scots will all have to have computer skills if they are to communicate effectively in the global market. Training providers should be concentrating on devising courses to promote secretarial skills which we shall all have to acquire, rather than training up individuals as secretaries. The Liberal Democrat commitment to education and training is such that at the last election, we were prepared to argue for 1p on income tax to fund increased investment. That level of investment is no less needed today.

Delivering this is not only dependent on resources but on a culture change and a need for strategic direction based on an agreed agenda between the economic and business communities. The culture change will require business and the financial institutions to break loose from the short-termism which had bedeviled so much decision-making. It will facilitate the longer-term approach which should be at the heart of the strategic thinking. Here is a role for Scottish Enterprise and Highlands and Islands Enterprise to which, to date, only lip service has been paid.

Whilst the national bodies should help identify and

pursue strategic objectives - something very different from centralised intervention - the LECs can address local needs and opportunities. With this dual approach, Scotland's regions can approach the 21st century looking to recast the concept of regional economic development. Rather than regions being supplicants, they can and should be leaders in economic growth.

Of course, Scotland amounts to much more than one regional economy. There are at least four Scottish regional economies defined by their distinctive economic assets, experience and prospects. For each of these regions it will be necessary to take stock of recent trends and future prospects and to define how new infrastructure and human resource inputs can enable them to achieve competitive growth. The great attraction of dealing with economic prospects at a regional level is that even the most complex economy becomes comprehensible.

The regional analysis must concentrate on promoting new forms of economic activity or at least concentrating more effort on those activities likely to yield the greatest employment dividend. Although the existing pattern of manufacturing employment is not promising there are some hopeful prospects. The trend towards increasing industrial centralisation and concentration of production in hierarchical multinational companies is abating.

There is a welcome tendency amongst many of those large enterprises to concentrate on 'core' activities and to buy in and subcontract more of their other inputs. This trend is evident in international energy companies, the multinational electronics business and recently privatised utilities. The new opportunities to supply these larger companies should produce new business for the kind of small and middle sized manufacturing concerns which dominate Scotland's industrial economy. There is also evidence that these larger companies seek more than components and semi-manufactures produced to their own specification. Suppliers are now expected to contribute technical innovation, design improvements and in some cases a share of the financial risks. This is a more exacting form of business relationship but it does enhance the quality of employment opportunity in the supplier business.

Regrettably these changes in patterns of manufacture will not of themselves solve the unemployment problem. The likely quantity of new

employment opportunities will be significant but modest in relation to the size of the challenge. A more abundant source of new jobs will arise from traded services and particularly visitor services.

OECD figures reveal that the fastest growing source of employment opportunities are in higher education, health care and tourism. Scotland has the capability to perform well in all three areas but there are political and cultural inhibitions to realising Scotland's full potential in those areas. For some reason Scots find it difficult to make the commitment and provide the innovation required for international success in the service economy. Even the simple proposition that services sold to visitors are as much exports as goods sold to overseas customers is a difficult idea to communicate. At an institutional level Scotland has very professional and well resourced organisations to promote inward investment and international trade. The attention given to the promotion of visitor services is very modest by comparison.

Regardless of which source provides the new jobs it is likely in the future that a significant proportion of such opportunities and indeed existing jobs will be eroded by the need to respond to constant changes in technologies, products and customer preferences in both manufacturing and service sectors. If Scots are to take full advantage of these opportunities for flexible employment then changes in employment services, taxation and social security will also become necessary. Self-employed, part-time and temporary workers are currently discriminated against in a number of ways.

No political party ought to be complacent in the face of unemployment at the levels which have existed for a decade or more. But the solution does not lie in marginal adjustments to the status quo or in trying to reinvent the past. There will be new opportunities for earning a living in the twenty-first century but these can only be identified and developed within regional economies driven by self-reliance and self-confidence. And they will only be addressed if we start addressing tomorrow's challenges today.

