The unadjusted index of industrial production for Scotland rose sharply in the fourth quarter of 1977, reflecting a tendency for this quarter to record the highest index each year. The seasonally adjusted index, however, fell by 2.8% to 105.5, while that for UK as a whole showed a smaller decline to 101.9 (Figure 1). All sectors of Scottish manufacturing industry, with the exception of textiles, leather and clothing contributed to the decline. Mining and quarrying showed a rise of 5.0% over the previous quarter due to higher employment associated with petroleum and natural gas industries and an increase in coal production.

The adjusted index for the year 1977 (all industries) shows, as expected, only a very small increase of 0.8% over 1976, with textiles, leather and clothing, construction and shipbuilding and marine engineering exhibiting the most notable increases in production over the year. The comparable UK index rose by 1.0%, with mining and quarrying recording the highest sector increase of 17% as a result of increased oil production from the North Sea.

The London Business School forecasts that growth in industrial output in 1978 will be 3.7% above that of 1977, most of the rise being concentrated in the last three quarters of the year. This forecast is borne out in
INDUSTRIAL PRODUCTION - TOTAL (SEAS.ADJ)

FIGURE 4

INDEX OF EXCESS CAPACITY

FIGURE 5

Source: SEP D

Source: CBI Industrial Trends
part by the April 1978 CBI Industrial Trends Survey for Scotland which suggests a slight recovery in the general level of activity in manufacturing industry. A balance of 5% of firms reported an increase in the volume of output over the previous four months and a balance of 12% expect increases over the next four months. This compares with 4% and -3% respectively in the January Trends Survey.

There was also a decline from 67% to 60% in the percentage of firms reported as working below full capacity.

For the UK as a whole this figure remained static at 66% over the four months up to April (Figure 5). This is only the second time since 1975 that the proportion of Scottish firms working below capacity has been less than that for the UK as a whole. An increase in the volume of new orders taken in the first four months of 1978 was reported by a balance of 6% of firms (the highest positive balance since April 1977) and a balance of 15% expects an increase in orders over the next four months. It seems, therefore, that prospects for manufacturing industry in Scotland are somewhat brighter and that this sector may be recovering from recession slightly in advance of the UK as a whole.

Figure 6 shows a dramatic rise in the number of company formations in Scotland in the second quarter of 1978, accompanied by a substantial fall in the number of company dissolutions. These figures are encouraging, and suggest some improvement in the economic situation.

The incidence of overtime working in Scotland (introduced as an indicator of economic activity in the last Commentary) also reinforces the impression of increasing economic activity. Overtime increased from a weekly average of 8.4 hours per operative working overtime in January to 8.9 hours in April, (see Figure 7).

The output index for investment goods (seasonally adjusted) fell by 7.2% to 98.1 in the fourth quarter of 1977. This represents the largest quarterly fall so far recorded and compares with a decline of only 0.4% to 97.2% for the UK as a whole. The Scottish index for the year 1977 fell to 103.3 from 104.8 in 1976, whereas that for the UK remained static at 97.9. Activity in the investment goods sector, therefore has been extremely disappointing. The April 1978 CBI Survey for Scotland reports a setback in investment intentions both for buildings and for plant and machinery. A balance of 14% of firms expect to reduce expenditure on buildings and a balance of 1% expect to reduce...
SCOTTISH COMPANY FORMATIONS AND DISSOLUTIONS

FIGURE 6

Source: Registrar of Companies

AVERAGE HOURS OVERTIME

FIGURE 7

Source: Department of Employment Gazette
expenditure on buildings and a balance of 1% expect to spend less on plant and machinery in the next twelve months compared with the last twelve months. The reported reduction in investment intentions is consistent with an increase since January of 6% to 74% of firms claiming adequate capacity to meet expected demand. The value of Regional Development Grants (over £10,000) rose sharply from £8.2 million in the fourth quarter of 1977 to £25 million in the first quarter of 1978, some £13 million more than the average quarterly grant for 1977. Figure 17 shows the value of Regional Development Grants in constant prices since 1975. Constant price data are obtained by deflating the current price data by the implicit deflator for investment goods taken from the Monthly Digest of Statistics. A seasonal trend is apparent, with the real value of grants received lowest in the third quarter of each year and highest in the first. At constant prices the grant for the first quarter of 1978 amounts to £8.8 million, the same as that for the first quarter of 1976. It seems too early in the year, therefore, to suppose any real increase in investment by Scottish firms.

While the above indicators of future investment suggest a depressed outlook for the year, the London Business School report an expected 3.7% increase in fixed investment in the UK during 1978.
Production in both the durable and non-durable sectors of consumer goods fell in the fourth quarter of 1977 to leave the total output index (seasonally adjusted) for this sector down by 0.6% at 116.7. The comparable figure for the UK increased by 1.3% to 116.7. Taking the year 1977 as a whole, however, the index showed a rise of 1.4% over 1976 to 117.2, consumer durables being the leading sector. Non-durable goods show the higher increase in production in the UK and the total index for 1977 rose by 2.6% from the 1976 figure to 115.3. Thus growth in the consumer goods sector in Scotland still appears to lag behind that for the UK.

A further indicator of current consumption trends in Scotland, is the number of new cars registered. This is a highly seasonal index but shows an increase of 85% between the last quarter of 1977 and the first quarter of 1978, compared with 71% for Great Britain as a whole over the same period. Despite the many factors influencing these figures, the relatively high increase for Scotland indicates some upward movement in consumption in the early part of 1978.

