

# **Unemployment and the Scottish economy symptoms&diagnosis**

**J.R.Firn**

The middle of 1976, a year enshrined for most Scottish economists as the bicentennial of Adam Smith's "Wealth of Nations", is an exceptionally difficult time to discuss the present state of the Scottish economy, and (as ever!) an almost impossible instant to be asked to make predictions about its future. A year earlier, such a task would have seemed much easier. Wages and incomes were steadily rising up towards parity with the U.K. average; the Scottish:U.K. unemployment relative was improving out of all recognition; the Department of Industry's Scottish economic research unit had produced firm evidence that the impact of North Sea oil and gas activities was responsible for 40,000 much-needed jobs being created in Scotland; and, for the first time in recent history, Scotland had apparently achieved a small net inward flow of population. While no one would have been foolish enough to believe that all of Scotland's problems were on the way to being solved, these and most of the other oft-quoted economic

indicators seemed to show that Scotland was set fair to move into a new era of relative economic prosperity.

A year has passed, and although the long-term economic prognosis for Scotland remains strongly favourable (and incomparably better than one could have hoped for twenty years earlier), it is now possible to detect the first signs of some uncertainty about the ease and the speed with which the Scottish economy can break out of its past low growth pattern. Some of the reasons for this recent caution can be seen by looking in a little more detail at developments of the four major indicators mentioned above. Firstly, official revisions of the annual estimates of migration announced earlier this year have turned a supposed net immigration of population into Scotland over 1973-74 into a net outward flow (albeit an exceptionally small one), and thus the long record of net annual emigration continues. Further, figures for 1974-75 show that the level of net emigration has risen sharply back towards its old level — a development which would have been expected given the long-established relationship between the level of unemployment in Scotland and net emigration.

If there has been a deterioration in Scotland's emigration situation, and after all there are those who would say that Scotland should count herself as being fortunate in having an almost static population, then the same cannot be said of the growth in the employment created by the offshore oil and gas industries — or can it? The estimates of employment associated with North Sea oil and gas have risen substantially since mid-1975, and it is now thought that well over 55,000 people are employed by this sector once allowances are made for multiplier and other indirect effects. But the long-term future of many of these jobs has begun to look less secure than appeared to be the case a year ago, for the relative slowdown in the rate of offshore exploration in Western Europe and more especially the current hiatus in the placing of orders for production platforms has certainly placed a substantial number of these jobs at risk. Indeed, a number of isolated individual communities could find themselves being rapidly transformed into areas of severe economic distress by mid-1977. What is even more certain is that Scotland has already come close to reaching the point of maximum employment creation in the oil and gas sector.

Unemployment in Scotland, traditionally the most important and influential of the major economic indicators, has also begun to deteriorate compared to the U.K. level if the evidence of early 1976 is to be believed. How long such a deterioration will continue is hard to predict from current evidence, but if it continues for much of this coming year — and the current shortage of orders facing many of the firms in the engineering sectors in Scotland suggests it might — then the famed "unemployment relative" may well return to its old relationship, although it would be helped if net emigration were to remain at a high level in 1976. It should also be noted that much of both the long-term improvement and the improvement over the past two years in the unemployment relative has been due not so much to any real improvement in the Scottish unemployment position, but to the relative worsening of the overall U.K. situation.

Whereas three of the indicators have therefore begun to be seen rather

differently over the past year, the same cannot be said of the relative improvement of Scottish earnings and wage rates, for these have maintained their rise towards U.K. levels, and indeed in some industries and for some sub-regions of Scotland, earnings stand above those for the U.K. as a whole. The underlying causes of this convergence are still not fully understood: part of it is due to industrial structural factors; part is certainly due to the long tradition of overtime working in the heavy industrial sectors (a little remarked evil); North Sea oil and gas has also had an effect, but the growth of national wage-bargaining has perhaps had the most important impact. What will be interesting over the next few years will be the effect that the recent pay policies have on Scotland's earnings position, but in general terms one can expect that the rate of improvement will slow down in the future. One thing is clear: it is no longer possible to treat Scotland as a low wage area, and this has important implications for policy.