THE SCOTTISH NATIONAL PARTY

Powerless Scotland

In 1961, the Toothill Committee reported on the position of the Scottish economy and its future prospects. The concern then was that Scotland had too large a share of older, declining industries and too small a share of new, growth industries.

The level of unemployment which underlay this concern was 3 per cent. Now, more than thirty years later, and after twenty years of North Sea oil and gas revenues, the Scottish economy is still being outperformed by its leading European partners.

What is most disturbing is that the gap between Scotland and the leaders is widening, and that the so-called poorer countries such as Ireland, Spain and Portugal are making speedy advances. Scotland - the oil-rich nation - is fast becoming one of the poorer nations in Europe. The SNP believe that only an independent Scotland in Europe can halt and reverse this process.

Recently, there have been two key examples of the damaging impact on the Scottish labour market of Scotland's political powerlessness.

The decision by British Gas to abolish their "regional" tier of management, including the Scottish area, and headquarters all five of their new business units in England is likely to cost 2,000 Scottish jobs directly, and as many again in supplier companies. The insult on top of the injury lies in the fact that Scotland provides the bulk of this company's resources, and contains 25 per cent of its pipeline network.

And the heavy fine levied by the European Commission against British Steel has intensified the speculation that Scottish steel workers acted as the "poor bloody infantry" in BS's illegal price-fixing activities. In any event, it is hard to divorce political considerations from the fact that Scottish steel production has declined by 98 per cent since 1983, while it has increased by 26 per cent south of the Border.

In a whole range of areas, there has been a

tremendous drain of economic decision making from Scotland over the past two decades. For example, in 1974, there were 150 Scottish-owned and Scottish-based public companies. Today, there are barely half that number.

Hand in hand with the loss of indigenous control has been the loss of a frightening number of our brightest and best people. The fact that Scotland is educating and training many of our people for emigration must be seen as both a cause and effect of our economic condition. Almost uniquely in western Europe, Scotland's population is currently set for long-term decline.

In terms of emigration, the main losses are occurring among the young and the skilled. For example, one-third of Scottish domicile graduates at Scottish universities go to other parts of the UK for their first job. Two-thirds of those migrating from Scotland to the rest of the UK between 1989/90 and 1991/92 were aged between 15 and 39.

Of great concern is the fact that Scotland is set to experience a 15 per cent decrease in the number of people aged under 35 in the civilian labour force from 1991 to 2001 - the biggest fall among all of the UK's planning "regions". While the relatively greater fall in the Scottish birth rate will contribute to these changes, migration is the principal determining variable.

The debate initiated by Scottish Enterprise on Scotland's significantly lower business birth rate than that of the rest of the UK is rightly commanding widespread attention. If our performance in creating new ventures between 1978 and 1990 had matched the South-East of England, an additional 195,000 jobs would have been created in Scotland. If we had matched the West Midlands - an average UK region - we would have had 70,000 more jobs.

In the SNP's view, such problems cannot be divorced from the dependency culture which the Union has bred in Scotland. Our subordinate constitutional position has traditionally encouraged - however vainly - the shaking of sundry Scottish "begging bowls" in London (and now Brussels?).

rather than a concentration on domestic initiative. These are hardly the conditions in which our native entrepreneurial talent is likely to flourish.

Given the powerlessness of Scotland, there are surely few in the "dismal science" of economics who would predict a significant improvement in the Scottish labour market in the foreseeable future.

Full Employment

By contrast, the SNP believe that full employment can be achieved in an independent Scotland, as is currently the case in other small European countries - such as the Netherlands and Switzerland - and not at the cost of high inflation. The key is the supply side of the economy and the promotion of conditions which will enhance labour market skills, as well as developing a public infrastructure which will enable our company sector to compete with the best in Europe.

Whereas there is no scope for a British macro-economic strategy based upon growth, the structure and condition of the Scottish economy can sustain significant expansion. A key difference between the Scottish and English economies is our respective exporting performances.

The United Kingdom economy emerged from recession with a yawning trade deficit. Scotland, by contrast, does not share the UK's consequent balance of payments constraint on growth. As well as oil exports and invisible earnings, Scottish Council Development and Industry figures show that Scotland's productivity in manufactured exports is nearly 30 per cent higher than in the rest of the UK - a substantially stronger performance.

