

B

CONFIDENTIAL

PRIME MINISTER

12 January 1988

SCOTLAND

The Election Result

The 1987 election in Scotland produced the worst result for the Tories since 1945. We achieved only 24.0 of the popular vote - less than half our support in 1955. Why?

- (1) Much of this decline was historically dictated. In 1945-55, the Scottish Tories and their allies (e.g. the National Liberals) enjoyed a monopoly of the anti-socialist political forces in Scotland. This was a legacy of the 1931 crisis when a large Liberal group joined the National Government. It could not last. The National Liberals disappeared between 1955 and 1964, taking one-fifth of the Tory vote with them. That simultaneously breathed new life into Jo Grimond's Liberal Party and reduced the Tory share of the popular vote from a range of 46-50% to one of 37-41%.

There was a further erosion of support after 1970 because of (a) the decline of the sectarian working class Tory vote in the Strathclyde region as religious bigotries lost their force (the same process occurred in Liverpool a decade earlier), and (b) the rise of the SNP in rural areas.

Analogous developments took place in the rest of the UK. What makes Scotland different, as we shall see, is it has not fully experienced some of the countervailing social developments, like the spread of ownership, which have strengthened Conservatism elsewhere.

The result is a low reservoir of Conservative support North of the Border. Since 1974, the Conservative share of the popular vote has fluctuated between 24% and 33%.

CONFIDENTIAL

CONFIDENTIAL

- (2) But why was the 1987 result at the bottom end of this 24-33% range? There is one unsurprising reason. A political map of Britain shows Tory support at its strongest in the South-East heartland, gradually diminishing the further North and West it spreads. Not only does this apply to Scotland; it applies also within Scotland. The Tory share of the popular vote fell from its 1983 figure by less than 1% in the Borders, but by a full 9% in the Highlands.

This uneven geographical distribution of Conservative voting correlates, though not precisely, with the uneven spread of returning prosperity throughout the country. In short, Tory support was at the lower end of its potential range because Scotland seemed to be lagging economically behind most of the rest of the UK.

- (3) What gave the final twist to this anti-Tory trend was tactical voting. The ITN-Harris exit poll has 22% Scottish voters claiming to have voted tactically compared to only 17% in the rest of the UK. In addition, there is good inferential evidence to suggest that, in Tory seats, the voters switched between the Alliance and SNP depending on which candidate had the better chance of defeating the Conservative. As a result, the 1987 election was significantly worse in terms of seats than in terms of voting percentages - 10 seats as against 16 in October 1974.

The Editor of the Glasgow Herald, no Tory himself, told us that he thought some Tories, confident of an overall majority at Westminster, had voted for other parties as a protest against conditions in Scotland, or to press for a Scottish Assembly, or whatever. This may explain a small part of the party's performance - though Keith Britto at Central Office is sceptical. But the overwhelming majority of tactical voters were plainly and simply anti-Tory. Their numbers suggest that, in addition to losing support, the

CONFIDENTIAL²

CONFIDENTIAL

Scottish Conservatives have built up a considerable reservoir of active hostility, summed up in the appeal to make Scotland "a Tory-free Zone".

What are the roots of these trends in Scottish opinion?

Scotland's Economic Performance

As Gavin McCrone of the Scottish office points out, since 1985 the United Kingdom as a whole has surged ahead with 3.7% growth in GDP in 1985, 3.1% in 1986 and 4% anticipated in 1987. Manufacturing output in the UK is now ahead of the 1979 level. Scotland on the other hand has had a much weaker performance - due in part to the fall in the oil price. After 3.1% growth in GDP in 1985, there was nil growth in 1986 and growth in 1987 is expected to be considerably weaker than in the UK. Manufacturing output regained its 1979 level in 1985 but fell again in 1986 and there was a further fall at the beginning of 1987.

Since 1973, therefore, the performance of manufacturing has been much weaker than in previous decades when it moved in step with the growth in GDP; and the dip in Scotland's performance since 1985 is against the UK trend of steady recovery since 1983. The result is that Scottish manufacturing output, though very different in composition - the electronics industry, for instance, has shown a growth of 133 per cent since 1979 while steel and shipbuilding have declined sharply - is in aggregate still below its 1979 level. As a result, when the UK's economic recovery was bearing real fruit, Scotland looked left out.

