The Scottish Economy, Structural Adjustment and Economic Development

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Objectives

- To provide an introduction and overview of the Scottish economy
- To describe the evolutionary path of the models of economic development in Scotland from 1975 onwards

Sources

- Official Statistics
- http://www.scotland.org/facts/
- http://www.scotland.gov.uk/Topics/Economy/Scotlands-Economy

Some Key Facts (2009/10)

- **Population : 5.2 million**
- **Total Area: 78,772 sq km**
- **GVA £102 billion**
- **GVA (per head)) £19,744**
- **Labour Force 2.49 million**

- **Top Five Export Industries:**

  Food & drink
  Chemicals
  Business services
  Electrical and instrument engineering
  Mechanical engineering

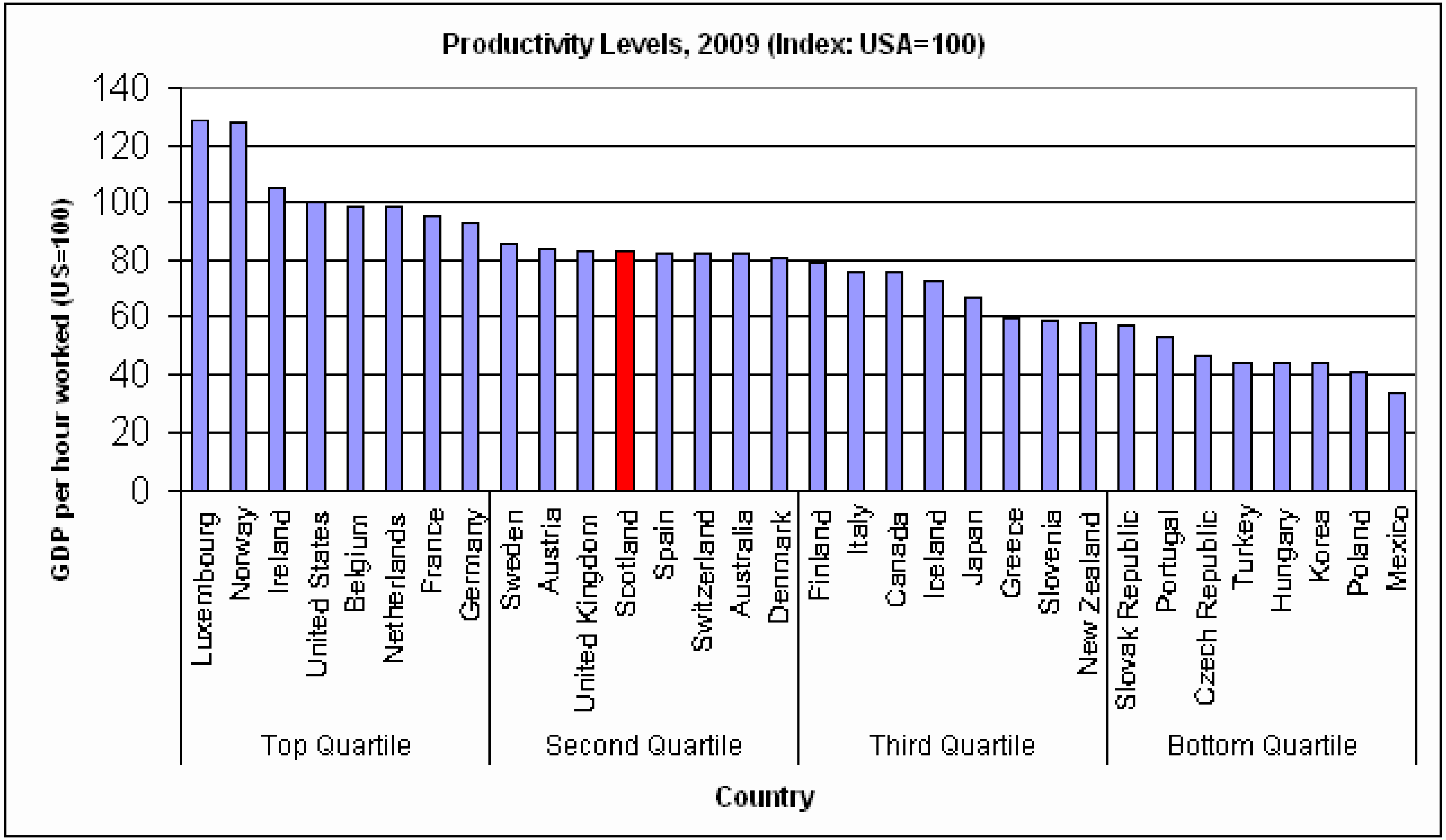
- **Top Five Export Markets**

