

## **Chapter 3. The Practice of Economic Development in Scotland**

### **3.1. Scotland as an economic unit**

#### **3.1.1. Problems of a peripheral economy**

Scotland is a sparsely populated country, peripheral to the economic heart of Europe. It has a population density of 65 persons per square kilometre, compared to 235 for the UK as a whole. This is substantially less than the comparable figures for France, at 103; (Western) Germany at 250; and 360 for the Netherlands. Only Ireland has less at 51 per square kilometre. The Highlands and Islands of Scotland, represent an ever lighter population spread, with on average 9 persons per square kilometre, matched only within the European Union by the northern parts of Finland and Sweden (Highlands and Islands Enterprise 1999: p4)

Over most of the 20th Century, Scotland has lagged behind the rest of the United Kingdom in terms of economic development.(Ingham and Love 1983). In the early post war period, this was seen to be the case in relation to conventional economic indicators such as unemployment, new firm formation and inward investment. In addition, while unemployment remained higher, incomes and expenditure improved more slowly than in the South.

Seen to be behind this north/south divergence were issues such as declining industrial competitiveness, a decrease in the demand for Scottish products and domestically, a growing demand for imported goods and services, all of which were accompanied by a growing level of external ownership and control.

Thus, Scotland, (like other peripheral economies within the EU), is seen as being situated outwith the supranational growth zone (La Dorsale) or 'spine' conceptualised by many economists in the late 80s and early 90s to run from the south of the UK in

the north of the EU, through Germany and France, to Italy in the South (based on their growth in per capita GDP)<sup>1</sup>

The traditional response to the divergence between the economic fortunes of Scotland and those existing elsewhere was a policy of regional assistance from the government of the day, the urgency of which fluctuated according to relative economic performance, political ideology and policy priorities. Consequently, government intervention at a regional level has witnessed differing phases including increased reliance on regional development agencies, the use of European funding, and the apparent benefits of relying on inward investment rather than indigenous growth. In economic shorthand this has been referred to as a traditional 'carrot and stick' approach. As will be demonstrated below, it is the failure of this policy which has now led to an increased reliance on community based economic strategies within the area of the Gaelic economy.

### **3.1.2. Impacts of global change**

At the same time, like the rest of the UK, the fortunes of Scotland's economy have undergone dramatic developments in the last half of the century as a result of economic changes affecting much of the global economy. Like many countries at a similar stage of economic development, the UK in this period has witnessed a general shift from manufacturing to services - to government services in the 1960's and to financial services and tourism in the 1980's and 90's. These changes however, have not affected the UK economy in an even manner, with the outer regions being particularly adversely affected. As service sector growth (particularly producer services, i.e. finance, marketing and transport) tended to take place in London and the South East rather than in Scotland or the north of England, this process of change has brought about increased regional inequality.<sup>2</sup>

---

<sup>1</sup> While some other theorists see this growth zone as situated somewhat differently geographically (i.e. proponents of the 'Arc Mediterranean' would stake a claim for a northern zone from Paris to Frankfurt to Berlin, and a southern zone from Barcelona to Marseilles), Scotland is even further from inclusion in this latter vision.

<sup>2</sup> Fothergill and Gudgin (1982) while identifying an important urban to rural shift in employment structure in the UK regions, were also able to show that this shift did not lead to a move by southern urban employers to northern rural locations. Employers preferred being away from urban centres, but preferred to remain in the southern half of England.

Although a similar process of structural change (from manufacturing to services etc,) has been witnessed within Scotland itself, the trends have been less dramatic than in some other economies. Despite suffering initial disadvantage on Britain's accession to the European Community<sup>3</sup>, and the collapse of some primary industries such as deep coal mining, other primary industries such as agriculture and on shore establishments linked to off shore oil production have succeeded in maintaining their relative shares in GDP. The decline in Scotland's engineering industries - shipbuilding, mechanical engineering, vehicle manufacture - following their peak in the early 70s has however, been more than matched in terms of value added, by the growth in the 80's and since, of electrical, electronic, office and instrument engineering. (Gibson, Riddington et al. 1997: p14). In the four years to 1997, volume growth in electrical and electronic engineering added more to Scotland's GDP than shipbuilding had over the period of its existence. According to Gibson (1997: p14) 'Although Scotland did de-industrialise in the 1980's...in the 1990's it has re-industrialised'. Others, while acknowledging this, would argue however that it had re-industrialised on a different, less embedded basis. (Turok 1993; McCalman 1997; McCann 1997) The latest strategy document adopted by Scotland's parliament sees the challenge facing Scotland now as securing economic growth through international competitiveness with a key place given to the embedding of a culture of enterprise in Scottish life (Scottish Executive 2000: p viii) The important role retained by manufacturing within Scotland's economy has continually been acknowledged by Scottish Enterprise throughout the past decade: 'manufacturing continues to play a key role accounting for 39 percent of total sales by value in 1995' (Scottish Enterprise 1995: p4). Notwithstanding the points made above regarding producer service growth in the South East of England, Scotland - in Edinburgh - during this period still retained a major financial sector ranking higher world wide than Chicago. (Temple 1994). A recurring problem highlighted throughout the last decade however, has been the lower business birthrate in Scotland, relative to the rest of the UK - 30% below the UK average, (although as is outlined below the Highlands and Islands

