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Centre for Agricultural Strategy

Volume I

The future of upland Britain

Edited by RB Tranter

CAS Paper 2 · November 1978

51 The changing economy of the north of Scotland

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As a general observation, there can be little doubt that the economies of the upland areas of Britain are continuing to deteriorate. In the main, this is because of the continuing difficulties in finding alternative sources of employment to replace jobs lost in the primary sector. There are exceptions, of course, but these are relatively few and are usually the consequence of the establishment in rural locations of large individual activities such as aluminium smelters and power stations, rather than representing radical change in the fortunes of our upland areas. Furthermore, it would be misguided to believe that prospects in the foreseeable future are much better. Manufacturing industry in the UK as a whole is in a depressed state, and the volume of new employment available for dispersal is very small. Similarly, the constraints on public expenditure and the low rate of growth of personal disposable incomes mean that there will not be a rapid expansion of the service sector.

In this context, those upland areas which have managed to overcome the common problems of depopulation and high unemployment merit particular attention. It may not be generally known, but on most measures of economic activity, the fastest-growing part of the UK in the 1970's has been the North of Scotland, taking that area as being the north-east (now the Grampian Region), the Highlands and Islands. Although the marked change in economic fortunes here is largely an accident of geography — their proximity to the North Sea oil and gas discoveries — the area's experience over the last five years has generated many lessons for other upland areas.

Analysing the scale and rate of economic change in Scotland is complicated by

the paucity and inaccuracy of the available statistical data, a problem not confined to the upland areas of Scotland, of course. Population and employment data tend to be too out-of-date for the analysis of recent short-term changes, and probably the best indicator is the monthly unemployment statistics, bearing in

Table 1
REGIONAL UNEMPLOYMENT RATIOS IN SCOTLAND

	1970	1971	1972	1973	1974	1975	1976
Scotland	100	100	100	100	100	100	100
Grampian	79	67	60	56	50	49	49
Highland	116	102	80	79	83	79	88
Orkney	111	71	43	56	64	51	51
Shetland	108	69	62	51	61	62	52
Borders	47	53	38	33	39	55	55
Dumfries and Galloway	129	102	87	93	103	113	110
Western Isles	403	327	297	300	331	298	216
Tayside	97	98	95	95	83	87	94
Fife	108	98	93	93	92	96	96
Lothian	87	84	73	77	86	85	82
Central	74	84	88	81	89	91	91
Strathclyde	118	122	120	121	125	119	118

Source: Department of Employment.

mind the usual reservations regarding their accuracy. Table 1 sets out this data for the various Scottish regions as ratios of the Scottish average in index form, taking the June figures for each year and the overall Scottish figure as 100. The four rural oil-affected areas (Grampian, Highland, Orkney, Shetland) are shown in the first part of the table, three rural non-oil areas (Borders, Dumfries and Galloway, the Western Isles) in the second part, and the remaining 'industrial' areas in the third part. The general pattern of change since 1970 is clear, and it is one with which most other indicators of economic change would agree.

Unemployment in the Grampian region (which includes Aberdeen) has traditionally been lower than the Scottish average (eg an index of 79 in 1970) but has declined sharply and is now less than half the Scottish average. In Orkney, Shetland and the Highland region, unemployment was traditionally higher than the Scottish average, and the table shows sharp falls in unemployment levels in parallel with the build-up of oil-related activities throughout the 1970's. In the non-oil rural areas there has been some relative improvement over the period, but not on the same scale.

In passing, the tremendous difference in unemployment levels between, for example, the Western Isles and the Borders is a testimony to the problems of generalisation about upland areas.

Other economic indicators would show a similar pattern, but for present purposes Table 1 should be sufficient to illustrate the point to be made. The oil-affected upland areas have experienced tremendous changes in recent years with the discovery of oil and gas in the North Sea, and it would be reasonable to assume that some policy lessons can be derived from this experience, not least because there are possibilities that other upland areas — Wales, South-west England, Ireland — could be similarly affected if commercial hydrocarbon discoveries were made off their shores.

Regarding the developments in Scotland, one disturbing point that stands out clearly is that the official bodies involved in the making of policy, particularly the local authorities, have paid little attention to comparable developments elsewhere in the UK or abroad. Although the North Sea developments display some unique characteristics, in some important respects they have similarities with other industrial developments such as aluminium smelters, paper mills, food processing establishments, etc., and some mistakes could have been avoided if those involved had paid due attention to previous experience. Clearly, there is a need in the UK for more co-operation on the problems of upland areas and the construction of more general theories and policies, both by academics and others.