  USA
  Netherlands
  France
  Germany
  Belgium

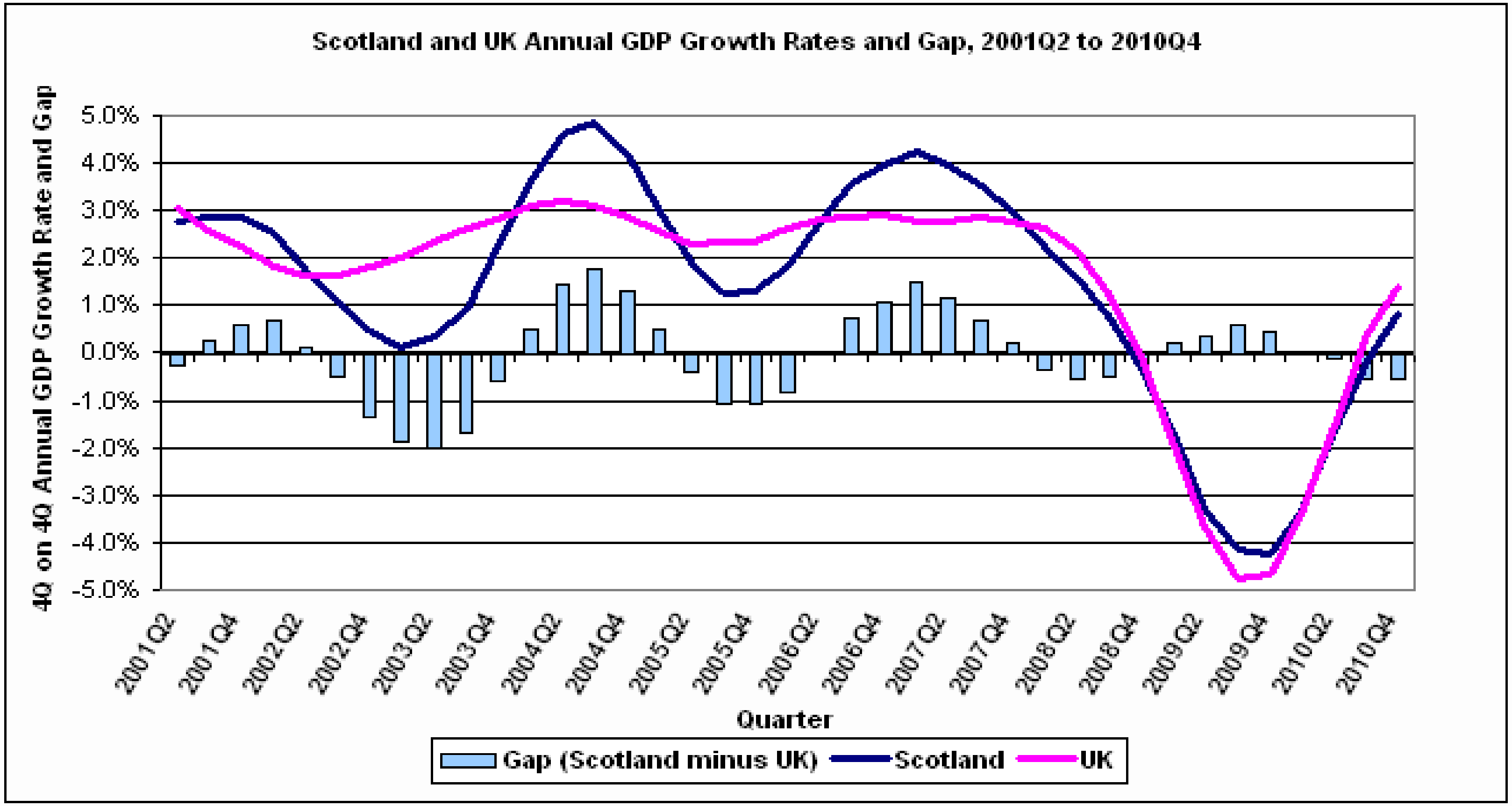
Scotland’s Cities

Glasgow - 592,820
Edinburgh - 486,120
Aberdeen - 217,120
Dundee - 144,290
Inverness - 56,660
Stirling - 89,850

Above Average Productivity Levels Compared with Leading OECD Members



GDP Growth: Can Reach Higher Rates but More Volatile than UK as a whole



Headline Figures (2008)
"Services Dominate"

- Gross value added (GVA) in the **services sector** amounted to £43 billion, compared to £14 bn in **manufacturing** and £7 bn in **construction** sectors.

- **Remaining sectors** accounted for £27 bn (dominated by £22 bn for oil and gas, which includes off-shore activity).

- Turnover in the **services sector** amounted to £119 bn, compared to £45 bn in **manufacturing** and £17 bn in **construction** sectors.