The changes that have taken place in the above, and in other associated economic indicators during the past year, therefore make it difficult to predict the likely future course of the Scottish economy during the immediate future (say to the end of 1977). Obviously much depends on the rate of recovery experienced by the overall U.K. economy, but from the Scottish point of view it is not yet possible to tell whether the events of the past year represent merely a temporary deviation from an otherwise favourable long-term trend, or whether the Scottish economy has reached the latest of its post-war series of crises. The only firm conclusions that can be drawn are that it is dangerous to generalise on the basis of one year's set of figures and that indicators may not be all they're cracked up to be!

In reality no applied economist engaged on a detailed evaluation of Scottish prospects would attempt to monitor the progress of the Scottish economy on the basis of four imperfect aggregate indicators such as those outlined above, and this brings us to one of the most fundamental problems currently facing economists and policy-makers, namely, the sheer difficulty of measuring the performance of the Scottish economy. Many of the more important economic indicators are only made available in a highly aggregated form, and often only after a substantial delay. This latter problem is hard to get around in a society where computer-based reporting systems are distrusted. Those indicators that are published have, at least for Scotland, tended to concentrate on measures relating to employment and unemployment. Very little data emerges on more important aspects such as the value and volume of industrial production; on capital investment; and on productivity. However, this particular complaint should not be laid wholly at the door of the government statistical agencies, for the nature of modern industry has meant that many enterprises, and especially those with a multi-regional nature, no longer keep the kind of records that allow regional measures of production to be produced in a meaningful way. The result is that in the case of production, for example, the Business Statistics Office is forced to employ a range of allocative procedures which are largely responsible for the seeming convergence of productivity (measured in terms of net

output-per-man) at the regional level; these problems have also been partly responsible for the fact that an index of industrial production no longer exists for Scotland. It has always struck me as strange that, for example, industrial enterprises receive large amounts of public sector finance under the various industrial and regional development assistance schemes, and yet are allowed to opt out of providing government with the economic and statistical information that is required to monitor the progress and results of such policies. It is akin to giving a patient medicine and not quite knowing whether he's getting better! However, even if such intractable problems could be overcome, and they perhaps could be given a little more determination on the part of the government and a little less obstruction by bodies such as the C.B.I., the most important determinants of the economic progress of a country like Scotland will by their very nature remain unmeasurable. There are problems in defining concepts such as entrepreneurship; or management ability; or technological change, let alone in trying to measure and monitor them. This whole question of economic monitoring provides one of the most exasperating paradoxes in present-day Scotland, for just at the time when economic and political events are producing an increased demand for more information about the changes that are taking place, it is in fact getting harder — at least in key industrial sectors — to collect, process and publish the information that is required to evaluate such change.

This inability to monitor the past and indeed the current performance of the Scottish economy — except in very broad terms — has also had an impact on our understanding of the nature of the problems facing the current generation of policy-makers. Despite a large increase in the number of applied economists interested in Scottish problems (within government, local authorities, industry and the universities), and despite the development of ever more sophisticated and precise methods of economic analysis, it is clear that only relatively slow progress has been made towards identifying the real basic problems and constraints that lie behind Scotland's comparatively poor economic performance in the post-war period. But progress there has been, and especially over the last five years, during which time our understanding of the Scottish economy has grown rapidly.