The three main factors creating difficulties for the local authorities and other bodies involved are the speed, scale and uncertainty of many of the developments. Much more so than other industrial activities, the oil industry takes decisions at very short notice and likes to be in a position to act on those decisions as soon as possible. Given the policies of the UK government for a high-level of exploration activity in the North Sea and a rapid rate of exploitation, local authorities have been under great pressure to make decisions on planning applications at short notice and on inadequate information. The inadequacy applies particularly to information on the likely period of activity. Some developments, such as the construction of supply bases and landfall terminals, are obviously temporary, although the construction period may be three or four years. Others, such as the operational phases of terminals and refineries, are obviously permanent. There is an additional category, however, such as production platform construction, which may or may not be permanent, depending on the number of commercial discoveries in the North Sea and the ability of various companies to obtain orders. Production platform construction is the best example of this type in Scotland because of its massive scale, with each platform requiring a construction labour force of up to 3 000. Unfortunately, there are too many platform sites in Scotland and the down-turn in orders has meant that some firms have had to make large-

scale redundancies. A similar pattern has occurred in other sectors of the oil and gas industries, and, given that a significant number of firms involved are located in the upland areas, there have been serious social and economic problems.

These problems need not be discussed in detail here. On the economic side, they arise mainly through the labour losses of local firms to the new developments and the additional housing, schools and other infrastructure required, the costs of much of which have to be borne by the local communities. The former problem has been of particular concern in Shetland where the traditional industries of fishing, fish-processing and knitwear have been undergoing difficulties attributable to changing market demands, and the local authority has been endeavouring to ensure that these difficulties were not exacerbated to such an extent that the traditional industries could not revive if external market conditions improved. One of their policies, followed also by Orkney, has been to obtain 'disturbance payments' from the oil companies which have been used to establish a fund to be used to protect local industries and the local 'way of life'. In the Shetland case, these payments could amount to around two million pounds annually in the 1980's, and in the Orkney case, around £500 000 annually. The appropriate disbursement of these funds is, of course, a different matter, which has not yet been tackled.

Looking at the attitudes of the Scottish upland areas to the North Sea developments, a fair conclusion is that in the main they have been in favour, given their previous histories of depopulation and unemployment. Local opposition has been important in some cases, but mainly on social and environmental grounds rather than economic.

For the developments that have proceeded it is possible to identify three different policies adopted by the local authorities — insulation, integration and expansion. The first has been based on the assumption that the development brings with it serious economic and social dangers, and the best strategy is to try and isolate the development from the local economy; this has been applied in cases where there has been a very large constructional labour requirement compared with the size of the permanent labour force. The second policy has been to integrate the development with the local economy in order to maximise the potential benefits; this has usually been the approach for relatively small-scale developments such as supply bases, where the maritime aspects have been well in keeping with local traditions of fishing and boat-building. The third policy has been based on a desire to use the oil developments as a major stimulus for economic expansion, trying to create a large amount of downstream activity in oil refining and/or gas processing, and requiring substantial in-migration of labour; this approach is only evident in the case of the East Ross area in the Highlands, which some of the authorities involved would like to establish as a major growth centre.

The adoption of these policies has not meant automatically that in practice they have been successful, and in some areas it is becoming clear that the wrong choice of policy was made at the outset. In the present context, however, the important point is that the authorities have identified a range of alternative options and have chosen from them according to the particular development which was proposed and their interpretation of the community's needs or wishes. The two main errors that have been made have been, firstly, trying to implement a policy of insulation in a situation where some local labour preferred to take short-term but high-wage construction employment rather than continue to work in stagnating local industries and, secondly, trying to base a policy of substantial expansion on production platform construction, which has proved to be more temporary and cyclical than expected (MacKay & Mackay, 1975). Nevertheless, other upland areas can surely benefit from the formulation of alternative strategies such as these and the Scottish experiences with their implementation.

By way of conclusion, it should be obvious that what is needed is a selective approach. Some areas have been opposed in principle to all types of industrial development, whilst others have been keen to accept everything which was proposed; and both these groups have suffered accordingly. The areas which have benefitted most have been those which have been selective in their encouragement and the granting of planning permissions. The criteria and reasons for selection obviously must vary from area to area, but a simple rule-of-thumb would be to show a preference for the developments where the multiplier effects are likely to be greatest. In the case of the North Sea developments, for example, much of the technology is alien to local traditions, and there is little possibility of successfully grafting the more sophisticated activities onto the local economy. Local multiplier values will be very small because of the high propensity to import both for intermediate purchases and consumption expenditure. On the other hand, developments such as supply bases offer opportunities for local firms and local labour, and multiplier values will be correspondingly higher (McNicoll, 1976).

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