- **Remaining sectors** accounted for £55 bn (dominated by £34 bn for oil and gas, which includes off-shore activity).

Headline Figures Cntd.

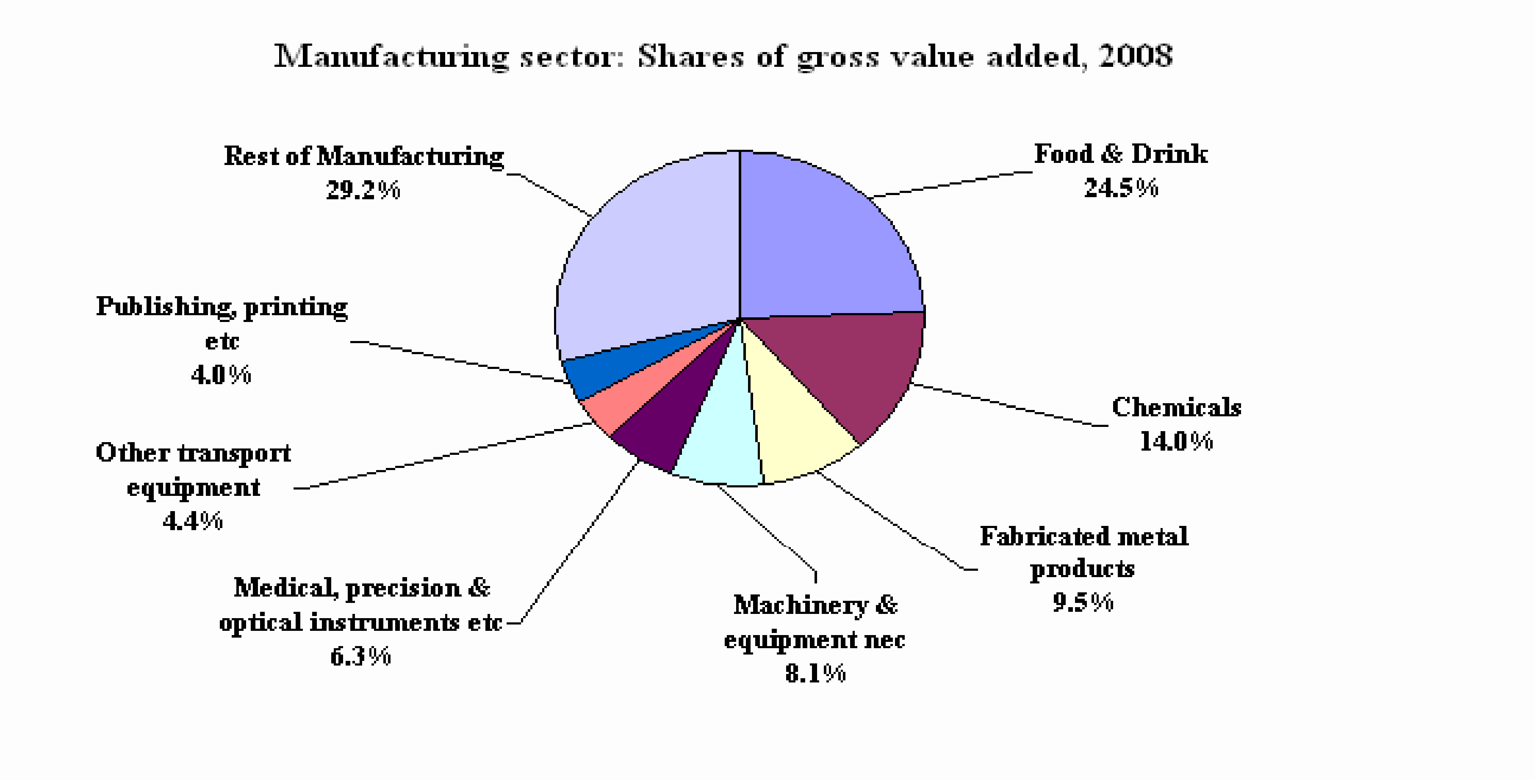
Scotland's Share of UK Totals:

- **Scottish manufacturing** accounted for around 8.6% of total **UK manufacturing** in terms of turnover and GVA.
- **Scottish services** were around 5.4% for turnover and 7.1% for GVA.
- Equivalent figures for **Scottish construction** sector were around 8.3% for turnover and 9.5% for GVA.