The research that has been undertaken has already had one important outcome, which is now beginning to influence the economic and industrial policies that are being applied for, and within, Scotland. This is the growing conviction that the basic economic problems of Scotland are to be found principally on the supply side, i.e. within Scottish industries and enterprises. Anyone with a knowledge of Scottish economic history, and especially those familiar with, for example, the 1932 Board of Trade **Industrial Survey of the South West of Scotland**, or with the 1946 **Clyde Valley Plan** (which contains a remarkably perceptive chapter on industrial development), will find the current rediscovery of the supply-side emphasis surprising. But there can be little doubt that until relatively recently, Scotland's industrial decline was seen as being the consequence of a steady falling off in international and national demand for

its products, and government policies were very much orientated towards trying to replace these declining sectors by encouraging the immigration of enterprises active in the new, growth sectors of the national and international economies. No one asked the key question about why it was that Scottish enterprises in the so-called declining sectors failed to foresee the decline and to respond to the threat of it by developing new markets, products and technologies, yet this is precisely the question that must be answered and it remains relevant today. As we shall see below, it is one that is of crucial importance at present in relation to the oil and gas industry.

In fact the roots of the so-called decline of the Scottish indigenous sector (which is essentially an industrial one) probably lie far back in the early years of this century, and therefore, the post-1945 problems are very much seen as the cumulative consequence of decisions taken (or not taken) in earlier periods. Nowhere has the result of the decline of indigenous industrial sector been better seen than in West Central Scotland, which despite its severe economic problems remains the essential powerhouse of the Scottish economy. The hypotheses advanced to explain the root causes of the West Central problem are many and varied: the preference for conspicuous consumption rather than productive investment in the periods of prosperity at the turn of the century (a pointer here perhaps about North Sea oil?); the development of second generation entrepreneurial softness; the slaughter of proto-entrepreneurs on the Somme; and, more recently, the suggestion that the heavy demands made upon Clydeside industry during the First World War may have permanently and irreparably distorted the structure of the local economy. None of these hypotheses have been critically examined, and they offer unlimited opportunities for the new generation of econometric historians to make major contributions to our present understanding of the forces that shape regional change. It must be stressed that such past events are important to our understanding of Scotland's current economic situation: their exclusion by many economists reflects a mistaken belief that the comparative statics of neoclassical economics are more revealing than the long-term dynamics of economic growth.

The recent renewal of interest in the supply-side constraints of Scottish industry has been matched by a growing realisation that the other major problem that confronts Scotland at the present is that of the decline of her major urban areas, not only in the West of Scotland, but also in the Central Region, Tayside and the Lothians. In many ways the economic problems of the old Scottish cities reflect the declining industrial base of inner urban areas, but it is obviously a two-way process. Clydeside remains of course, the ultimate urban problem area in North-West Europe, topping as it does the lists of nearly every undesirable economic, social and cultural indicator. Its older housing is appalling; its industrial base is exceptionally weak; its financial problems are daunting; its political government is hopelessly inept and — dare one say it — partially corrupt; and much of the post-war planning has been characterised by a series of abysmal blunders. Yet, it should be stressed that Clydeside is probably only different from

other older urban areas in the U.K. in the degree to which these problems exist. The nature and the causes of urban decline in Scotland are still imperfectly understood, and it is surprising that more research into the economics of urban growth and decline has not been undertaken in Scotland, especially given that most of its population live in or around urban areas.

The case of Glasgow illustrates the need for more work to be done in this area. Ever since the Clyde Valley Plan of 1946, there has been a continuous policy of encouraging industry and population to move out of Glasgow to relocate in the new towns and around the periphery of the city. From a housing conditions viewpoint, this approach had much to recommend it, but it has consistently neglected the needs of urban industry with the present dire consequences. Urban industry is admittedly exceptionally difficult to understand, but we do know that manufacturing and service sector enterprises in a city like Glasgow are part of a highly integrated organic complex of trades and professions which have developed over a long period of time. Although much of the industrial decline of inner Glasgow has probably been due to industrial rather than locational factors, the physical planning policies adopted in the post-war period have persistently failed to understand the nature of the urban economy and especially the needs of manufacturing industry. Indeed, in some of the earlier redevelopment areas, industry was treated very much as a planning residual. The regeneration of industry in the inner areas of Glasgow will therefore be an important area of policy in the future, but there are fears that the decline of the inner city economy may already have got out of hand. Population continues to pour out of the city, and some of the more recent population projections for the 1980s are ominous indeed. In fact, most of Scotland's annual net migration of population has its base in the Strathclyde Region. Other urban areas in Scotland have their economic and social problems, but all are dwarfed by the scale of the Clydeside problem. However, what is required is not to stand around wringing one's hands in despair, but to accept the urban problem as an exciting and difficult challenge.