A further encouraging indicator of activity in the consumption sector is the volume of retail sales index (seasonally adjusted). After a static period in the middle of 1977 this has risen from 104.4 in the last quarter of 1977 to 106.3 in the first quarter of 1978 for the UK. There is some evidence to suggest that this rise is reflected for Scotland, although directly comparable figures are unavailable.

The London Business School predict a growth of 4.6% in real consumer expenditure in 1978 for the UK which if borne out could well cause an increase in the output of consumer goods. The School further expects a rise in the savings ratio from 13.8% in the first quarter of 1978 to 15% in the second, followed by a further rise to 16.2% by the end of the year.

Thus, although growth in the consumer goods sector was slow and lower than that for the UK in 1977, early indicators for Scotland in 1978 are more hopeful.
INDUSTRIAL PERFORMANCE

Agreement was reached on the EEC Farm Price Review for 1978/79 resulting in an overall price rise of 2.3% in the Community. This increase, taken with 7.5% green pound devaluation agreed in January, gives a total UK farm price increase of 10.25%. However, due to the weakness of the pound since January, and the recently announced devaluation of the Irish green pound, British livestock producers are again at a disadvantage. Scottish farmers are pressing for a further selective green pound devaluation.*

The future of milk marketing boards was uncertain in view of EEC policy which has tended to oppose existing producer monopolies; but, with their existence now ratified by the Commission, the Scottish Milk Marketing Board's annual report is fairly optimistic, although it recognises the problems caused by continued oversupply. The EEC subsidy on butter in Britain is to be extended to the end of March next year. Pigmeat producers are concerned about falling numbers and the pressure on the home market from Danish, and increasingly, Dutch producers encouraged by the monetary compensation payments. The Commission's proposals for an EEC sheepmeat regime are being considered, but little progress has been made on setting up a potato regime.

British conditions made public for the first time at the EEC Fisheries Ministers' meeting in June, were unacceptable to other members and no agreement on a common fisheries policy was possible. The countries will follow, informally, the quota proposals for 1978 catches set in January. One British demand for the share of the fish north of the 62nd parallel to be allocated on a quota basis rather than by licenses, was met. This ensures that the temporary EEC agreement with Norway, Sweden and the Faroes will be extended until the end of July. The Council also failed to agree on a ban on herring fishing off the west coast of Scotland and it has been announced that the British government will introduce their own ban with other conservation measures such as restricting mesh size and an extension to the pout box. The ban,

* See Quarterly Economic Commentary Vol.2 No.3 for a fuller discussion of the green pound issue.
aimed at conserving stocks and supported by Scottish fishermen, will have a disastrous effect on employment in fishing and fish processing. The Scottish Fishermen's Organisation is now concerned about stocks of mackerel and have decided they will not supply fishmeal factories.

Landings at Scottish ports declined by 11% during the first three months of the year although earnings rose £2 million to £38.7 million. Shell fish prices have soared and prawn supplies have been good with a result that landings increased by nearly £2 million to £5.5 million.

Production from the nine North Sea oil fields on stream exceeded 1 million barrels a day in May. However, if there are any temporary halts in production there is a possibility that output for the year will not reach the lower end of the 55-65 million tonnes forecast for 1978. A report from Wood Mackenzie drew attention to an existing shortfall in production. Work on the Sullom Voe complex has fallen further behind schedule and the gas separation plant is not unlikely to be operational until mid 1980. This two year delay will bring the government's policy of utilising associated gases into question as, in order to maintain production, gas will either have to be flared off or alternative conservation methods developed. BNOC's Thistle field came on stream in April and the Argyll field has resumed production after the shutdown in February for repairs.

The Department of Energy have announced proposals to cover the terms for 40 blocks to be offered under the sixth round of exploration licences. After consultations with the industry the final package should be known by July. The proposals, as they stand, increase government control over oil resources. It is proposed that BNOC should continue to have at least a 51% stake in all blocks and companies are invited to offer larger stakes; companies are to be invited to pay part of the Corporation's exploration and appraisal costs; and BNOC is to be given the option to buy all or part of the crude production. Statistics published in the Brown Book confirm that exploration and appraisal wells are significantly down on 1975 although development activity has increased. BNOC has urged companies to carry out more exploration work under fifth round licences during the summer. The Corporation has had its first oil find 200 miles east of Dundee, and Chevron have had a find 80 miles east of the Shetlands in a block where drilling was suspended in 1975.
Mesa have submitted a revised development plan for their Beatrice field. The overall cost of the development is put at £325 million and although formal government approval has not yet been given, contracts totaling £26 million have been placed in order to meet the target date of 1981 for putting the field on stream.

Approval has been granted, on a two stage basis, for the development of Shell-Esso's Fulmer Field 170 miles east of Dundee. The total cost of the development is likely to be £1000 million. Shareholders have been told that the cost of developing Marathon's Brae field would exceed £1000 million. A development decision will be made within the next year.

Investment programmes announced by large companies reflect the continuing importance of North Sea development in their planning. Shell plan to spend £400 million this year, bringing their cumulative expenditure to £1300 million by the end of 1978; BP are to invest a further £120 million this year in Forties; Texas Eastern will spend £165 million over the next five years; and BNOC is to spend £2 billion over the next five years.