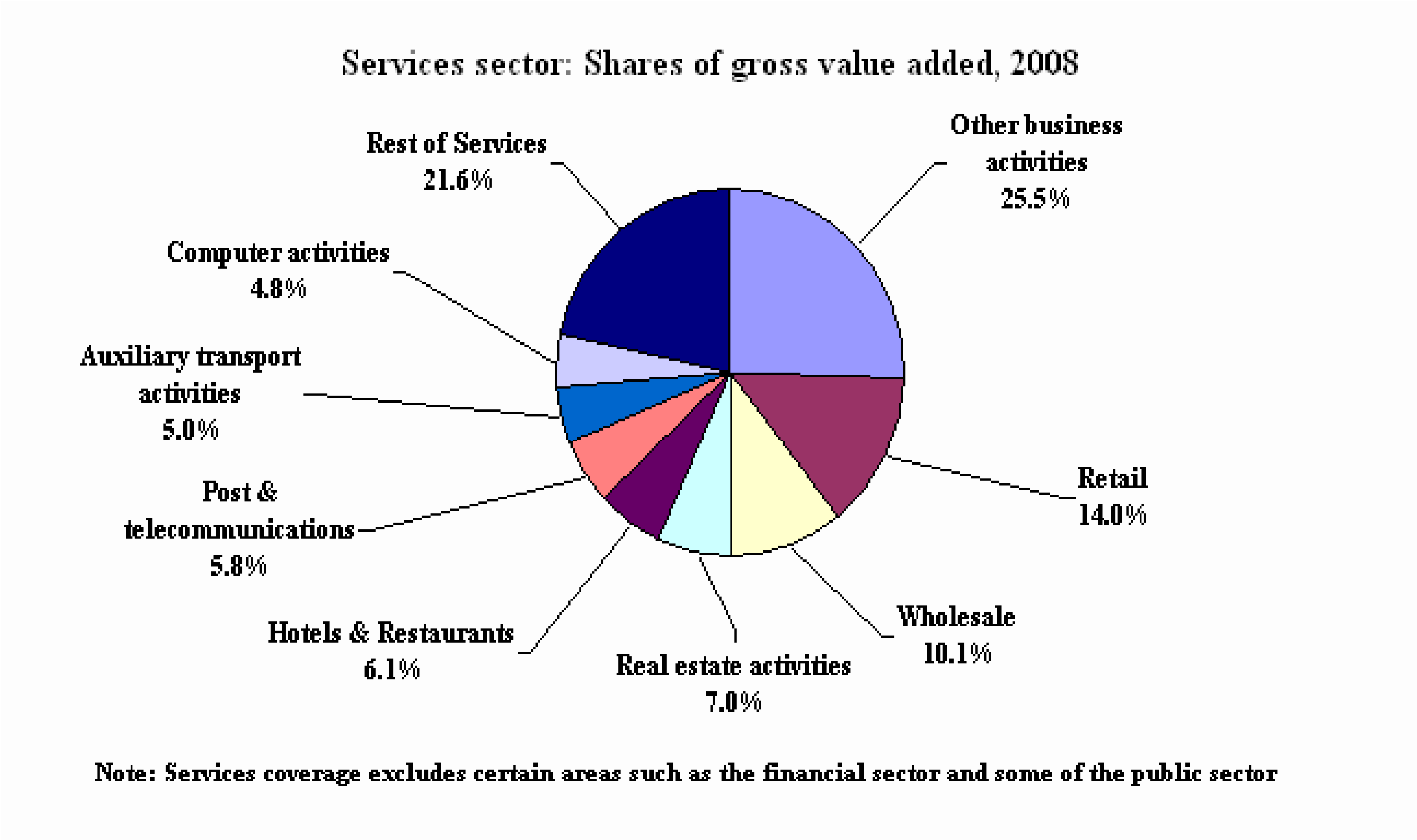
Per Employee Comparisons:

- GVA per employee in **manufacturing** (£66,900) was twice as high as that in the **services sector** (£33,300).
- Labour costs per employee in **manufacturing** (£32,000) were around 50% higher than in **services** (£21,500).
- In part, differences reflect the higher level of part time working in the **services sector**.