---

<sup>3</sup> According to the Commission of the European Communities Scotland was "weakened by an increasingly ageing industrial base and by the redirection of commercial activities towards Europe at the expense of the Commonwealth" CEC (1994). Study of Prospects in the Atlantic Region. Brussels, Commission of the European Communities.

average is somewhat above the Scottish average<sup>4</sup> (Highlands and Islands Enterprise 2002: p14)

### **3.1.3. Problems of a narrow base**

Scotland's small population of 5 million, together with its peripheral location however, means that Scotland alone cannot provide a market for the majority of its modern industries, and its economy must therefore be heavily dependent on exporting. According to the Scottish Office Education and Industry Department (1996: p 7), exports per employee in manufacturing are more than 40 percent above the UK average. Examining trade patterns, it is clear that Scotland's future depends on European markets (two thirds of Scotland's exports go to western Europe), and also on the attracting of foreign direct investment from North America and the Pacific Rim as locations for entry into the EU. (McCarthy and Newlands 1999: p89). According to Scottish Enterprise, in the 5 years from 1990 282 inward investment projects were announced, involving an approximate investment of £1.7b and the creation/ safeguarding of 35,000 jobs.(Scottish Enterprise 1995: p3)

However, in the view of one commentator, without the counteracting effect of long term, sustainable development of indigenous companies, peripheral economies such as Scotland are in danger of losing further control over their own destinies and experiencing 'the development of underdevelopment' (Danson 1999: p90) This claim is supported by the fact that despite the high volume growth in GDP, and the rapid growth in productivity in the two decades since 1980, (Scottish Office Education and Industry Department 1996: p4), over 40 percent of Scotland's manufacturing base has disappeared over this period; with output, trade and investment now having become more narrowly dependent on fewer key sectors of the economy than previously. In recent years, electronics (including computers) and whisky have accounted for over half of non-oil manufacturing exports and about half of all manufacturing investment. It may be a sign of weakness that both of these sectors however, are dominated by overseas companies, with over 90 percent of output by non-Scottish

---

<sup>4</sup> Although it is still regarded by HIE as 'weaker than they would like' Highlands and Islands Enterprise (2002). Smart Successful Scotland - the Highlands and Islands dimension. Inverness, HIE: 24.

firms.<sup>5</sup> With particular regard to this Turok has argued that the continuing weakness in indigenous links in the Scottish based software industry raises major questions as to how 'embedded' the industry really is.(Turok 1993) In addition, concern has been expressed as to the percentage of branch plants ( as opposed to subsidiaries) within the Scottish economy.<sup>6</sup> Given the failure of the Highlands and Islands to share in this inward investment to the same extent as other Scottish regions, one of the reactions of the HIE network has been to adopt a more sustainable and long term oriented view than other areas of the SE network, explicitly adopting the concept of 'legacy' for future generations, involving development that is 'economically, socially and environmentally sustainable'(themes which clearly mirror issues 1 – 4 in the literature review summary Table 2-7 page 86.) Within this HIE also aim to adopt a strategy *which explicitly utilises the potential of GLAC related activities* (Highlands and Islands Enterprise 2002: p10) Again this echoes issues 6, 10, 11, 14, 15, and 17 found in the literature review summary examining the themes of structural conditions and reasons for practitioners involvement,

#### **3.1.4. Dealing with peripherality**

As McCrone points out ( and as indicated above), a peripheral location need not be a decisive factor when goods are readily traded all round the world. Nevertheless combined with a small home market it is undoubtedly a disadvantage when it comes to attracting industrial investment - meaning that Scotland's economic success depends not only on minimising the disadvantages of distance through modern and effective communications but in being able to offer other advantages which compensate for its geographical position.(McCrone 1993: p5). This is of particular importance given the mobility of financial capital within the European Union together with its 'supply driven' characteristics towards some favoured locations.

---

<sup>5</sup> In general 28 percent of manufacturing is in foreign owned firms - a total of 83,000 employees Scottish Office Education and Industry Department (1996). Recent Trends in the Scottish Economy. Edinburgh, Scottish Office.

<sup>6</sup> Whereas subsidiaries typically offer a production or service to the organisation that is not available elsewhere, the activities of branch plants are often replicated elsewhere within a multinational structure. Thus the beginning of an economic recession can act as the immediate trigger for the closure of branch plants, reflecting longer term changes in technology and market conditions.

(Temple 1994: p43)<sup>7</sup> Again, literature review issues relation to competitive strategy (summary issues 10 and 11) and business location (16) are echoed here.

### **3.1.5. The problem of communications**

This problem of communications can perhaps be seen at its starkest in the Highlands and Islands of Scotland. Although the Highlands and Islands have benefited from significant investment in telecommunications infrastructure and transport in recent years (Black 1996), there remains the recognition of the need for constant improvements. In particular island communities continue to face issues relating to air and ferry services. Road infrastructure improvements (although addressed in some cases such as Skye and Berneray) remain urgent in many areas, as does an upgrading in the rail infrastructure - in short the development of an integrated transport infrastructure is seen by HIE as a key requirement of the region (Highlands and Islands Enterprise 1999: p5). Within this issue however, also needing addressed are the negative implications that may arise from an ill thought out 'improvement' in communications that would in effect weaken the *internal* networking within the Gaelic economy. All too often a (weak and insufficient) internal network of communication may be replaced by more modernised transport facilities – but ones that are overwhelmingly oriented towards outward poles of activity and metropolitan areas outwith the natural network of the local communities. Notwithstanding this, HIE have also stressed as an increasingly positive factor the capabilities of modern digital communications to reduce the economic peripherality of the Highlands and Islands (Highlands and Islands Enterprise 2002:18)