The Frigg gas field and St Fergus terminal were formally opened in May although gas has been flowing since the autumn. When production reaches its peak next year the field will add an extra 30% to present UK supplies. The proportion if gas from the northern North Sea will increase still further in the early 1980's with the build up of supplies from the Brent field, due to go on stream early in 1979. An overall strategy on utilising associated gases from other fields has not yet been finalised. It is thought that the final report of a study group, set up by the government, will recommend that the case for a £5 billion pipeline network cannot be supported unless a further substantial gas field is discovered. It is understood that the plan to liquify gas on floating platforms and then transport it in LNG tankers to onshore storage plants is gaining support.

Between the third and fourth quarters of 1977 the output of food, drink and tobacco industries fell from an index level of 117 to 115.* During the same period, output in the UK as a whole rose 5 index points to 115, equalling the Scottish index for the first time in 7 years. The poor performance of the Scottish industry at that time may be partly explained by the crisis in the bakery industry which culminated in the closures of Spiller's three Scottish plants in April 1978 and

* Unless otherwise stated, index of production figures refer to the seasonally adjusted index of industrial production.
by the lack of demand for the tobacco-substitute material produced
by Imperial Tobacco at Ardeer which resulted in 105 redundancies in
October 1977.

Recent trends in food, drink and tobacco, however, are more
encouraging. The April 1978 CBI Industrial Trends Review indicated
that a balance of 23% of firms had increased their output volume over
the previous four months. In contrast, over the same period, only
a balance of 5% of all responding Scottish firms, and 2% of those UK
firms engaged in food, drink and tobacco reported increases in
volume. For the four months from April, the reported balance
expecting output volume increases is 9%. Stock levels in April
were generally thought to be adequate and investment intentions
strong, with a balance of 32% of firms expecting to increase
expenditure over the next twelve months on plant and machinery, and
16% expecting to spend more on buildings. As yet, this increased
capital expenditure has not been reflected in increased lending to
the food, drink and tobacco sector by the Scottish clearing banks.
Whether this is because investment intentions are not genuinely
strong or because other sources of funding, whether external or
internal, have been found, remains to be seen.

Output of metals in Scotland fell to its lowest level
for two years in the final quarter of 1977. A
substantial drop in output occurred in the UK as a
whole at the same time. However, a small recovery
was recorded in the UK during the first quarter of
1978 with the output index rising from 74.8 to 76.8.
Improved performance in Scotland at the beginning of
1978 was reflected in the balance of 24% of firms
recording an increase in the volume of output in the four months to
April. Expectations of further increases over the next four months
are not strong.

Investment intentions in this sector are substantially weaker in
Scotland than in the UK as a whole. 79% of firms in this sector
claim to be operating below full capacity - the highest level of
underutilisation in any of the sectors responding to the CBI Industrial
Trends Survey. Meanwhile, investment by the British Steel
Corporation in Scotland continues at a substantial rate. Regional
development grants to the British Steel Corporation totalled £6.5
million in the first quarter of 1978 - more than 25% of total grants
over £10,000 to firms operating in Scotland.
Low demand for fuels and basic chemicals from energy intensive industries was partly responsible for the reduction in output of coal, chemicals and petroleum products from an index level of 132 to 130 between the third and fourth quarters of 1978. Decline in the UK as a whole was even sharper, its index falling from 128.2 to 123.4 over the same period. During the first quarter of 1978 output rose to 127.3 in the UK, but was still below that for the first quarter of 1977. In Scotland the response to the CBI Survey suggests that any increase in the volume of output during the first four months of 1978 was small. Further, no substantial increase was foreseen for the four months following April.

As with metal manufacture a high proportion of firms (78%) claimed to be working below full capacity in April. Clearly, low demand and spare capacity had led many firms to reappraise their investment programmes. Investment intentions are particularly weak in this sector, with a balance of 50% of firms expecting to spend less on plant and machinery during the twelve months following April 1978. The lack of adequate demand is clearly a factor in Esso's hesitancy in proceeding with the Moss Moran project. A minimum delay of one year may now be expected. Also, there is a great deal of uncertainty as to what project, if any, Cromarty Petroleum will propose for Nigg Bay. Given the current overcapacity in Europe, the development of a refinery in this area seems improbable.

During the final quarter of 1977 output in the Scottish engineering industry fell to exactly the same level as that which obtained in 1970. In the UK, output fell to 99.4% of 1970 levels, but rose by 0.4% in the first quarter of 1978. In Scotland, some increase in output over the same period is likely to be reported, given that a balance of 7% of firms responding to the CBI Survey reported an expansion during the first four months of 1978. Indications of a further revival in engineering come from the net balance of 29% of firms expecting to increase output volume in the four months following April. The level of excess capacity in engineering is low relative to metal manufacture and chemicals. And investment intentions are quite strong, a balance of 15% of firms expecting to increase expenditure on plant and machinery over the next twelve months.

Within engineering, particularly sharp falls in output occurred in shipbuilding and vehicles and in electrical engineering. The
particular series for electrical engineering exhibits considerable instability, even in comparison with that for the UK as a whole. This may be due to difficulties in recording or deseasonalising the series or it may be that in fact this is an extremely volatile industry. Certainly the rate of technical progress is very rapid, particularly in the electronics sector. The NCR company in Dundee is likely to shed some labour shortly because recent technical developments have rendered some components obsolete. The Scottish Development Agency have recently commissioned an eight month study of electronics. It is to be hoped that the study can provide a clear insight into future technical developments and that the strategy which emerges will be robust to technical change.