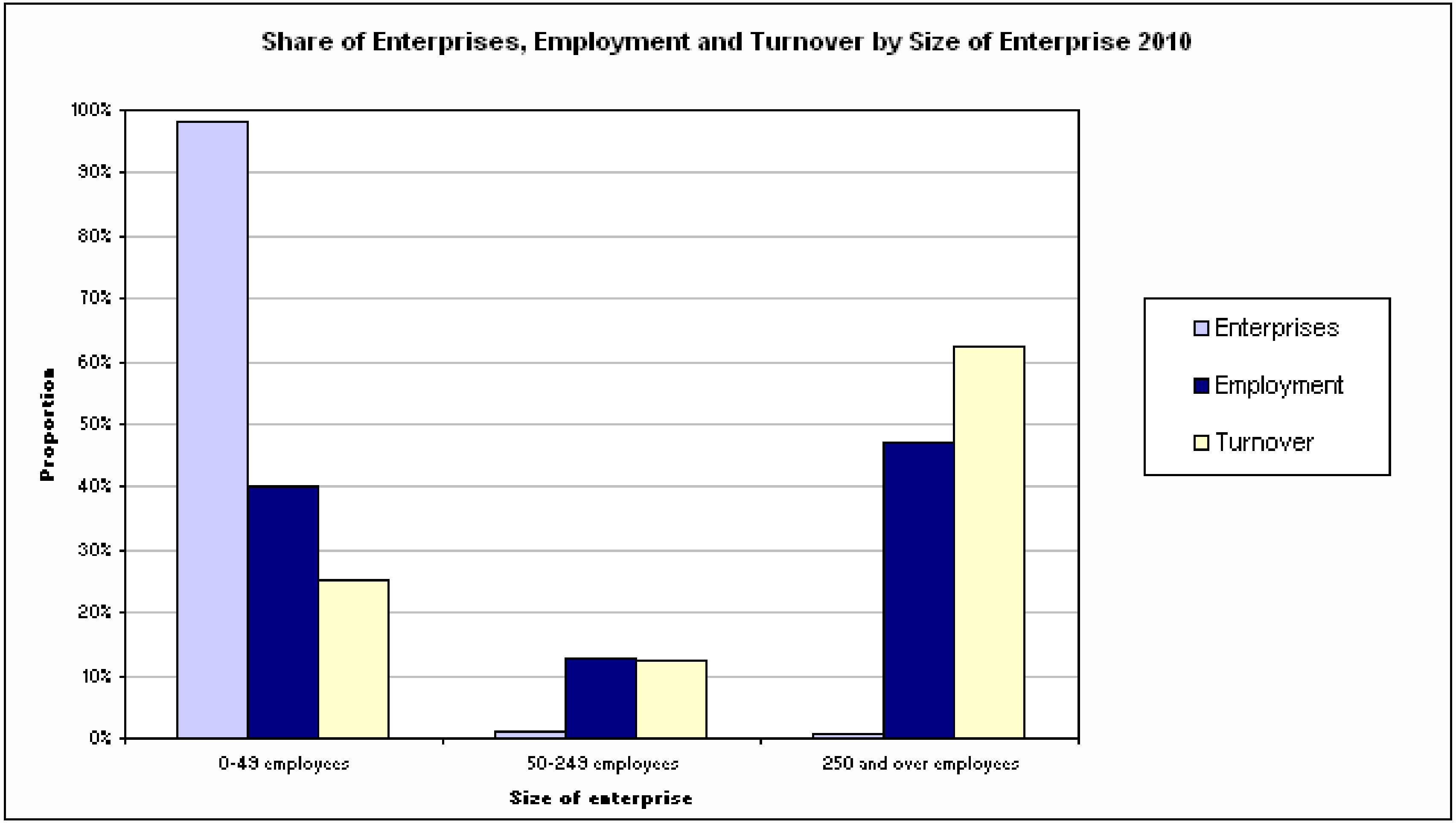
Food and Drink, Chemicals and Metal Fabrication account for 50% of Manufacturing GVA