The problem of communications and transport, as illustrated by the Highlands is an extreme example perhaps of some of the general problems faced within rural Scotland itself in developing to meet the challenge of the global economy, whilst aiming to retain the specific benefits of a non urban situation. This clearly echoes issues raised in the literature review summary regarding the problems of peripheral innovation. Retaining the essential aspects of rural life is not the same however as retaining the status quo. As Northdurft has pointed out (1990:p82):

---

<sup>7</sup> Favoured locations being, at present, the South East of England, followed however, by Scotland then Wales

'Policy makers who struggle to preserve rural economies are doomed to failure. Rural communities and economies are complex, living organisms, living things operating in an environment of accelerating change. The challenge is not to preserve them but to help them adapt to and seize advantage from change in ways that ensure that the values inherent in the rural way of life are protected even as the structure of rural economies evolves.'

A related point addressing the sometimes hidden dynamic of rural society is also made by Shucksmith, in his major study of the reality of rural Scotland today:

'In all areas there was a pervasive feeling that things had changed, were changing and would continue to change in a marked contradiction of the myth of an inherently unchanging countryside' (1996: p 506)

As illustrated below, HIE attempt to incorporate change within a framework of continuity with their focus on strengthening communities, and in their expressed aim to integrate growth, in tandem with 'the less tangible but no less important aspects of HI life - social cohesion, a vibrant culture and superb natural environment' (Highlands and Islands Enterprise 2002: p3) Within their approach, express recognition is given to the continuing reality of market failure in the Highlands and Islands, and the need for an interventionist strategy based at community level. Again this clearly echoes issue 9 regarding market failure and its effect on entrepreneurship.

### **3.1.6. The complexity of rural agendas and the specifics of the Highlands and Islands**

As implied above, rural areas have common issues, but the range and complexity of the development problem can vary significantly within this.

According to the typology outlined in the European Commission's bulletin (supplement 4/88) on 'The Future of Rural Society', the Highlands and Islands clearly fits into their 'third category' of rural development - facing the problems of remoteness and accessibility - which requires a much wider range of intervention responses than do most other rural problems. (HIE 1996:p1). Within this framework, the first standard problem facing rural areas can be designated as that of the 'pressure of modern development' - transformation of the countryside, stability of the environment etc. The second (normally given the designation of objective 5b) is the problem of 'rural decline', with the task being that of development and economic

diversification. The third standard problem (designated as Objective 1) is seen as encountered most often in these areas furthest from the mainstream of the European Community life and access to which is more difficult, such as mountain areas, and certain islands.

"Here, rural decline, depopulation and the abandonment of land are already quite marked phenomena, and the scope for unaided economic diversification is extremely limited. The problem is thus, in the first place, that of building sustainable community and business populations to protect the fragile environment and maintaining the countryside. The Highlands and Islands, with its two hundred year history of population loss, continuing out-migration from many remote communities and extreme sparsity of population is an obvious example of this type of problem." (HIE 1996:p2)

Specifically, HIE has conceptualised two types of area – firstly 'fragile' areas, which normally feature population loss; low income; limited employment opportunities; poor infrastructure; inadequate housing, and remoteness. Secondly some areas are seen as 'regeneration' areas which may face 'sudden, or threatened shortage of employment opportunities' (Highlands and Islands Enterprise 2002:20) As explained more fully below, area targeting and special intervention packages under the rubric of 'Iomairt aig an oir' (Initiative at the edge) are used to help overcome the problems of fragile and regeneration areas, which are found often at their starkest within areas of the 'Gaelic Economy' - the Hebrides and western Seaboard of Scotland. (Highlands and Islands Enterprise 2002: pp 21 - 22)

### **3.2. The Economy of the Highlands**

Until five years ago, and the accession of Finland and Sweden to the European Union, the Highlands and Islands of Scotland were the European Union's most sparsely populated region. Whilst the population of the area as a whole increased over the 1980's, increases in the population of the Moray Firth area around Inverness contrast strongly with the continual drain of population from the more remote areas and islands such as Lewis and Harris in the outer Hebrides, and more remote areas in Caithness. In addition to the growth around the Moray Firth, an increased population can also be seen in many west coast communities such as Skye, where a combination of return and 'lifestyle' migrants is adding to the population. Nevertheless throughout the whole area, only Inverness and Fort William have populations of over

10,000 people, the majority of the population living in settlements of fewer than 5,000 people.

Problems caused by sparseness of population are exacerbated by topography. The area of the Highlands and Islands contains the most extensive mountain range in the UK, with consequent negative effects on economic activity and transport. Over 40 percent of the area is classed as mountainous. With 30 percent of the population living on over 100 inhabited islands the problems of distance and peripherality are exacerbated by those of sea transport and associated higher costs.<sup>8</sup>

The economy of the Highlands and Islands and its potential for development together with the potential contribution of GLAC must therefore be evaluated against this background.

The last twenty years have witnessed a growing diversification of the Highland economy. However, primary industries such as agriculture, forestry, aquaculture and fishing continue to dominate a relatively narrow base of economic activity which leaves the economy vulnerable (Highlands and Islands Enterprise 1999). Marked contrasts are apparent between the new key technology industries such as medical products, pharmaceuticals and tele-business, and more traditional areas such as textiles and oil related engineering.