New orders for British shipyards fell during the first three months of 1978, to a quarter the level needed to occupy the present UK shipyard capacity. As the world shipbuilding industry faces a continuing crisis a number of proposals for planned reductions in output have been announced. The EEC Commissioner for Industry is attempting to co-ordinate a shared European 40% reduction in capacity over the next few years and will not sanction subsidies in member countries unless contraction is carried out. The British government have not agreed to the plan and, although British Shipbuilders point to a 20% drop in merchant shipbuilding employment over the last eighteen months, the EEC are critical of British moves to set up a second intervention fund.

The British Shipbuilders corporate plan will be introduced later in the year. Already, partly in response to an internal report that was highly critical of British yards' lack of success in entering the offshore oil market, British Shipbuilders have stated they are to concentrate on designs for the offshore industry and on naval warships which may (possibly) be stockpiled. They plan to speed up delivery dates, often a crucial factor, by sharing work between yards.

A decision on the vital BP order for a £50 million emergency support and maintenance (ESM) vessel has been delayed by negotiations over the tax incentives involved. The choice for the British entry into the semi-submersible market has been narrowed down to Harland & Wolff and Scott-Lithgow. If the latter are awarded the contract some of the fabrication work could go to Govan. Northern Offshore are due to place an order for a £25 million support vessel and Shell-Esso are considering an ESM for their Brent field. Two large supply vessels have, however, recently been ordered from Japan for Seaforth Maritime at a price 50% less than any quoted in Europe.
Yarrows, British Shipyards leading yard for naval work, have a £200 million order book including four Type 22 frigates. Govan are to buy in work to carry their 5,500 employees over the sixteen week summer gap before they start fabrication work on their Polish order in September.

Vehicle production at Linwood has been disappointing in recent months. The Chrysler Corporation have been warned that no additional funds will be made available by government should it be unable to operate profitably. The sharp fall in the output index for vehicles, shipbuilding and marine engineering from 82 to 75 in the final quarter of 1977, will largely be attributable to an industrial dispute at the Linwood plant.

A report by the Scottish Council (Development & Industry) attempts to quantify the importance of the inspection, maintenance and repair market in the North Sea. They forecast that the market, worth £90 million in the early 1980’s will treble to £280 million by the end of the decade. They estimate that inspection and surveys account for £26 million; corrosion, cleaning and painting £14.6 million; mechanical work £13.6 million; and structural maintenance £8.5 million.

There are a number of recent examples of continued expansion and activity in the oil related engineering supplies industry. A shotblasting and corrosion engineering enterprise has been formed in Aberdeen with one of the largest shotblasting booths in Europe. The highly successful Gray Tool company, who manufacture wellheads and valves, have opened another factory in East Kilbride. The company intend to double their 340 Scottish workforce over the next four years. Reclamation work on a disused dock site in Methil in Fife will be started soon by the SDA and interest has already been expressed in the proposed 60 acre site suitable for serving the offshore oil industry.

Output in mechanical and instrument engineering also fell in the final quarter of 1977 from an index level of 93 to 91. Output in the UK as a whole also fell slightly over the same period but some recovery was made in the first quarter of 1978. A fairly sharp rise in orders, particularly for export, also occurred in the first quarter. This will have been assisted by the weakness of sterling against most international currencies.
In Scotland, there has been an increase of £11.9 million in bank advances to mechanical engineering over the quarter up to May 1978. This may well indicate some expansion of capacity or of working capital in order to meet new orders.

Textiles was the only Scottish industry to record an increase in output in the final quarter of 1977, its index rising 2% to 116. In contrast, output in the UK fell by 1.5% over the same period. Firms have continued to experience difficulties in competing with cheap imports. Nearly 300 workers are to be affected by the closure of a Glasgow clothing factory in July which has resulted from a lack of competitiveness with cheap imports. However, there is some evidence that British manufacturers are now maintaining their share of world markets. Trade in textiles and clothing was almost in balance during 1977 for the first time since 1973. Over this same period the value of clothing exports has more than tripled.

The April CBI Survey reveals that a balance of 11% of Scottish textiles firms experienced increases in output during the first four months of 1978. Obviously, some of these increases were unexpected. Paton & Baldwins in Alloa were able to halt their redundancy programme as a result of a sudden increase in orders. The outlook for the next four months is probably one of modest expansion, particularly in domestic sales.

Output of bricks, pottery, glass and cement fell sharply from an index level of 99 in the third quarter of 1977 to 90 in the final quarter. In the UK as a whole the fall was more modest, from 110 to 108. During the first quarter of 1978 output expanded by 1.4% in the UK. A slight increase in construction orders received in Scotland during the same period will probably have ensured an expansion of similar magnitude.

Output in the Scottish timber and furniture industry fell below 1970 levels in the final quarter of 1977. A 5% drop in output to an index level of 99 occurred, while in the UK as a whole, output rose by 2%. An increase in consumer spending, resulting from recent increases
in disposable income, should enable some increase in output during 1978.