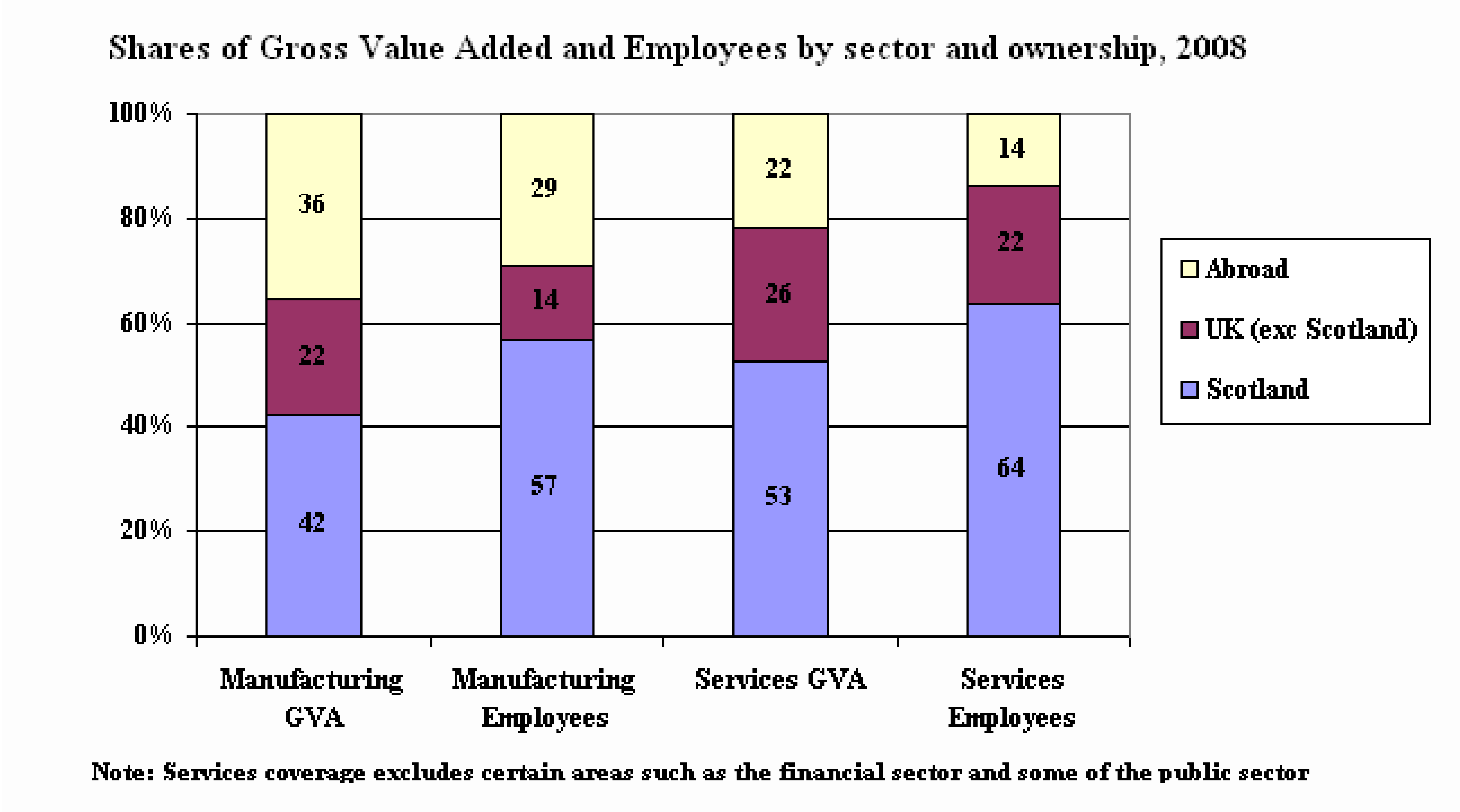
Business Services, Retail and Wholesale account for around 50% of Service-related GVA



Mid-sized Businesses?



Foreign Ownership



Foreign-ownership Cntd.

Per Employee Comparisons:

- GVA per employee for **foreign manufacturing** companies (£82,000) was 65% more than GVA per employee for **Scottish-owned** firms (£49,700).
- Labour costs per employee were 44% higher in **foreign manufacturing** firms (£39,200) than in **Scottish-owned** companies (£27,300).
- GVA per employee for **foreign services** firms (£52,100) was 90% more than GVA per employee for **Scottish-owned** companies (£27,500).
- Labour costs per employee were 21% higher in **foreign services** firms (£25,400) than in **Scottish-owned** companies (£20,900).

Export-led Growth

- History highlights this as a recurring theme in Scotland’s economic growth and development
- This is true of development patterns in the 18^{th}, 19^{th} and 20^{th} centuries
- Top exports through the ages

Treaty of Union in 1707: New Single Market Created

- Customs barriers dismantled (e.g. linen, coal, salt)
- Single currency (but different bank notes)
- Single system of taxation
- Common economic policy

  - One off payment to Scotland for sharing England's National debt
  - Annual "arising equivalent" – compensation equal to the increase in customs and excise revenue from Scotland paid for next 7 years

1707: The Treaty of Union

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- Scottish Parliament disappeared
- 45 Scottish seats out of 558 in the House of Commons ; 16 Scottish peers added to House of Lords
- Scottish distinctives remained : own legal system, own Church; own education;
- *But 15 of the 25 articles concerned with economic matters.*
- In Scotland motives for the Treaty viewed as mixed and generally unpopular:
- "The Union was, in fact, carried by the Parliament, with the assistance of the Church, against the country"

Scottish Exports Boomed

- **Access to English Markets**
  - 1701: 14,000 cattle exported
  - 1720s: 30,000 cattle exported
  - 1750s: 50,000 cattle exported
  - 1790s :100,000 cattle exported
- .
  .