This was most visible in relation to unemployment. Throughout the 1970's the Scottish unemployment rate was 1% higher than the rate for the UK. In the 1980's, this differential rose to 2%. Then in 1986, unemployment in Britain began to fall while Scottish unemployment continued

CONFIDENTIAL

CONFIDENTIAL

to rise. By February 1987, the differential had reached 3%. It has remained at 3% since then as Scottish and British unemployment rates have fallen in unison.

This continuing differential goes a considerable way to explain two factors: (a) the reluctance of Scottish opinion to accept that Scotland has a comparatively high standard of living in UK terms; and (b) the fact that Scotland voted against the Tory Party by much larger margins than some English regions which are, in fact, economically more depressed.

Scotland's recovery and adaptation to new forms of world demand are now well-advanced. But the Scottish voters, unlike their Southern counterparts, have not yet shaken off a depression psychology. It is a psychology which naturally disposes people to prefer security over enterprise and thus Labour and Liberals over Tories.

Scotland's Dependency Culture

Such attitudes were already embedded in the Scottish political psyche to a greater degree than elsewhere in the UK. The painful effects of Scotland's economic restructuring merely reinforced them. Scotland has a socialist dependency culture rather than an enterprise one. As we argued in an earlier paper, successful politicians are seen as going down to England, begging bowl in hand, to secure more crumbs from the rich man's table.

This cultural dependency is reflected in three ways:

- a. Larger public sector. 25% of the Scottish workforce is employed in the public sector (central Government, local Government and the NHS) compared to 21% in the UK as a whole. This employment, moreover, has held up better North of the Border since 1979, falling by 1% in the UK

CONFIDENTIAL

CONFIDENTIAL

but by only 0.1% in Scotland. The NHS has sustained most of this, rising by 8% (5% in the UK), while local authority employment has fallen by 0.7% (a modest .4% rise in the UK) and civil servants have declined in numbers by 14% (19% in the UK).

More people in Scotland are therefore dependent on the state. Fewer have lost that dependence by switching to the private sector. The net effect may be that, in a climate of stricter control of public spending, more people feel threatened by the prospect of job losses.

Moral: don't talk about cuts if you are not carrying them out.

b. Larger Public Housing Sector

Scotland has approximately half its population in local authority housing compared to 25% in England. Owner-occupiers account for only two-fifths of the total compared to two-thirds in England.

Since December 1978, moreover, there has been a much smaller decrease in the total number of council houses - 10% in England compared to 3% in Scotland. The Scots have built proportionately more new council houses (1.5% of housing stock compared to 0.8% in England) and sold fewer existing council houses (9% in Scotland, 20% in England). The net result is that in Scotland more people remain tenants on large, soulless council estates which are, in effect, 'dependency factories'.

c. Self-Employment and Small Business Sector

Small businesses and self-employment are the opposite of council estates. They train people in initiative and independence. Here, again, the evidence suggests that

CONFIDENTIAL

CONFIDENTIAL

Scotland is less enterprising than the more go-ahead parts of the UK. But the difference is not dramatic and Scotland out-performs some of the English regions.

For instance, self-employment as one measure of local enterprise is slightly below the national average - with 9.8% of the workforce in self-employment in Scotland as against 10.9% for the whole of Great Britain. More significantly, it has also grown less rapidly in Scotland during recent years - an increase of 14.5% from 1983-86, compared to 18.8% for Great Britain (and 24% in the South East.) However, the Scottish performance was considerably better than either the East or West Midlands (6.3% and 5.6% respectively) or East Anglia (11.7%).

These factors daily reinforce the assumptions of dependency - that the state (or the large employer) is the great provider and the individual citizen of little significance. They are further sustained and augmented by a third factor.