The industrial and urban problems of Scotland are but two of the many constraints to Scottish economic growth that must be overcome in the future, if this country is to achieve its undoubted potential. There are many other areas of the country's social and economic structure where severe problems exist. They require to be examined at greater length than is possible in a brief survey such as this, but prime candidates for more detailed policy-orientated analysis must include amongst others, industrial relations, the balance and sources of public sector expenditure, and especially, the crucial topic of housing. Perhaps the final word that should be said about the problems existing in the Scottish economy, is that we are now fairly certain that we have identified the broad areas of concern, but that we have still a long way to go before we can be sure that we really understand the causal mechanisms and relationships that produce the problems. Until we are much further along in this latter stage, it will be difficult to know whether in fact the issues that concern us will be

amenable to policy implemented within Scotland.

If it is hard to identify the real constraints that exist within Scottish industry, or within urban economies, it is also exceptionally difficult to isolate the real, cast-iron areas of economic potential that exist. Yet the identification of potential economic growth sectors is important if one wishes to take some role in steering an economy such as Scotland's. Certainly Scotland has a superb natural resource base, and one which is probably well suited to the requirements of the coming century. It has also an exceptionally well-endowed labour force, even though it has not been wisely utilised, and a pool of entrepreneurial talent that future economic policies must, as a priority, aim to make more active. It has, despite the long history of economic and industrial decline, a substantial number of commercial and manufacturing enterprises in both the public and private sectors that are both dynamic and profitable, and which therefore deserve greater encouragement. Unfortunately, as we shall see below, rather too much attention has been devoted to intervening in a negative fashion, but there can be little doubt that a fundamental reappraisal of industrial and regional policy objectives will be forthcoming.

However, there are those who feel that any discussion about the identification of economic potential must be littered with examples of actual individual sectors that are growth candidates. Unfortunately, the literature of development economics in both the developed and the third world is replete with unfortunate experiences of particular industries or products or commodities being labelled as growth sectors, and then turning sour. Therefore, to those who would offer fish farming, or armaments manufacture, or pollution control devices, or vehicles — to name only some of those industries advanced as being suitable for Scotland during the last year — I would remind them that only a decade ago, the electronics industry was seen as the sector with a golden future in Scotland. The labour-shedding that has taken place in this particular industry during the present recession has put some of the older "declining" industries to shame, and the international economics of the major multinational companies involved in the sector would not seem to hold out a prosperous long-term future for many of the plants now operating in Scotland. Most of the new areas of real potential are, by virtue of their very nature, hard to predict, and one would expect such "potential" to reveal itself as the economy develops. There are policy initiatives that can be introduced to help identify, develop, and often create growth products and sectors, and principal among such policies are measures intended to increase the amount of applied research and development undertaken in a country, thereby raising the level of that particular country's technology. Once again, however, the past experience of other countries that have chosen to pursue this particular route to international competitiveness does not altogether encourage us to believe that it is an infallible method of creating potential. If Scotland can become a healthy, growing and competitive economy, then its companies and industries will provide the potential automatically.

Policies designed to encourage or direct technological change have

always proved to be elusive, but fortunately we can be much surer about policy requirements in more general terms when discussing the Scottish economy. There are however two preliminary points that must be made: both have been made before, but both can bear repeating. Firstly, the very open nature of the Scottish economy due to its particular industrial mix (both in product and organisational terms) means that it is firmly linked into both the United Kingdom and world economies. Because of this there are distinct limits to the effectiveness of economic and industrial policies designed to operate in Scotland alone, and until the Scottish economy develops a greater measure of self-reliance (easy to say, but desperately difficult to achieve) it is always liable to be blown off any policy course by the pressure of external events. Secondly, we can be sure that no matter what policies are developed and employed, the ultimate objectives in terms of achieving a radical restructuring of the Scottish commercial and industrial base will not be achieved easily, nor with any great speed: unfortunately, economic development is neither sudden nor spectacular.