Another indigenous Scottish strength is our energy resources. It is a fact that Scotland is by far the most energy-rich nation in the European Union. It should be the job of government to ensure that our resources are used to give Scottish industry access to one of the cheapest energy bases in Europe, with all of the competitive benefits that would follow on.

This could be done for half a century or more by a combination of natural gas, hydro power and low sulphur coal.

Prior to the Chancellor's Budget last November, the SNP published a fully costed, four-year economic strategy, in order to demonstrate what an independent Scotland could achieve. An

input-output analysis of the policies contained in that document, conducted by Mackay Consultants, showed that - with the economic impact of Independence - we could create some 200,000 jobs in Scotland over the planning period.

Seasonally-adjusted unemployment in Scotland, as measured by the Department of Employment, currently stands at 238,000, representing 9.4 per cent of the workforce. However, there have been thirty changes to the method of calculating unemployment since October 1979. Using the pre-November 1982 system, the Unemployment Unit estimate that real unemployment is 40 per cent higher than the official level - which means unemployment of 335,000, or over 13 per cent of the workforce.

On this measurement, SNP policies would reduce real unemployment to the 5 per cent band - on a par with the Netherlands and Switzerland - over our planning period. To those who claim that this is too ambitious a target, it is instructive to remember that it still represents an unemployment rate higher than the one which so concerned the Toothill Committee over thirty years ago.

In terms of the sectors of the Scottish economy which would see renewed job creation, the input-output analysis referred to above showed that the most significant impact would take place in construction, followed by financial and business services, and the rest of the service sector.

Housing is a priority for investment and consequent job creation. Nearly 30 per cent of Scotland's housing stock is affected by dampness, condensation or mould. Over one-quarter of our council housing stock has been sold off since 1979 - and not replaced - while homelessness has increased by 172 per cent over the past decade.

The SNP would provide a cash injection to local authorities for housing of £250 million over four years, by the practical measure of transferring the housing capital debt from local councils to central government over that period.

A prerequisite for recovery in the Scottish labour market - in construction as elsewhere - is de-linking Scotland from the decline of the British economy. Fundamental to this is securing the maximum possible autonomy for Scotland within the new European arrangements.

The fact of Britain's steep relative decline is incontrovertible, and measurable in a number of ways. For example, in 1960, out of the 24 OECD countries, the UK was 9th in terms of GDP per head. By 1970, it had slipped to 12th. Now, the UK is 18th - languishing near the bottom, and only ahead of such countries as Spain, Ireland, Portugal, Greece and Turkey (although both Spain and Ireland have significantly narrowed the gap with Britain since the early 1980s). In terms of OECD ranking, the UK has been overtaken over the last thirty years by Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Italy, Japan, the Netherlands and Norway.

Of these eleven countries, no less than seven are small European nations, ranging in population size from Iceland [250,000] to the Netherlands [15 million]. Several of these nations have improved their position dramatically over the last thirty years: Austria has moved from 17th to 10th place, Belgium from 14th to 9th, and Denmark from 12th to 8th. Within the European Union, four small nations have a higher GDP per head than Britain: namely Denmark, Luxembourg, Belgium and the Netherlands.

Assuming that Austria, Finland, Norway and Sweden - four more small European nations - join the European Union in 1995, then the UK will be 12th out of 16 in terms of GDP per head among the Member States.

These statistics give the lie to the Unionist argument that small countries don't work. Indeed, none of these countries - with the possible exception of Norway - enjoy the rich wealth of natural resources that Scotland does. With our indigenous resource base, Scotland has the potential to become a highly prosperous country.

As an independent state, Scotland would be more than able to match the economic performance of other small European nations. As a result, the Scottish economy would have higher employment levels, generate greater economic growth, and would be able to offer our young people a future within Scotland, rather than educating many of them for export.