Scotland's Labour Establishment

Scotland has a permanent establishment of Labour councils and trade unions. Malcolm Rifkind and some other Tories may reign in St Andrew's House from time to time, but Labour is always in control of Strathclyde and the Scottish TUC is a force to be dealt with by Governments of all stripes. We might draw an analogy with the US where the White House is sometimes held by Democrats and sometimes by Republicans, but Congress is always under Democratic sway. That makes the Democrats the real power to be reckoned with.

In Scotland it goes beyond that. The major communications media are all in Labour (or at least anti-Tory) hands: the Glasgow Herald (despite sensible business pages) and the Evening Times are owned by Tiny Rowland, The Scotsman has

CONFIDENTIAL

CONFIDENTIAL

recently changed one left-wing editor for another. And the BBC and Scottish TV lean heavily in Labour's direction. These tendencies are given a further push by the churches. The Catholic Church in the West of Scotland has traditional links with the Labour Party (both have a large Irish membership), and the Church of Scotland exhibits the general tendency of the European Protestant churches to reinterpret their faith in the secular language of the "social(ist) gospel".

These different influences unite to produce a public rhetoric of collective political action to relieve poverty and promote equality (the dismal practical effects of such policies in Glasgow's outlying housing estates notwithstanding). It reinforces the worst and most self-destructive attitudes of Scotland's dependency culture. And it allows the Scots to feel morally superior to the more successful practitioners of Thatcherism down south.

What role does political nationalism play in this public rhetoric? A distinctly limited role. Opinion polls suggest that support for nationalism - whether full-blooded or devolutionary - is broad, shallow and listless. The voters see, rightly, that it would bring them no benefits. Its support is concentrated among the new class of writers, media people, bureaucrats, and politicians who stand to benefit from the new institutions, cultural opportunities, and bureaucratic positions which devolutionary reforms would create.

Scottish nationalism - like the analogous case of Canadian nationalism - is a public good in which groups invest as a way of redistributing income to themselves. Seen from an economic standpoint, nationalism is just another Scottish public sector make-work project.

7
CONFIDENTIAL

CONFIDENTIAL

The business community disbelieves in devolutionism, but it is apparently cowed by the general ideological atmosphere disseminated by a nationalist media. It remains silent about the economic damage that devolution would cause and tends to avoid political involvement altogether. By this silence, the Scottish business community underwrites the collectivist mentality of the surrounding society. What has made matters worse is that the Conservative Party has only recently begun to challenge this apathy.

Tory Schizophrenia

Nationally, the Tory Party is associated with general ideas like self-reliance and non-intervention which find no echo in Scotland's non-enterprise culture. In Britain as a whole council house sales and economic recovery have greatly expanded the market for such ideas. But the Tory Party has been tentative in implementing such Thatcherite reforms north of the border.

The result is that we have obtained the worst of both worlds. We have not laid the groundwork for changing the culture of dependency, and the social basis of the enterprise culture has remained small. Nor, however, have we received the credit for high spending and political subsidies of which we are known to disapprove. Instead, that has gone to the Scottish Development Agency and Labour controlled local authorities. Accordingly, Scotland's continuing economic problems are blamed by public opinion upon a policy of "non-intervention" which has never been more than rhetorical.

What is to be done?

All these add up to a profoundly difficult state of affairs for the Tories in Scotland. Social realities, the problems of economic transition, and political influences have all

CONFIDENTIAL

CONFIDENTIAL

combined to reinforce a culture of dependency and an ideology of collective action which are an uncomfortable environment for Conservative ideas. This should not lead to despair. Scotland's lagging performance on unemployment - one of the major reasons for the poor election result - is already improving. A more aggressive Tory stance on education and housing since the election has paid off with Labour forced to debate largely on our terms. And Labour is in an exposed position on devolution. If it encourages disruptive tactics, it undermines its own attempt to present a more moderate image nationally. And if it does not, it risks losing nationalist support to the SNP.