A rise in output of 1% to an index level of 83 occurred in the final quarter of 1977. In the UK as a whole output rose by 1.5% over the same period and then remained stable during the first quarter of 1978. Again, the expansionary effects of increased consumer expenditure is likely to have some beneficial effects on this industry during 1978.

Output in the construction industry remained static during the final quarter of 1977 at an index level of 102. In the first quarter of 1978 the value of new orders to contractors was 18% above that for the first quarter of 1977, indicating that some real expansion is taking place. The increased orders were wholly concentrated in the private sector. Compared with the figures of one year beforehand, orders for industrial building have increased by 83%. In contrast, total orders for the public sector declined by 1% with a particularly marked fall of 63% in orders for public transport and energy supply relative to the first quarter of 1977.

Three new oil platform orders have been announced during the last quarter. The first of two platform for Shell Esso's Fulmer field is to be built in Fife, and while the two units for the Beatrice field are both to be built in Spain, Highland Fabricators have secured a £17 million contract for project management and engineering design work. The least optimistic view envisages a further five orders over the next 18 months while other forecasts suggest numbers two or three times greater. The closure of Laing Offshore at Graythorp means that all UK platform capacity is now located in Scotland.

The EEC has been discussing the British interest relief subsidies for offshore equipment and there may be demands from the Commission for the scheme to be withdrawn. The British policy of ensuring that British companies are given 'a fair opportunity' to compete for every order could have been a significant factor in the recent trend for foreign firms in the oil supply market to form alliances with British companies. The Dutch company de Groot now have a 43% stake in the Methil yard where the new company is called Redpath de Groot Caledonian. Another Dutch firm, NAPM (International) have set up a joint venture with Howard Doris beside Loch Kishorn.
UNEMPLOYMENT RELATIVE: SCOTLAND/GB 1954-78

SCOTLAND: UNEMPLOYMENT/VACANCIES 1954-78

Source: Department of Employment
After the float out of the Ninian central platform in May, Howard Doris reduced their staff to 200. They still have a letter of intent from Total and design for tanker loading buoys and flare stacks have been put forward as a means of providing temporary employment until a major contract is secured. The other three concrete platform yards have no orders. The closures of Hunterston and Portavadie, although widely expected, have not yet taken place.

The steel yards are facing increasing overseas competition in their tenders but all have orders to fill. Work on the second platform for Chevron's Ninian field has ended at Highland Fabricators in Nigg. They have no other major platform orders at present but a number of small contracts are maintaining employment at a steady level. They are working on the jacket section of the northern platform for Ninian and have secured a further order from Chevron and two from Amoco and Occidental. The Tartan contract will be completed by Redpath de Groot Caledonian at Methil by the end of the year and the recently announced order for the smaller of two platforms for Fulmer will ensure employment for the 830 workers currently employed throughout 1979.

EMPLOYMENT AND UNEMPLOYMENT

At 2,069,000 the number of employees in employment in Scotland in December 1977 was 8,000 lower than the figure for September 1977, and 4,000 lower than the figure for December 1976 (Table 3). The decline

<table>
<thead>
<tr>
<th>Table 3 Employees in Employment - Scotland and Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employees in employment (‘000)</td>
</tr>
<tr>
<td>Scotland</td>
</tr>
<tr>
<td>December 1976: Total: 2,073, Male: 1,204, Female: 868</td>
</tr>
<tr>
<td>December 1977: Total: 2,077, Male: 1,203, Female: 874</td>
</tr>
<tr>
<td>December 1977: Total: 2,069, Male: 1,196, Female: 872</td>
</tr>
<tr>
<td>England &amp; Wales: December 1976: Total: 20,103, Male: 11,924</td>
</tr>
<tr>
<td>September 1977: Total: 20,150, Male: 11,942, Female: 8,208</td>
</tr>
<tr>
<td>December 1977: Total: 20,145, Male: 11,898, Female: 8,248</td>
</tr>
</tbody>
</table>

Source: Department of Employment
Note: Data are provisional
FIGURE 10

UNEMPLOYMENT RELATIVE • FEMALE/MALE \times 100


FIGURE 11

VACANCIES IN SCOTLAND • 1954-78

Vacancies (hundreds)


Source: Department of Employment
between December 1976 and December 1977 includes a fall of 8,000 in male employment, partially offset by a rise of 4,000 in female employment, and a fall of 5,000 in manufacturing employment, offset by a rise of 6,000 in service industries. Employment in other industries (Mining, Construction and Utilities) fell by 5,000.

In the rest of Great Britain similar trends are apparent but increases in female and services employment have more than offset the decline in male employment and Scottish employment fell from 9.35% of British employment in December 1976 to 9.31% in December 1977. It would thus appear that employment opportunities in Scotland have declined relative to the rest of Britain, and this impression is reinforced by the comparative ratios of unemployment to notified unfilled vacancies; based on data for June 1978, the ratio for Scotland was 7.7, compared with 5.1 for the rest of Great Britain.

Turning to the unemployment statistics, there were 187,150 persons registered as unemployed in Scotland in June 1978, including 25,016 school-leavers, giving an unemployment rate of 8.4%. These numbers are almost exactly the same as those for June 1977.* Compared with March 1978, the figures show a fall of almost 4,000 in total numbers unemployed and of 0.2% in the percentage unemployed. Seasonally adjusted, unemployment appears to show a fall of about 8,500 over March. The seasonally adjusted figures must be interpreted with some caution because of the large fluctuations which they have shown in recent months. Compared with June 1977, seasonally adjusted unemployment has risen by almost 1,000, and at 7.6% the seasonally adjusted unemployment rates for June 1977 and June 1978 are identical.