An economic strategy for an Independent Scotland

The SNP's four-year economic strategy has as its central aim the realisation of full employment, so

that every person able and fit to work is in full-time employment, education or training.

The SNP propose an Action for Jobs investment programme, in order to build up the economic and social infrastructure of Scotland, which would include:

- (a) expanded education and training provision;
- (b) modernisation of the transport and communications network;
- (c) upgrading of the water and sewerage systems to European standards;
- (d) a large-scale housebuilding and repair programme;
- (e) improved child-care and nursery provision;

The aims of the SNP's industrial investment strategy would be to:

- (a) modernise Scottish industry by encouraging the adoption of new production and marketing techniques;
- (b) significantly expand manufacturing industry;
- (c) substantially diversify and widen the industrial base, with the target of creating around 100,000 jobs in new industries over a ten year period;
- (d) expand research and development facilities and expertise, in order to make Scotland ^] the science state of Europe;
- (e) boost new firm formation rates in those sectors which will add real value to the Scottish economy;
- (f) ensure that long-term venture capital is available for industrial investment;
- (g) greatly expand Scotland's export markets, and reduce our over-reliance on a narrow range of products for our export earnings;
- (h) ensure that any takeovers and mergers of Scottish companies were in Scotland's interests; (i) target assistance to key rural industries, such as fishing and tourism.

Training

As stated above, the supply side of the economy is the key to creating a reinvigorated labour market in Scotland, with training of critical importance. At the moment, our performance lags far behind our requirements.

An analysis of adult training leavers from April to October 1992 showed that only 29 per cent gained a vocational qualification or a credit towards one - lower than in any English region or Wales - compared to 36 per cent in Britain as a whole. Only 24 per cent of Youth Training leavers gained a vocational qualification over the same period - by far the lowest rate - compared to 34 per cent throughout Britain.

In the qualifications league, Scotland's LECs rank below almost all of their English and Welsh counterparts, several of which qualify more than half of their trainees.

A necessary reform of the delivery mechanisms for Scottish economic development is separating the education and training role of the LECs from the investment functions which they are currently charged with. In our view, the latter would be best managed by a Ministry of Industry, Trade and Technology - within the context of a Scottish Government - which would have an investment and job-creation function. Education and training should be an entirely separate remit.

In terms of training policy, the SNP advocate the establishment of a Scottish Integrated Training and Employment Grant Scheme (SITEGS), to take over from Training for Work and related programmes. SITEGS would provide a subsidy of up to two-thirds of a new employee's wages for an agreed duration of training, provided that a permanent, full-time job was made available at the end of the training period, and that the training met minimum quality standards. Existing training guarantees would be maintained until such time as full employment was approached.

For youth training, the SNP favour the creation of a National Apprenticeship Scheme, to encourage employers to take on school-leavers and train them

As well as changing structures and delivery mechanisms, there also has to be a "cultural change" in our attitudes towards training. The problem with education and vocational training at all levels at the moment is that it is based to an unhealthy extent on today's competence, with little theoretical foundation. Training is not just learning to do; it is also learning to think.

As well as training people for today's needs, we must also train people so that they can engage in the skills of tomorrow. An inward investor, or some other kind of business set-up, may not know exactly what skills they will need from their workforce ten years time. But they will be able to identify people who can adapt to new skills.

An end to dependency

In the small, open and distinctive economy that is Scotland, labour market activity can be maximised only by maximising our flexibility over economic decision-making at the level of public policy. In this way, indigenous strengths are exploited in full and problems and weaknesses similarly receive attention. Within the new European Union, maximum flexibility requires Scottish statehood and independent representation.

This is the essential thesis of business people such as Sir Iain Noble and Robin Angus, who consider the opportunities of Scottish Independence to be those in which a subsidiary might enjoy after a successful management buy-out.

In terms of the condition and performance of the Scottish labour market, the negative implications of our being a branch country are as damaging as those of being a branch economy. When it comes to the former, however, the Scottish electorate has the opportunity at every election to perpetuate or reverse the remote control of our country.