Contrasts are also apparent between the mainland centres of economic activity and the less developed rural seaboard and island situations. This can be clearly seen for instance in a high inter regional variation in household income. Whereas in Grampian incomes are typically 10 percent or more over the United Kingdom average, within the Highlands and Islands average disposable income is normally 10 percent or more below the average.

In terms of employment, service sector activities, including tourism and public administration account for over two thirds of jobs. Almost 30 percent of all employment in the region is in health, public administration and education. Although HIE states that prospects for further progress are better than a generation ago

(Highlands and Islands Enterprise 2002: p6), unemployment continues to remain an important issue for many parts of the region. Long term unemployment remains a significant feature in Caithness, the Western Isles and Argyll, with seasonal unemployment remaining a serious problem in areas where tourism and agriculture are dominant.

### **3.2.1. The search for integrated rural development**

Since 1987 the key note of state strategy for rural areas has been 'diversification' (Day and Thomas 1991: p 36), understood as involving a combination of various economic activities at local level. Together with this has gone a recognition of the interdependence of the dynamics of rural life, needing a holistic approach from government:

"The richness and complexity of rural societies, in which social, economic, environmental and demographic factors are all inextricably interlinked and interwoven, will require the development of coherent and comprehensive strategies"(Scottish Office 1995: p95)

Such an approach will value the contribution which GLAC can make to economic and social regeneration,( and again echoes issues 1 – 4 amongst others, in the literature review ).

With the re-orientation of EC policies regarding the use of Structural funds, implying fewer funds from that source, the emphasis is now on what rural areas can do for themselves, with policy moving towards integrated rural development programmes and community based initiatives again boosting the potential importance of cultural drivers of economic activity. Most recently, the Scottish Executive has issued a new strategy for Rural development which while continuing this approach acknowledges the continuing diversity which remains – both in problems - and solutions<sup>9</sup> but like HIE targets the future of fragile areas as a key priority (Scottish Executive 2000:p2). Recognition is given to the approach that prosperity depends on combining traditional strengths with an appetite for change

---

<sup>8</sup>For instance data from MacKay consultants has shown that food prices in Tarbert are 10.3 percent above those in Aberdeen, and 5 percent above the Highlands and Islands Average (p77)

<sup>9</sup>“What works in Lochaber, may not work so well in Galloway” Scottish Executive (2000). Rural Scotland - A New Approach. Edinburgh, The Scottish Parliament.

The movement outlined above - towards integrated development programmes and small scale *community* initiatives rather than large scale interventions can best be understood perhaps, within the context of the historical development of UK governmental intervention in the Scottish economy, and the failure of much previous traditional strategy to reverse the economic decline of the Highlands and Islands

### **3.3. The History of Economic Development within Scotland**

Writers such as Lee, Levitt, Fairley and Lloyd (Fairley and Lloyd 1995; Lee 1995: p177 ; Levitt 1996), have outlined the historical approaches to government intervention into the Scottish economy

#### **3.3.1. Early economic approaches**

Together with three other areas of the UK, Scotland was first identified in the 1930's as a 'special area' whose high unemployment necessitated activity to help bring about regeneration, although, constrained by the politics and the economic understanding of the time, such initiatives were limited in outcome. After 1945 regional policy focused on areas where declining heavy industry brought in its train growing unemployment, and efforts were therefore targeted at relocating employment from other parts of the United Kingdom, as well as towards attracting jobs from abroad. Added to the pre-war identification of Clydeside and North Lanarkshire were Glasgow and Dundee, with Inverness and Dingwall becoming a focal point for industrial development in the Highlands.

The economic levers used in this post-war approach were broadly measures some of which encouraged capital mobility and others which encouraged labour mobility. Capital mobility incentives encouraged firms to move to areas of high unemployment while labour mobility measures encouraged workers to move to areas with job opportunities. (Armstrong and Taylor 1993)

#### **3.3.2. Towards an integrated social and economic approach in the Highlands**

Although the main focus of regional policy in this period was undoubtedly economic - to correct imbalances between development in differing regions, limited recognition,

particularly in the Highlands, was also given to the need to achieve social as well as economic ends - an approach which has lasted until the present day. Thus the establishment of the North of Scotland Hydro Electric Board is acknowledged to have been aimed not only at harnessing the power of the region, but also at preventing outward migration and regenerating the economy of the northern counties. Surplus production would be sold to the Central Electricity Board and the profits used 'for the economic development and social development of the North of Scotland district'. The operators of the Hydro undertook to extend electricity supply throughout the Highlands, even at the cost of a massive capital outlay. A programme for Highland development formulated as early as 1950 had expressed the hope that growth might be achieved 'through agriculture and fishing, afforestation schemes, tourism and hydroelectric schemes'(Lee 1995: p156). Further policy led to the establishment of a Crofters Commission in 1954. However overall spending of £220 million on the Highlands in the 1950s failed to halt the continuing outward migration. This was despite the policy of using the profits from the North Of Scotland Hydroelectric Scheme to subsidise the economic regeneration of the Highlands.