For Great Britain, the corresponding figures for the total and percentage of persons unemployed in June 1978 were 1,381,403 (including 139,254 school leavers) and 5.9%. This represents a slight decrease over June 1977 (6.0% unemployment) and March 1978 (also 6.0%). At 1.42, the Scotland/Great Britain unemployment relative shows a marginal decrease of 0.01 from March 1978 and from June 1977.

* In Table 5 the percentage unemployment in June 1977 is shown as 8.6%. In June 1977, unemployment rates were based on the June 1975 Census of Employment. More recent estimates are based on the June 1976 Census of Employment.
Table 4  Regional Analysis of Unemployment and Vacancies in the UK, June 1978

<table>
<thead>
<tr>
<th>Region</th>
<th>Unemployment ('000s)</th>
<th>Unemployment Rate %</th>
<th>Vacancies ('000)</th>
<th>Unemployment/Vacancies</th>
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</thead>
<tbody>
<tr>
<td>South East</td>
<td>308.7</td>
<td>4.1</td>
<td>115.0</td>
<td>2.7</td>
</tr>
<tr>
<td>East Anglia</td>
<td>35.3</td>
<td>5.0</td>
<td>7.7</td>
<td>4.6</td>
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<td>South West</td>
<td>101.8</td>
<td>6.3</td>
<td>17.8</td>
<td>5.7</td>
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<td>West Midlands</td>
<td>123.4</td>
<td>5.3</td>
<td>17.4</td>
<td>7.1</td>
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<tr>
<td>East Midlands</td>
<td>80.6</td>
<td>5.1</td>
<td>15.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>123.0</td>
<td>5.9</td>
<td>18.4</td>
<td>6.7</td>
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<tr>
<td>North West</td>
<td>212.0</td>
<td>7.5</td>
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<td>11.3</td>
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<tr>
<td>North</td>
<td>122.9</td>
<td>9.0</td>
<td>12.0</td>
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<td>Wales</td>
<td>86.5</td>
<td>8.0</td>
<td>9.8</td>
<td>8.8</td>
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<td>N. Ireland</td>
<td>64.7</td>
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<td>2.3</td>
<td>28.1</td>
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<td>Scotland</td>
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<td>1,446.1</td>
<td>6.1</td>
<td>258.8</td>
<td>5.6</td>
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<td>Great Britain</td>
<td>1,381.4</td>
<td>5.9</td>
<td>256.5</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Department of Employment

Notes: Data include school-leavers but exclude adult students, and are seasonally adjusted. Figures may not add to totals due to rounding.

Figures for vacancies refer to notified unfilled vacancies at employment offices, and career offices, and contain a certain element of double counting.

Table 5  Regional Analysis of Unemployment in Scotland, June 1978

<table>
<thead>
<tr>
<th>Region</th>
<th>Unemployment ('000s)</th>
<th>Unemployment Rate %</th>
<th>Vacancies ('000)</th>
<th>Unemployment/Vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highland</td>
<td>7.8</td>
<td>9.5</td>
<td>8.5</td>
<td>14.0</td>
</tr>
<tr>
<td>Shetland</td>
<td>2.9</td>
<td>2.8</td>
<td>4.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Orkney</td>
<td>4.3</td>
<td>5.2</td>
<td>8.8</td>
<td>10.0</td>
</tr>
<tr>
<td>Western Isles</td>
<td>9.5</td>
<td>10.3</td>
<td>4.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Grampian</td>
<td>4.3</td>
<td>5.0</td>
<td>7.5</td>
<td>8.4</td>
</tr>
<tr>
<td>Tayside</td>
<td>7.5</td>
<td>8.0</td>
<td>8.9</td>
<td>10.2</td>
</tr>
<tr>
<td>Fife</td>
<td>8.3</td>
<td>8.0</td>
<td>8.9</td>
<td>7.2</td>
</tr>
<tr>
<td>Strathclyde</td>
<td>10.2</td>
<td>10.2</td>
<td>7.4</td>
<td>7.2</td>
</tr>
<tr>
<td>Lothian</td>
<td>6.8</td>
<td>7.1</td>
<td>7.4</td>
<td>7.6</td>
</tr>
<tr>
<td>Central</td>
<td>8.3</td>
<td>8.4</td>
<td>8.4</td>
<td>7.9</td>
</tr>
<tr>
<td>Dumfries/Galloway</td>
<td>3.9</td>
<td>4.6</td>
<td>4.2</td>
<td>8.6</td>
</tr>
<tr>
<td>Borders</td>
<td>8.4</td>
<td>8.6</td>
<td>8.6</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Source: Department of Employment

Note: Rates for June 1977 are based on the Census of Employment 1975, while those for March and June 1978 are based on the 1976 Census of Employment.
Analysis of unemployment and vacancies in the UK regions shows Scotland with the third highest unemployment rate (after Northern Ireland and the North of England), and to occupy the middle of the ranking with respect to unemployment/vacancy ratios. The use of seasonally adjusted data has little effect on the overall picture, though the relative position of Scotland is improved if school leavers are excluded, since the latter appear on the unemployment register earlier than in the rest of Britain.

