The Fraser of Allander Institute for Research on the Scottish Economy was established in the University of Strathclyde on 1 January 1975, as the result of a generous donation from the Hugh Fraser Foundation. Its principal function is to carry out research on the Scottish economy and its research programme includes the analysis of short term movements in economic activity. The results of this work, carried out in conjunction with the Department of Economics, are published in the Institute's Quarterly Economic Commentary. The Institute also publishes a series of Research Monographs and a series of Discussion Papers to provide an outlet for original research on medium term and long term aspects of the Scottish economy.

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Notes to contributors

The editor welcomes contributions to the Briefing Paper, Feature Article and Economic Perspective sections. Material submitted should be of interest to a predominantly Scottish readership and written in a style intelligible to a non-specialist audience. Footnotes and references should conform to recent issues of the Commentary. Contributions should be typed and two copies submitted to the Editor.

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Opinions expressed in signed contributions are
those of the authors and not necessarily those of
the Fraser Institute.
The Scottish economy, like that of the UK as a whole, looks set to experience a substantial shift in the relative importance of the factors determining growth in the coming year. As discussed elsewhere in the Commentary (see British Economy), growth in the recent past has been driven mainly by the expansion of investment and exports. With the interrelated factors of sterling's strength and continuing high real UK interest rates operating against a background of some deceleration in the growth of world trade, the prospect is that these influences will largely be replaced by the re-emergence of consumers' expenditure as the principal determinant of growth.

Signs of this shift are already apparent in the results obtained from the Scottish Business Survey. After the pattern of cautious optimism detected among manufacturers in this year's three previous Surveys, the results of the October Survey indicate that this optimism has largely evaporated. Only limited increases in exports are forecast in the coming months, investment intentions remain largely unchanged and the manufacturing sector is operating with spare capacity. In contrast, the results for the service sector, and most notably retailing, suggest a far greater degree of optimism. Retailers report continuing sales growth and upward revisions to investment intentions to overcome the major constraint on their activity, that of insufficient floorspace. The strength of the underlying "consumer boom" is reaffirmed by the actual and expected growth in personal advances reported by Scottish financial institutions.

Differential performance across sectors has obvious implications for employment patterns and prospects. Over the past few years there has been a clearly discernible shift in Scotland to greater dependence on employment in services (see Labour Market section for relevant Scottish data). With the changing relative importance of the determinants of growth likely to reinforce the increasing importance of the service sector and with the expansion of services the object of much policy concern in Scotland, it is appropriate to consider more closely the implications for the Scottish economy of the changing balance between manufacturing and service sector employment.

It is frequently contended that the increasing importance of the service sector is an inherent consequence of economic growth. The exact nature of this argument, however, has not been fully defined. In part, it seems to rest on the view that as economies grow an increasing proportion of resources is devoted to provision of services such as health, education, and transport. Much of such provision in the UK tends to fall within the domain of the public sector. Given the incidence of constraints on government expenditure, however, this element of the argument holds little water in a Scottish context. Overall, services such as public administration and defence, education and health have contributed little to the recent net increases in service sector employment.

A second strand of the argument hinges on the significance of changing patterns of consumers' expenditure. As income expands, the share devoted to satisfaction of basic needs falls and that devoted to consumption of "luxuries" rises. At least implicitly, satisfaction of basic needs is equated with consumption of manufactured goods while satisfaction of "luxury" demand is equated with consumption of services. Three important observations must be made on this strand of the argument. First, it does not follow that manufacturing employment need fall in absolute terms. In the Scottish experience, however, the shifting employment balance is not attributable to increases in service sector employment against a background of simultaneous, but lesser, increases in manufacturing employment. Rather Scotland has experienced only modest increases in the former and a sharp decline in the latter. Secondly, the shift in the balance in Scotland has proceeded further than in the UK as a whole and has accelerated more
markedly in recent years than might be
expected in the context of an argument
framed in terms of secular income change.

Thirdly, it is often inappropriate to
divorce consumption of manufactured goods
and consumption of services. Undoubtedly,
higher incomes generate increased demand
for, for example, leisure and
entertainment. The services desired may,
however, be supplied in many cases by
consumer durables. Much of the demand for
leisure and entertainment spills over into
the market for consumer durables such as
video-recorders, home computers and
television. The Scottish pattern is one
in which such goods are increasingly
produced elsewhere and Scottish demand for
services therefore supports manufacturing
jobs outside Scotland.

The extent to which the expansion of
services can effectively replace jobs lost
in manufacturing is a problematic issue.
Given Scotland's small, open economy, past
employment has depended heavily on the
production of exportables. Typically,
there is less scope for trade in services than
for trade in manufactures. Certain
banking, insurance and consultancy
services can be traded internationally.
However, even within the financial sector
expansion of retail banking, for example,
does not generate internationally
tradeable services. This is self-
apparent true also of much of the
distribution sector. In terms then of
Scotland's (non-oil) tradeable sector, the
impact on Scottish employment of a greater
dependence on imports of manufactured
goods is unlikely to be offset by the
employment effects of increased exports of
services.

Moreover, domestically there is an inter-
relationship between the manufacturing and
service sectors. Services are supplied
directly to manufacturing companies and
also to customers whose income is derived
from employment in manufacturing.
Contraction of the manufacturing base,
thus, also influences the service sector.
Closure of the Ravenscraig complex, for
example, would adversely affect suppliers
of services, such as road haulage, and
through the associated loss of income
would affect suppliers of other services,
as in retailing, in North Lanarkshire.

Given the decline of Scotland's
manufacturing base, it is difficult to
deny the importance of employment
expansion in other sectors of the economy.
Much is made in official circles of the
numbers of jobs created over the recent
past and, indeed, since March 1984
successive quarters have shown increases
in the total numbers of employees in
employment in Scotland. These increases
reflect lower employment in production and
construction industries, including
manufacturing, and increased employment in
services. But tied in with this
industrial composition effect there has
been a substitution of part-time, and
mainly female, employment for full-time
male employment. The attraction to
employers of part-time employment is that
such employment provides greater
flexibility of labour inputs. In large
part that greater flexibility arises
because part-time workers are cheaper to
employ and lay-off. Setting numbers of
part-time job gains directly against
numbers of full-time job losses, however,
overstates the extent of the increase in
employment measured on a full-time
equivalent basis.

As well as the distinction between numbers
of jobs and their full-time equivalents, a
distinction must be drawn between job
creation and the creation of wealth. Much
of the employment created is not only
part-time but low-paid. This is
particularly true of the distribution
sector.

The pattern of employment creation in
services also reinforces the structural
change that has been taking place in the
labour market. Creation of part-time
employment absorbs workers, predominantly
female, who previously were not registered
as available for work. Expansion of
services, thus, makes little impact on the
rate of registered unemployment.

Rather than being symptomatic of a strong
economy, the expansion of services in
Scotland appears more as a sign of the
continuing weakness of the manufacturing
base. The outlook for employment
prospects next year, with continuing high
interest rates and the strong pound
underpinning the changes in the pattern of
growth, holds little promise of
improvement.

14 November 1985