### **3.3.3. Changing the Scottish development approach in the 1960's**

Two main changes took place in regional policy in the 1960s, the first extending the Scottish development area to include most of the Highlands and Islands (based on a new qualification of unemployment being over 4.5 percent of the insured population). Changes in 1966 extended the definition of development area to all Scotland, excluding Edinburgh, with three additional 'special development areas' being identified - principally areas with a declining coalfield. The main economic instrument used to operationalise this policy was the withholding or granting of Industrial Development Certificates in prosperous areas. In addition, limited powers were granted the board of trade to build factories and approve loans in depressed areas.

During this period, the increased importance afforded regional economic activity was also matched by an increase in the specific powers wielded at a Scottish level in favour of economic regeneration, deepening the practice of economic development

policy within Scotland being determined by Scottish institutions (McCrone 1992; Newlands 1997:p123),

The formal acquisition of economic functions by the Scottish Office can be seen with the establishment of the Scottish Economic Planning Board in 1964, charged with the task of co-ordinating policy in Scotland. Even before this, evidence suggests that it already had a strong economic role - its regional economic plan of 1963 was the first in a series of UK economic reports, ( before even the accession of Harold Wilson as PM and the Labour government's brief attempts at national planning) In 1973, The Board was superseded by the Scottish Economic Planning Department (SEPD), created partly to help oversee the exploitation of North Sea Oil. The SEPD became the Industry Department in 1983, reflecting the ideological change towards economic development following the accession of the conservatives in 1979.

Under the SEPD, the Scottish Development Agency (SDA) was set up in 1975, to oversee economic development in Scotland outwith the area of the Highlands and Islands Development Board - set up in 1965 (see below). The SDA was initially charged with three tasks - to further economic development; maintain and safeguard employment; promote efficiency and competitiveness; and to improve the environment. Unlike the HIDB the SDA had no remit for social development and was funded mainly through the public expenditure programmes of the SEPD and its remit included investment in industry through loans or equity. From 1977 the SDA was also given the responsibility for attracting foreign investment to Scotland - a function previously shared between several agencies.

#### **3.3.4. Assessing the experience of the 50's - 70's**

The urgency with which an interventionist approach was pursued varied with the economic and political climate. General economic recovery in the 1950s meant that it was pursued with little vigour, until the onset of more difficult economic conditions towards the end of the decade. Critics of regional policy in the 60s and 70s have pointed out its inconsistencies (Lee 1995: p180).

"arguably never well specified or targeted, regional policy .....failed to keep pace with the changing nature and pattern of the regional problem" (Townroe and Martin 1992; p 20)

This again echoes some of the general concerns about Keynesianism raised within the literature review (summary issue 8). In the 1960's location controls were tight, while expenditure was low, whereas in the latter half of the decade expenditure increased and controls were relaxed - thus allowing a large proportion of the moves away from the South East to go to the adjacent East Anglia and South West regions rather than the assisted areas.

Nevertheless it has also been estimated that the majority of moves to Scotland during this period were the result of regional policy, with locational controls proving more effective than investment incentives.<sup>10</sup> Overall, Scotland secured 276 inward factory moves, with an induced employment creation of 39,000 jobs. The cost per job has been estimated at £42,000, representing a total outlay from the exchequer of £10,028 million.

### **3.3.5. Moving the goalposts - Scottish regional policy in the 1980's**

Following the accession of the conservative administration in 1979, major reforms were introduced in regional development policy, giving greater emphasis to free market solutions for social and economic decline. In effect this was a return to the approach favoured in the 1920s. This meant that regional policy declined in importance as a more ad-hoc industrial policy came to the forefront.

As a result of this new approach, by the end of the 1980's half of all regional aid took the form of urban assistance following the introduction of enterprise zones in 1980. Firms locating in such areas were exempt from local rates and various other taxes. Four zones were introduced in Scotland - at Invergordon, where British Aluminium had closed their smelter at great cost to the local economy, in Clydebank following the closure of the Singer plant, and finally in Tayside and Inverclyde - both areas of high unemployment. In 1988, the government abandoned automatic aid in favour of a case-by-case approach, with selective financial assistance only to be granted for

---

<sup>10</sup> i.e. it is suggested by Lee that 81 percent of the 264 manufacturing establishment gains between 1960 - 77 were the result of this policy.

projects which otherwise would not have been funded. The establishment of Locate in Scotland (LIS) however, in this period continues to be seen as a considerable success in attracting investment to Scotland from overseas, leading Hood to suggest that in the 10 years to 1991, 50,000 jobs had in all probability been attracted to Scotland.

An unfortunate outcome perhaps of the change of government - given the importance of the international economy for Scotland's development - was the marked reluctance on ideological grounds of the new conservative government to take advantage of the funds available from the European Community Regional Development Fund (ERDF) and which were an obvious source of funding for regional underdevelopment. These had been available from 1973 to help correct regional imbalances following from structural change. Funds for British regions however were restricted by the fact that assistance from ERDF necessitated in many cases matched funding from the host government - something which the new administration was reluctant to do.

### **3.3.6. Impacting the agencies - the SDA and HIDB**

Integral to the change in policy following 1979 was a distinct change introduced into the remit of the development agencies SDA and HIDB

The re-orientation of the SDA's goals following 1979 saw an new emphasis on the attraction of foreign investment and industrial promotion, while the requirement to safeguard and sustain employment was dropped. In addition its funding functions were shifted towards facilitating the acquisition of funds from commercial sources. This period also saw a re-orientation of both agencies from direct intervention in economic development to a more passive role, subordinate to free enterprise and particularly in the case of the SDA with a more pronounced property development remit. The SDA was also now impelled to become more commercially oriented under the new regime, and was put under new stricter financial obligations in terms of rates of return for investment and the areas which the government would now allow investment in. In the view of one commentator, an outcome of this was that the agency became trapped between the fulfilment of aims which conflicted.(Lee 1995: p191) This shift from a demand side approach to a supply side emphasis echoes the

issues raised by Deakin (summary issue 7) referred to in the literature review, Table 2-7.