Within Scotland there have been quite distinct improvements in rates of unemployment during the last quarter (March-June) in the Highlands and Islands, North and North East, Tayside and Borders, and unemployment rates in these regions are also lower than in June 1977 (Table 5). The overall unemployment rate, however, is still dominated by the Central Belt, in particular Strathclyde, where there has been little or no improvement. It is also worth noting the persistently high level of unemployment in Dumfries and Galloway, an area whose problems perhaps receive less attention than they deserve in comparison with other depressed areas.

At 47 females for every 100 males, the female/male unemployment relative shows little change over the March figure.

To summarise, there has been little change in employment and unemployment during the past twelve months, though some of the smaller regions have improved, and there is little sign at this stage of a lasting improvement in the underlying trend. The discouraging but familiar conclusion is that the prospects for a significant change in the unemployment situation are poor. The disturbing feature of the present crisis is that historically high levels of unemployment seem likely to continue for some considerable time, and some commentators have suggested that high levels of unemployment may become a permanent feature of the developed market economies. While this may be unduly pessimistic, the present phase of unemployment differs notably in degree, if not in kind from previous post-war cycles, in which short-term fluctuations in employment have reflected short-term structural adjustments in demand and output, around a constantly rising trend at full-employment growth rates. Whatever its causes, and these are complex, the sustained period of post-war full employment growth has been stopped, and shows little sign at present of being resumed.

In these circumstances, it is necessary to reappraise policies and instruments designed to alleviate unemployment. If current levels
REGIONAL UNEMPLOYMENT RATES, 1968-78

FIGURE 12

Dumfries/Galloway

Borders

FIGURE 13

Fife

Tayside

Grampian

FIGURE 14

Western Isles

Scotland

Source: Department of Employment
of unemployment are regarded as unacceptably high, and yet are not open to being reduced by traditional measures of aggregate demand management, alternative means of employment creation must be sought. An extensive system of import controls, as advocated by the Cambridge Policy Review Group, is one possibility, though such a measure would have serious, and perhaps counter-productive repercussions.

Another possibility is a more extensive system of employment subsidies. For example, employers could be relieved of employers' national insurance contributions on additional workers - perversely, the Government are about to increase these contributions, which will certainly increase unemployment. An incidental effect of this relief would be to increase employment at the expense of overtime,* a result in accord with current suggestions for a greater degree of "work sharing".

On a larger scale, rates of subsidy and qualifying criteria for job creation schemes could be extended. One obvious candidate for such a programme would be education, in which large numbers of unemployed teachers compare with a rapid increase in educationally wasteful "composite classes". Direct subsidies on environmental employment could also be paid to the construction industry, which is a major employer of unskilled labour. More generally, labour subsidies could be extended to cover new employment creation in all industries, though on the supply side being restricted to new entrants to the labour market, plus those unemployed for longer than a certain period of time. Given the present battery of subsidies to capital, regional incentives, and so on, there is no obvious objection in principle to reducing the supply price of labour by an amount designed to have a significant impact, and at no cost (and possibly some benefit) to the Treasury. Various objections can be and no doubt would be raised against such a scheme, but it must be asked whether or not a significant improvement in employment is worth the risks of possible abuses or dislocation in resource allocation. Sustained high levels of unemployment may be said to represent a much greater abuse of social resources and individual welfare.

* See Hart, R A and Sharot, T "The Short-Run Demand for Workers and Hours". Review of Economic Studies, June 1978
REGIONAL UNEMPLOYMENT RATES: 1968-78

**FIGURE 15**

- Highland
- Orkney
- Shetland

**FIGURE 16**

- Strathclyde
- Central
- Lothian

*Source: Department of Employment*
OUTLOOK AND APPRAISAL

In this section, as well as reviewing the short-term prospects for the Scottish economy, two particular topics, clearly relevant to the short-term outlook, are considered. These are, firstly, recent trends in unemployment and secondly, the role of bargaining over hours of work in the coming wage round.

Unemployment

The fall in unemployment which has occurred since January 1978 in both Scotland and Great Britain as a whole (see Employment and Unemployment) was not foreseen by the forecasting organisations. In February, the London Business School expected unemployment to rise to 1.425 million by the second quarter of 1978. In the same month, the National Institute were forecasting a similar figure, 1.4 millions for the fourth quarter of 1978. In fact, between January and June the seasonally adjusted level of unemployment in Great Britain fell by 54,000 to 1.305 million. In Scotland, over the same period, the level fell by 9,700 to 168,600.

In the July 1977 issue of the Quarterly Economic Commentary it was forecast that unemployment would reach 175,000 in December. The outturn was 178,000. However the October Commentary took a pessimistic view, expecting the trend level of unemployment would rise to 185,000 by April. In January the forecast was for no change in the underlying level of unemployment between April and June. In fact, the trend level of unemployment peaked in January and since then has drifted downwards. In order to ascertain whether this unexpected reduction can be maintained, it is clearly essential to investigate the reasons behind this turnaround.