There is only space in this article to discuss very briefly the three policy areas that I consider to be the most important in the immediate future: the need to restructure industry; the urgent case for adopting a national urban development strategy; and the rather special case of oil and gas.

Perhaps the most fundamental requirement in the industrial policy debate that is now beginning to take place in Scotland is the realisation that it is an industrial policy that is required, and not merely some variant of existing regional policies. In retrospect, the economic rationale behind the application of U.K. regional policy to Scotland, and indeed to other lagging regions of the U.K., has been pretty minimal. The focus of past effort has been essentially on improving the demand for labour in Scotland by encouraging the inter-regional and inter-national mobility of enterprises, and the central objective of the approach has been to reduce unemployment by any means possible. This will in future be seen as one of the curses of twentieth century Scottish economic policy-making, primarily because it has resulted in a whole series of measures aimed at treating the **symptoms** of industrial decline, rather than tackling the underlying forces, constraints and factor rigidities that have been responsible for the decline. Perhaps this is being rather harsh on those involved in developing the policies, for it is only recently, with the benefit of hindsight, that we have come to see that a continuation of past policies is likely to prove disastrous. There are two reasons.

Firstly, the old golden days of mobile industry within the U.K. being used as the spearhead of regional policy are gone. Areas such as the South-East and the West Midlands, where the recent recession pushed up unemployment rates to "development area" levels, are now becoming increasingly resentful about much of their industrial growth being sent to other areas of the U.K. Their demands to retain such new industry as is created are likely to become ever louder, and are almost certain to figure strongly in the economic component of any English backlash on the

devolution issue. Secondly, manufacturing industry is becoming more capital intensive, and thus there will be fewer new manufacturing jobs made available for distribution to the regions by any future regional policy. Further, the competition for these jobs is likely to be fierce. The only sensible way of proceeding in such a situation is to develop a much greater industrial component in Scottish development policies, and specifically, these must aim at attacking the major industrial constraints, which as we have seen above, lie overwhelmingly on the supply side. The types of action that are required are perhaps too complex and technical to be discussed here, but they must include measures to improve the prospects for entrepreneurs; they must aim at supporting industrial success rather than failure; and must accept that Scotland has become a mixed economy that is firmly and irretrievably integrated with the rest of the U.K. In general terms, the best way of achieving a measure of success with such industrial policies would seem to lie in adopting what economists term a micro-orientated approach to industrial strategy, but this, as noted above, requires better information on the detailed changes that are taking place within companies. It also requires a much closer relationship between government and companies; this does not mean however greater government intervention in the old-fashioned sense of the word, but rather a much more detailed understanding of what is going on. One major immediate priority must be the inclusion of a Scottish component in the national (U.K.) industrial strategy that is currently being evolved by the central government.

On the urban side, the prospects for a major initiative to solve the deep-rooted problems of the older inner areas of Scottish cities have improved immeasurably. The recent long overdue cancellation of plans to develop Stonehouse into a New Town is perhaps the first step towards a reconcentration of resources towards the needs of the existing cities, and the decision by the Scottish Office to launch a massive £140 mn. redevelopment programme in Glasgow's East End offers the chance for a real breakthrough in trying to revivify the economy of Scotland's most important industrial area. However, for such an urban redevelopment programme to succeed, a number of prior conditions are obviously necessary. Firstly, there must be some agreement about the goals and objectives of the overall programme, and a much greater determination to state the objectives with more precision. If goals are only vaguely specified, then no matter how laudable the intentions behind the programme, and no matter how committed the administrators involved in implementing the policy, it will still be difficult to measure the achievement of objectives. In the past, political pressures have often prevented goals being specified, because non-achievement can mean political ruin. In the future we must get round this particular self-destructive approach, and try to achieve a greater degree of consensus on objectives so that long-term programmes in areas like urban development are not being constantly revised for political motives alone. Secondly, an urban programme — especially one centred on Clydeside — does require to have a substantial amount of Scotland's total resources