As outlined below, further changes were to occur in 1991 with the transformation of both organisations into more enterprise led bodies. However, it is noticeable that notwithstanding this, the specific recognition of the social remit necessary to a development body in the Highlands remained. This may best be understood when approached from a historical chronology of development activity in the Highlands:

### **3.4. The Highlands and Islands Development Board - the integration of Enterprise and Equity:**

Following many years of campaigning by bodies such as the STUC, the establishment of the Highlands and Islands Development which had taken place in 1965 is often seen as the formative moment for a distinctive economic and social approach to the particular problems of the Highlands and Islands (Carter 1974).

Experience in the Highlands and Islands suggested that if entrepreneurship was to be stimulated in a rural area, it required an organisational infrastructure to act as catalyst. (HIDB 1989: p15; HIE 1996: p3)

The HIDB was set up with a substantial budget and wide discretionary powers<sup>11</sup> although contending interpretations exist as to the freedom with which the Board exercised these.<sup>12</sup> Other criticisms exist as to how various conflicting visions for development within the organisation were reconciled. (Lee 1995)

The board was given a twofold remit:

- To assist the people of the Highlands and Islands to improve their economic and social conditions.
- To enable the Highlands and Islands to play a more effective part in the economic and social development of the nation.

---

<sup>11</sup> 'Perhaps the major innovation of the development of the HIDB lay in the Boards powers to spend money 'of its own volition'. Fairley, J. and M. G. Lloyd (1995). "Economic Development and Training - the roles of Scottish Enterprise, Highlands and Islands Enterprise and the Local Enterprise Companies." *Scottish Affairs* **12**: 52 - 72.

<sup>12</sup> i.e. Fairley argues the Board was too attentive to the wishes of the Scottish Office rather than to the communities it aimed to serve.

Clear within this was an aim of stemming the long process of depopulation within the Highlands and Islands which had seemed inexorable since before the turn of the century. Although clearly a body for the implementation of traditional economic policy, the HIDB also recognised the influence of distinctive cultural and community elements on the operation of market forces and the entrepreneurial process:

"In rural communities where personal actions tend to be more transparent, and community life tends to be more cohesive, entrepreneurial motivation is that bit more likely to be influenced by factors connected with lifestyle and culture. If entrepreneurship is to be fostered in rural areas it is important to realise that the above complex of motivating factors exist and that they differ as between urban and rural areas, and that they do not necessarily follow exactly the rules of classical economics" (HIDB 1989: p2)

Again this confirms the findings of the literature review (summary issues 6 & 21 – 25)

The boards work fell into 4 main categories:

- The provision of financial advisory and property services to firms and businesses setting up or expanding in the area.
- The investigation and implementation of economic development projects over all sectors of the economy, and the provision of technical advice
- Marketing, promotional activities and media relations; and
- Assisting social and cultural development.

In addition to more traditional investment activities such as the joint infrastructural investment venture with British Telecom to establish state of the art digital telecommunications throughout the Highlands and Islands, the board awarded grant aid under its fourth remit to a wide variety of community projects, including village halls, recreational facilities and educational initiatives. Through a special programme, 26 community co-operatives (co-chomuinn) and other community enterprises were also established, mainly in remote communities, with the Board spending approximately £250,000 in matching funds towards this project in 1989. (Northdurft 1990: p75). In addition, the Board also became highly involved in the promotion of projects based on the Gaelic language and culture, being pivotal in the setting up of the Gaelic promotion agency Comunn na Gaidhlig .

The community projects were initiated following a visit to the Irish Gaeltacht where it was perceived the concept of self help community co-operatives had been successful in aiding development in depressed parts of the country. As Hayton has pointed out (1997: p95 ), under such initiatives by the HIDB creation of jobs was often a secondary factor, behind other social and cultural factors.

Despite above average incentives, financial and otherwise by the HIDB, relatively poor rates of development were still experienced in parts of the Highlands, particularly in the Gaelic speaking areas in the west. In the view of the HIDB this lack of initiative stemmed partly from a lack of self confidence in the Gaelic speaking communities, based on the low status of the Gaelic language and culture. This had resulted in ' a powerful debilitating effect on community self- confidence.' Indeed 'It is no coincidence that the Gaelic speaking areas have been among the most difficult in which to stimulate entrepreneurship and development'. (HIDB 1989: p23) Again this is an acknowledgment of topics raised within the literature review (summary issues 9 & 18).

#### **3.4.1. From development boards to enterprise companies**

Following the increased emphasis on enterprise and private initiative under the Thatcher administration, the HIDB and Scottish Development Agency (SDA) were reconstituted as Highlands and Islands Enterprise (HIE) and Scottish Enterprise (SE) respectively in 1991, with a further decentralisation of economic development (and training opportunities) to Local Enterprise Companies (LECs) throughout Scotland. This additional measure of decentralisation was not without its critics, some seeing it as a decentralisation measure too far, with consequent loss of a central strategic overview of the problems of the Scottish economy and a multiplication of the problems of co-ordination , between the various LECs, HIE, and SE, not to mention the economic development efforts of Scottish local authorities. One interpretation however was that under the prevailing political regime the alternative to such decentralisation was abolition<sup>13</sup>.