The view of the forecasting organisations at the beginning of 1978 was that a rise in output could be expected during 1978 but, during the first few months there had been no perceptible increase. When the level of output did begin to rise there would be no immediate effect on unemployment because of the historically high levels of spare capacity in industry. Further, a continuously expanding supply of labour would provide additional upward pressure on the level of unemployment. The net result of these forces would be to marginally increase unemployment during 1978.
Clearly this logic has not been borne out by the experience of the last few months. It could have broken down for a number of reasons. Firstly, it may have been the case that the real rise in output was stronger, and came earlier, than suggested by the official production statistics. The increasing importance of the 'shadow' sector of the economy, where transactions are made with the express aim of avoiding official recording systems, might partially explain this phenomenon.

Secondly, it might be argued that capacity underutilisation was not evenly distributed between industries and firms. In some industries even a small increase in output may have necessitated taking on additional labour which, in turn, would have affected the unemployment figure. Again, no hard evidence is available.

Finally, and probably most importantly, the supply of labour may not have behaved in the manner expected. Rather than increasing, it has declined in recently months. On this point, there is some evidence. In the final quarter of 1977, the actual labour supply in the UK fell by some 146,000. Over the same period the level of unemployment fell by 128,000. In Scotland, the fall, (excluding HM Forces and the self-employed), was 12,000, which comprised 7,000 males, and 5,000 females, (see Figure ). This was the largest recorded drop in the labour supply in recent years.

![Total Labour Supply Graph](image-url)
Further, it is clear that these declines were not simply due to seasonal variations, since the seasonally adjusted labour supply in the UK fell by 58,000, its first recorded fall since 1973. The effect of a drop in the labour supply is to reduce recorded unemployment below what it might otherwise have been, and thus, a further decline during the early months of 1978 would explain the observed reduction in unemployment over this period.

However, this explanation begs the question as to what has caused the decline in the labour supply when population trends suggest that one should be expecting an increase. A number of factors may have contributed. Firstly, it may be the case that workers, of both sexes, are increasingly withdrawing from the labour force because of the discouraging effects of long-term unemployment. Given that the number of persons who have been unemployed for more than a year is at post war record levels, there is clearly substantial scope for the 'discouraged worker' effect to substantially reduce labour supply. Secondly, recent increases in real disposable income for married male workers may have reduced the number of married women seeking employment because they now feel able to afford to look after their children. Thirdly, migration may be somewhat higher than expected, perhaps as a result of expanding employment opportunities in areas such as the Persian Gulf.

These negative effects on the labour supply must continue to offset any increase caused by movements in the age structure of the population if recorded unemployment is to continue to decline, and no substantial expansion of employment is anticipated. The likelihood of reductions in the labour supply continuing into 1979 seems, at present, remote. Without a substantial expansion of the demand for labour, it is unlikely that the present favourable trend in unemployment will continue.

Hours of work

It is now clear that bargaining over reductions in the length of the working week will form an important part of union strategy in the coming wage round. Precedents for negotiating reductions in hours have already been set in other countries, with a particularly strong movement in Belgium. Union negotiators intend to bargain for a shorter week without any reduction in take home pay, a scheme to which employers organisations are already implacably opposed.
In previous issues of this Commentary (eg. January and April 1978), various measures have been advocated both to increase employment and to reduce the level of overtime working. These include the reintroduction of Regional Employment Premium, reductions in National Insurance contributions and forced increases in the rate at which overtime hours are paid. Implicitly, it was hoped, the net effects of these measures would be to reduce, rather than to increase, unit costs, thus ensuring that export competitiveness would be maintained.

The expressed intention of the unions in attempting to reduce the working week is to reduce unemployment. However, if the employer has to pay the same costs (in fact these will be higher due to the increase in National Insurance contributions) in order to produce the lower output resulting from a shorter week, then there will be no incentive to expand employment. Higher unit costs will entail higher prices. Reduced demand in foreign markets will result. Similarly, in domestic markets because there has been no net increase in disposable income, there will be a reduction in demand. In the domestic economy, an increase in leisure time for workers will therefore be offset by a reduction in living standards, and an increase in unemployment, not a decrease.

Any policy which increases unit costs should be strenuously resisted by policymakers. It is surely up to those who argue in favour of such policies to show how higher prices will result in a decrease in unemployment.

Outlook

It is now clear that the UK economy is enjoying a consumer-led boom of the type which so characterised its behaviour during the fifties and sixties. Exhortations to export or investment-led growth have largely been forgotten.

The early indications suggest that the Scottish economy is expanding along with the rest of the UK. The CBI Survey, the number of company formations, and the incidence of overtime working, all suggest that some expansion has already taken place. This can be expected to continue throughout the remainder of 1978.
One may surmise that the government measures which, to a large extent, have fuelled this increase in demand were not wholly unrelated to the possibility of an autumn election. However beneficial this boom may be in restoring living standards, it is clear that no substantial advances have been made recently in tackling the fundamental problems of the Scottish and UK economies. Levels of productivity and investment are too low and export performance is mediocre. The benefits from North Sea oil, which could perhaps have been used to remedy these problems, have largely been dissipated in the financing of consumer spending before any coherent government policy on their usage has been formulated.

Given this scenario, and with the likelihood of double digit inflation returning in the first half of 1979, there is no reason to expect that the present boom will continue far into 1979. Some small reduction in the seasonally adjusted level of unemployment in Scotland to, say, 162,000 in December 1978 may be expected, but thereafter the outlook is uncertain, with all the major forecasting organisations expecting some increase in unemployment during 1979. The actual level of unemployment implied, with the seasonally adjusted level of 162,000, should be of the order of 170,000.