being injected into it, not merely for physical planning ends such as housing, but also for programmes designed to stimulate industry of the type outlined above. A major urban development programme could, after all, provide an important stimulus to industrial growth in its own right, if a conscious policy was adopted of maximising local involvement. But to have any chance of success, experience in development economics indicates that such a programme must have a relatively big impact over a relatively short space of time, and this can only be achieved if a conscious decision is made to shift a substantial amount of Scotland's resources into this area. This in turn requires a review of our public expenditure programmes (especially now that the Layfield Report on Local Government Finance has been published) and this is in practice unlikely until the Scottish Assembly has been established. What can be predicted is that an urban development programme of this type could become Scotland's dominant domestic policy concern throughout the last part of this century.

Finally, what about the complex question of oil and gas, and its impact on the Scottish economy? Many of the variables involved here are overtly political by nature, and thus I would not want to introduce them here. Certainly, as was noted above, the direct impact in terms of job creation may already have reached its maximum. For the level to rise further would imply almost unbelievably optimistic estimates of future exploration and production activity; of platform ordering; and of the export prospects for Scottish-made offshore equipment. In fact, an economist reviewing the Scottish economy in 2000 A.D. (which is closer to us than the Second World War!) may conclude that the way the oil and gas issue has been handled in Scotland offers a perfect example of how **not** to do things. It is already clear that some fundamental mistakes — some of which were predictable — have been made, and of these the most glaring concerns the policy towards production platform sites. Even in the most optimistic days of exploration activity there were those who warned of the dangers of having too many sites designated; of possible future shortages of orders; of the problems involved in ignoring technological change; and of the permanent damage that might well be done to isolated communities suddenly faced with a large-scale influx of employment of an inherently temporary nature. Events have proved that these cynics were right, and that many of the "experts" trotted forward by the government departments involved were wrong. The events at Kishorn have, for example, shown that "economic necessity" can run rings round, over and through planning conditions unless very tight control is exercised; and I would be personally very surprised if the Committee of Public Accounts did not investigate the complete waste of public funds involved in the Portvadie and Hunterston platform sites. There is anyway now growing agreement that large offshore platforms may turn out to be something of a temporary phenomenon, as the speed of technological change in offshore engineering is exceptionally high.

Unfortunately, all the evidence seems to show that Scottish companies, with a few notable exceptions, have not contributed much to developing new and original offshore technologies, and thus there is now a distinct

possibility that the oil and gas industry will have passed industrial Scotland by. I would also suggest that hopes of the large-scale exporting of Scottish-made offshore products to other oil and gas provinces, especially those in the third world, may prove to be slightly misplaced, in that many of the countries that are moving into offshore exploration, such as India and China, have well-developed engineering industries that are keen to break into these new areas, and governments that place importance on import-substitution as a means of conserving scarce foreign-exchange. In such conditions joint ventures or licensing becomes important, and this normally requires the possession of the relevant technology, or at the very least exceptionally good financing facilities and terms. Thus, we have to look towards Scottish involvement in the oil and gas revenues as being the way in which the major economic impact will come, and this is essentially a political question; or towards greater Scottish involvement in the downstream processing activities, and this is one area where I think we should look for more state participation via the Scottish Development Agency or the British National Oil Corporation

In conclusion, it can be said that the recent development of some reservations about the underlying strength of Scotland's economic position does not in any way mean that there is cause for alarm, and it certainly should not force us into taking an alternative and more pessimistic view of future prospects. Indeed, the development of some caution is to be encouraged if it results in a more realistic attitude being taken towards both the problems and potential of the Scottish economy, and if it raises the standard of debate about the types of policies that will be required to achieve the fundamental restructuring of the Scottish economy that most observers agree is necessary.