---

<sup>13</sup> Although the re-organisation was a radical change, others at the time, such as the Adam Smith institute were calling for the outright abolition of HIDB, SDA and regional policy in its entirety. Fairley suggest that Hughes - the individual most associated with these changes - was aware of this and acted accordingly Fairley, J. and M. G.

### **3.4.2. The current role of Scottish Enterprise**

Firmly situated within the private enterprise paradigm, Scottish Enterprise through its network strategy makes clear its aim to build a successful market economy, through encouraging the growth of existing business, the birth of new business and the attraction of inward investment 'The role of Scottish Enterprise is to assist private sector activity, not supplant it'(Scottish Enterprise 1995: ) This again echoes issues raised by Deakin (summary issue 7) in Table 2-7.

Identifying three strategic objectives - the growth of existing businesses; the promotion of new ventures; the continued attraction of inward investment; together with improved exploitation of export performance, Scottish Enterprise also focused in this period on the 'indirect' significance of an enhanced skills and knowledge base, and a competitive physical business infrastructure. Most recently in 2001, following the adoption of a new Framework for Economic Development (Scottish Executive 2000), a reorganisation of the network has led to some recasting of practices, however the conception of Scottish Enterprise remains of an 'arm's length, market facing character', aiming to make Scotland 'the most globally connected nation in Europe'<sup>14</sup>

### **3.4.3. The role of Highlands and Islands Enterprise**

Whilst its main remit continues to be economic, like the HIDB before it, HIE also has as part of its portfolio, *social* development in the Highlands and Islands.<sup>15</sup> In addition, unlike Scottish Enterprise, HIE is *legally obliged* to consult with local authorities and other interested bodies when bringing forward proposals for economic and social development.

---

Lloyd (1995). "Economic Development and Training - the roles of Scottish Enterprise, Highlands and Islands Enterprise and the Local Enterprise Companies." Scottish Affairs 12: 52 - 72. By this he implies that although the changes took the development agency in the wrong direction, the measures were perhaps the best possible in the prevailing political climate.

<sup>14</sup> 'look outward and win; look inward and fail' Scottish Executive (2001). A Smart, successful Scotland - Ambitions for the Enterprise Network. Edinburgh, Scottish Executive: 19.

<sup>15</sup> "The functions currently undertaken by the HIE network are wider than those of any other UK development agencies and reflect the deep-rooted and wide-ranging problems facing the Highlands and Islands" Highlands and Islands Enterprise (1996). The Rationale for Highlands and Islands Enterprise's Activities. Edinburgh, Scottish Office: 9.

On this basis, intervention in local areas is carried out in the pursuit of economic efficiency *and/or* equity objectives and may be expected also to bear the imprint of local cultural development where this is of importance to the economy.

The three strategic objectives of the HIE network are currently stated as strengthening communities; developing skills and growing businesses. Within this there is a recognition that for such a strategy to become sustainable, a holistic approach needs adopted - strong communities require economic prosperity through business growth; business growth depends on quality workforces with high skills levels; high skills levels come from communities which award personal achievement and advancement. The belief is explicitly stated that 'strong communities contribute to local business growth and skills development, as well as being in turn dependent on these drivers' (Highlands and Islands Enterprise 2002: p12) The justification for intervention on equity issues is the recognition that occasions arise when the consequences of rational market behaviour conflict with social or distributional objectives, such as maintaining communities in remote areas. A key indicator adopted by HIE is that of sustainability. Amongst the measures of sustainability adopted by HIE are elements such as incomes, business life expectancy, *community confidence* and progress in the most peripheral areas covered by the network. (Highlands and Islands Enterprise 1999: p3). Echoing literature review issues 12 and 19 – 25, sustainable use of cultural assets is also explicitly promoted in their most recent strategy document (Highlands and Islands Enterprise 2002:p22)

#### **3.4.4. Equity and development**

A discernible change in emphasis for HIE strategy was marked in its 1999 report, one significant sign being the reversal of the order in which objectives were listed in the report - 'strengthening communities' now topping the list, its previous third placing, now being filled by 'growing businesses', originally the first priority in the 1996 report. Within the report a distinctive upgrading of issues of community renewal were also apparent. Whilst the previous (1996) report had stressed as a guiding principle: '*the lead role of the private sector in the development process*', the latest report instead features the need to '*work in partnership with our areas communities, businesses, individuals, local authorities and other organisations*'

This change in emphasis took place at the same time as somewhat lesser but also significant changes elsewhere in the network. In line with the change of administration to new Labour, a greater emphasis could now be seen to be given to partnership and combating social exclusion, in addition to added importance accorded to innovation and growth. Within this, cultural issues continued to be acknowledged as important.