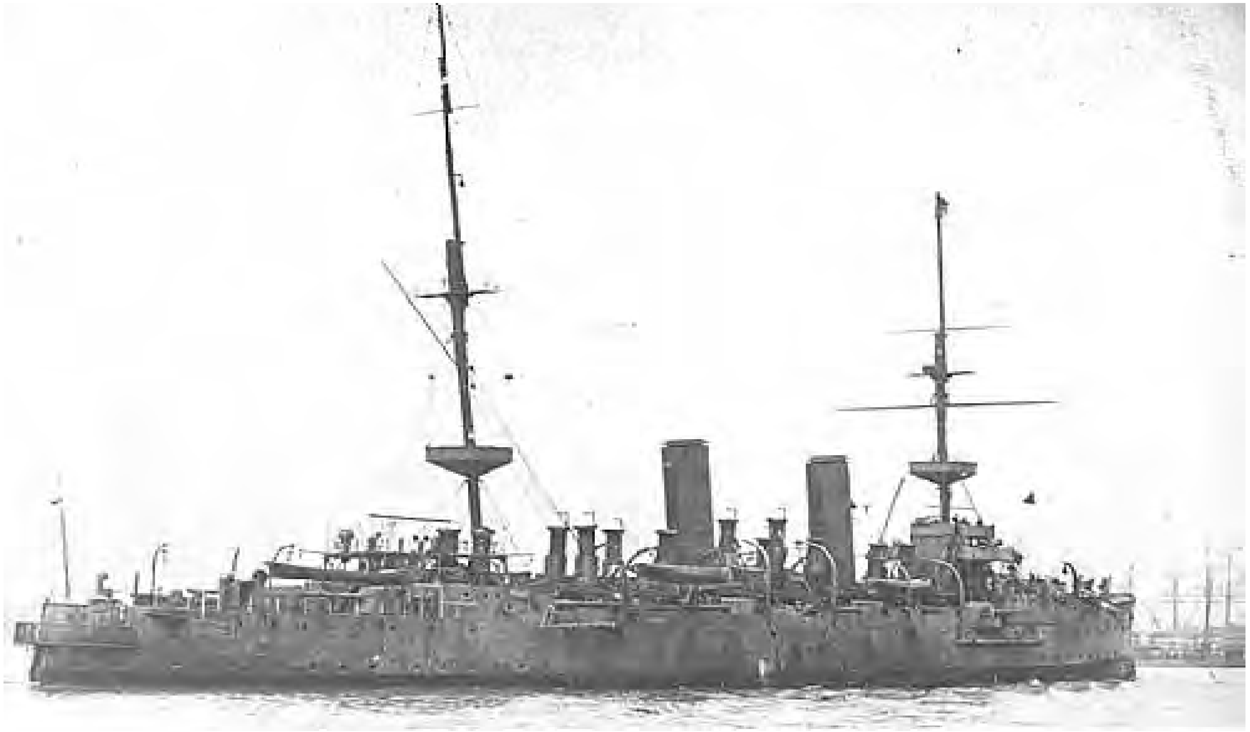
Scottish Exports Boomed Cntd.

- **Access to American Colonies**

  – 1775: Tobacco comprised 38% of Imports and 56% of exports (Glasgow Tobacco Lords)

  – Linen exports grew from 1.85 million yards in 1743 to 6.99 million yards in 1790s

  – In Glasgow, manufacturers, shippers and traders made fortunes from import and export trade especially in tobacco and sugar



Heavy Industry at the Heart of Scotland's Economy

By 1907

- 11.2% of Scottish output based on minning and quarrying (local splint coal and iron ore with high phosphorous content) (8.4% UK)
- 30.6% of output based on iron, steel, engineering and shipbuilding (21.7% UK)