#### **3.4.5. Equity and efficiency within the work of HIE**

Recognising that stemming depopulation and maintaining remote communities are essential to a viable and self-sustaining Highlands and Islands, HIE identify both the role of economic instruments and social and cultural factors in preventing 'clearances by default'. Rejecting the notion that the social/equity objectives of the Network could be met purely through assistance to economic development, echoing Fassenfest (above p. 15), HIE point out the *ineffectiveness* of a purely economic approach in areas where there is a lack of local business or entrepreneurial skills and no strong resource base to attract externally financed development. In areas with a narrow or often seasonal employment base, an economic approach is best served by being combined with social development activities, and encouraging community involvement in the development process. Already identified as embodying success with this approach are the Gaelic arts and learning sectors within the Gaelic economy area, together with localised jewellery production around traditional Celtic and Norse designs, within the area of the Northern Isles. As outlined below, (p. 298) the Ceolas festival is seen as another outstanding example.

#### **3.4.6. Market failure within the Highlands and Islands**

A key contention of HIE in their rationale for active intervention in economic development is the concept of market failure in peripheral areas. In arguing this approach, they state that over 95 percent of businesses in the HIE areas have less than 50 employees, and many are geographically situated at some distance from markets and private finance providers. This has led to a recognition of market failure within the capital market, reflecting high levels of risk aversion and uncertainty amongst private sector sources of finance. Additional factors recognised as deterring potential

inward investors are the cost of gathering accurate intelligence and data or remote locations. In some cases even where improvements in road and telecommunications infrastructure have taken place, this knowledge is not easily available to potential investors. A similar lack of knowledge of opportunities also penalises those seeking employment in the labour market. Finally a similar difficulty is seen in the property market with under investment by private sources, unsure of the return in a market where demand is uncertain.

This widespread evidence of market failure therefore suggests the work of the HIE Network needs to be part of a co-ordinated approach to economic development:

'As a consequence, on the grounds of both equity and efficiency, the most cost-effective and efficient means of addressing the problem is through co-ordinated strategies and policies, sharply focused and delivered at the local level.'(Highlands and Islands Enterprise 1996: p9)

Of importance to this is enhancing the quality of the environment and culture, with the Gaelic language specially seen as contributing to the development of the creative industries and through this to the new economy (Highlands and Islands Enterprise 2002: p13). The arrival of the Gaelic Broadcasting Committee and investment in Gaelic TV has also created better channels of internal self-communication, and has also, as outlined below ( Chapter 5 ), helped create a small, highly paid and highly skilled sector of the Gaelic economy, while contributing as this thesis argues, to community confidence and positive attitudes towards the future within the Gaelic heartland.

#### **3.4.7. Implications of the HIE experience for economic development in rural areas.**

Whilst economic geographers such as Krugman and Killkenny have aimed to integrate conceptions of rurality into standard (and sometimes non-standard) neo-classical developmental models, others such as Bryden have pointed out the unreality of many of the key assumptions underlying such models.<sup>16</sup>

---

<sup>16</sup> "...in the end the construction of 'workable models' *always* involves a series of simplifying assumptions about the real world which renders the results elegant, yet abstract and largely irrelevant to both understanding the ways in which locational competitive advantage is gained, or lost, over time and to policy measures which intervene to

The practise of the Highlands and Islands Development Board, and Highlands and Islands Enterprise has in effect concurred with this, relying instead on a more pragmatic approach applying concepts of economic efficiency, (and equity) but tempering these with a realistic approach to the complex and specific reality of rural Highland communities where history, culture and language may often play as important a role as any economic initiative from an Inverness based development agency.

This recognition of the complex needs of rural communities has also increasingly been accepted by economic development authorities at a Scottish level:

'The richness and complexity of rural societies, in which social, economic environmental and demographic factors are all inextricably linked and interwoven will require the development of coherent and comprehensive strategies' (Scottish Office 1995: p95)

Nevertheless, despite token references to the Gaelic specific features of certain rural areas , an all round consideration of the possible implications of this for rural development (and similarly for tourist development) remains apparently only minimally considered outwith the documents of Gaelic orientated bodies and HIE itself.<sup>17</sup>

This therefore continues to flag up the danger of a stated policy of developing 'coherent and comprehensive strategies' which is not actually backed up in practice.

In addition to the negative impacts on the fortunes of the Gaelic language itself (see below p 300 ). This haphazard approach, driven 'without guidance of theory or of planning' (ibid) also fails to respond to the *crucial* difference that culture and arts can be shown to make to community development in peripheral areas such as the Gaelic economy (see below p. 298).

---

encourage or ameliorate such tendencies' Bryden, J. and R. Bollman (1999). *New Economic Geography - Review and notes of papers by key authors*. Aberdeen, Arkleton Institute.

<sup>17</sup> The word 'Gaelic' appearing once, fleetingly in the Executive's new rural strategy document, Scottish Executive (2000). *Rural Scotland - A New Approach*. Edinburgh, The Scottish Parliament. and not featuring at all in the tourism strategy document Scottish Executive (2000). *A new strategy for Scottish Tourism* - [www.visitscotland.net](http://www.visitscotland.net). Edinburgh, The Scottish Parliament. (although the 'cultural specificity' of Scotland is referred to). However, in a possibly major shift of policy, July 2002 saw the belated launch of an integrated Gaelic Scotland Official tourism portal: <http://www.gaelic-scotland.co.uk/>.

Having evaluated the practice of economic development in Scotland against the findings of the literature review, further detailed considerations must be given to the implications of current practice for producers and consumers of GLAC related goods and services. To examine this necessitates a large scale empirical investigation, the results of which are outlined in Chapter 5 and Chapter 6. The methodology adopted for this is reported in the next chapter.