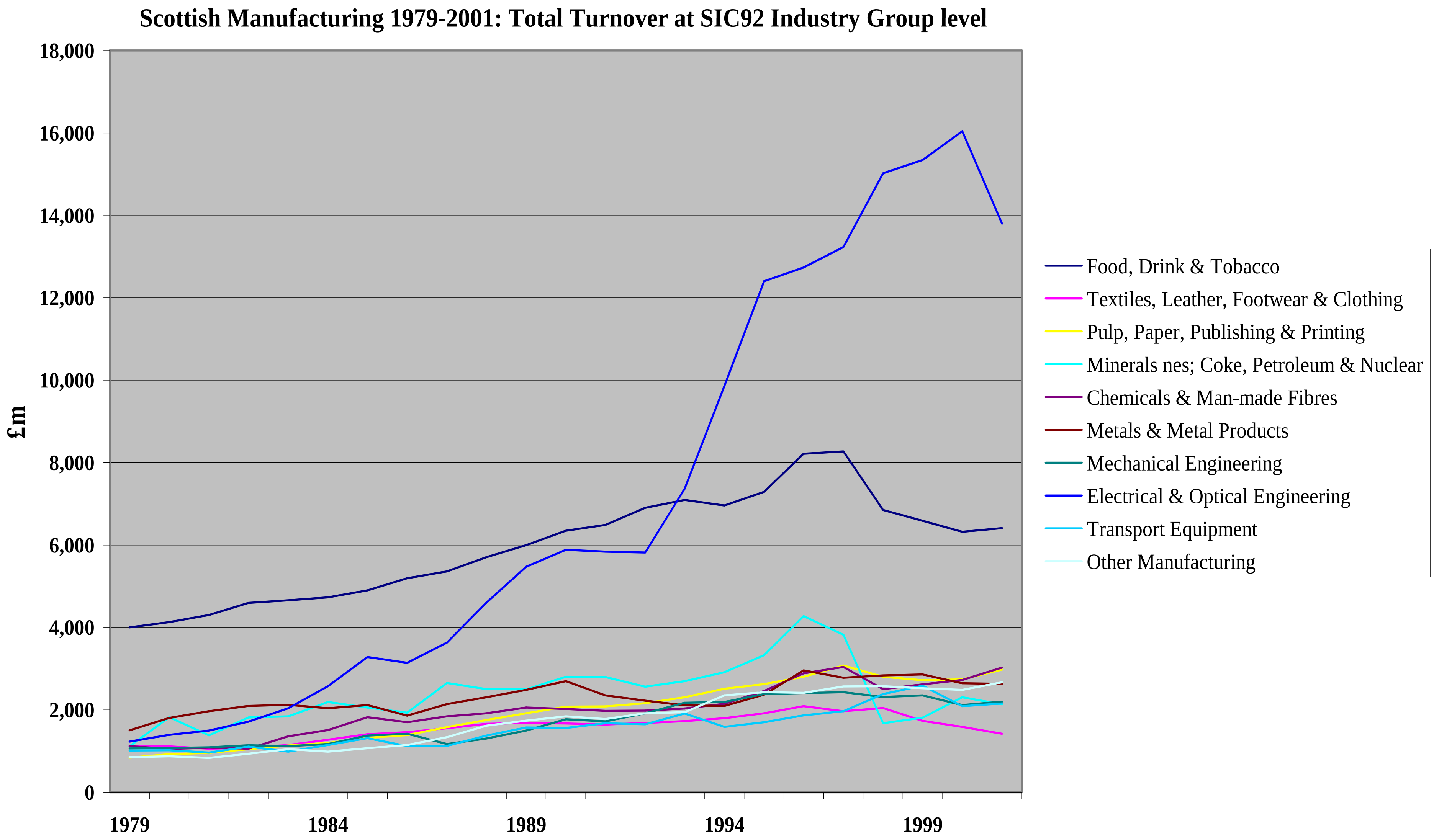
By 1913

- Over 100,000 people were working in 38 shipyards and related industries along the Clyde.
- Over half of world shipbuilding production was in Glasgow and
- Glasgow was known as the "Second City" and "Workshop" of the British Empire


Queen Elizabeth 2

From Ships to Chips (ICs)

- By 1996 “Silicon Glen” was producing
  – 35 % of Europe's PCs
  – 65 % of Europe’s ATMs
  – 12 % of the world's semi-conductors
  – Employed 55,000 directly
- But “Monitor Report” had already warned Scotland could lose up to 18,000 jobs in electronics through transfer to low-cost production centres in the Far East



Source: Scottish Production Database (SPD)
& Annual Business Inquiry (ABI)

Model 1: SDA (1975-1980)

- *Investment in industry*
  - (equity - £12m;loans £10.1)
- *Provision of factories*
  - (owned 731, built 265, sites 192)
- *Derelict land Clearance*
  - (over 1200 schemes, over £100 million invested)
- Urban Renewal (GEAR)
  - £40 million commitment
- *Support for Small Business*

Model 2: SDA 1981-91

- *Promotion and Attraction of Inward Investment* (One-stop shop created –Locate in Scotland)
- *Sector initiatives extended* (electronics, healthcare, biotechnology, forest products, oil-related engineering, advanced engineering)
- *Integrated area projects* (innovative approaches to urban and town renewal)
- *Investment* (Tighter Control)
- *Factory Provision* (Portfolio Privatised and Role More Limited)
- *Government policy* - greater emphasis on partnership with private sector and achieving leverage on spend

Model 3: Scottish Enterprise 1991-1999

- Merger with the Training Agency
- Creation of 13 LECs (Each under Private Sector Leadership) –
- LECs spend £381mn out of SE Total £446mn
- Retention at Centre (SEN) of
  - National Focus (e.g. Sector/cluster teams, flagship projects/initiatives)
  - Plus Full responsibility for FDI Promotion, Attraction and Trade Promotion
  - FDI Retention/Upgrade added (aftercare)
- Model 4: Scottish Enterprise in Post Devolution Scotland (JMcF)

Re-creation of the Scottish Parliament

Economic Regeneration: The City Perspective