There is more potential for Tory advance than the gloomy election statistics alone would suggest. What we must do, is tackle this enforced consensus at virtually every point:

- (1) The single most important step towards undermining the dependency culture would be to encourage private housing for which there is a large unsatisfied demand in Scotland, including Glasgow. A number of schemes to do this are circulating, notably the Adam Smith Institute's proposal to give Scottish Homes the task of taking over, renovating and selling off the worst council estates. Private investment is already playing a part here, but more can and should be done.
- (2) We should firmly associate the Government with Scottish economic successes. For instance, Mr Rifkind might deliver a major lecture in England on how Glasgow's success has lessons for reviving the English inner cities. (They are, in fact, non-socialist lessons). We should also begin to praise the Scottish Development Association as a specifically "Thatcherite" institution bringing the values of the enterprise culture to the statist Scottish economy. And, finally, we should replace the rhetoric of non-intervention with that of

CONFIDENTIAL

CONFIDENTIAL

"making the market work for the people". That is equally respectable and more accurate. Such tactics are likely to be the more effective in a period of economic recovery like the present.

- (3) We should use institutions like Urban Development Corporations and Scottish Homes to erect a Tory counter-establishment in Scotland. The same objective could be sought by the appearance of popular Scottish names in the Honours List, the Lords, the Government and the world of quangos.

For this reason, we welcome Malcolm Rifkind's over-turning of the tradition that UK Ministers do not intrude on the Scottish Office's affairs by making speeches north of the border. Cecil Parkinson, Nigel Lawson, John Moore, Kenneth Baker, are "stars" throughout the UK and should be used to influence Scottish opinion. We particularly recommend that Mr John McGregor should embark on a programme of speeches in rural constituencies. These are the constituencies we must either hold or win back; he has a reasonably good song to sing; and, above all, he is recognisably a Scot.

- (4) We must make a determined effort to draw the financial and business establishments into a more explicit political commitment, perhaps as above by making use of patronage. The council of Business advisors to the Scottish Conservative Party, announced shortly before Christmas, is an excellent first step. It would be a considerable plus for the Scottish party if it could persuade Sir Robin Duthie - who is seen by many people as a symbol of Scotland's economic recovery - to get involved at the top of the party organisation. It would also be helpful if a group of Scottish businessmen, not necessarily connected to the Tory

CONFIDENTIAL

CONFIDENTIAL

Party, were to establish a pressure group designed to point out the economic consequences of devolution.

- (4) No easy solution to the major problem of the anti-Tory media is available. But a low-cost idea would be to establish a Scottish version of the Spectator under a sensible Scottish Conservative journalist. Such a magazine influences the public indirectly by influencing the journalists who control the media. It would give new conservative writers a platform and enable Tory ideas to enter the mainstream of Scottish debate. Above all, Henry Keswick, whose wife was a Tory candidate in the last election, could pay for its losses with his loose change.

These are a few proposals from a general programme which would have two broad aims. First, to advance practical Thatcherite reforms, as outlined above, and so expand the social basis of Conservatism in Scotland as in England. Second, as we argued in an earlier paper, to divert Scottish attention from political nationalism onto economic nationalism by such measures as privatising the SSEB and the hydro-board separately, and allowing Scottish investors and institutions preferential terms of purchase. We might group these two approaches under the rubric of "Tartan Thatcherism", citing Adam Smith, David Hume and Adam Ferguson as the Scottish progenitors of a social revolution that may have transformed England but which was first launched in Scotland.

J. O'S.
PP. BRIAN GRIFFITHS

J. O'S.
JOHN O'SULLIVAN

CONFIDENTIAL

APPENDIX

Industrial restructuring has hit Scotland harder than any other part of the United Kingdom. Traditional heavy industries in particular experienced a sharp decline between 1979 and 1986 initially as a result of the sharp rise in the value of sterling. Steel lost 14,000 jobs - or 61% of the 1979 workforce; shipbuilding lost 11,000 (35%); mechanical engineering lost 38,000 (46%); mining lost 15,000 (75%); and vehicles lost 17,000 jobs (77%).

There was a more moderate decline in industries like textiles (27,000 jobs or 32%); food, drink and tobacco (26,000 or 30%) and paper, printing and publishing (30,000 or 17%). Moreover, output in these industries has now stabilised and their prospects are good.

Finally, there was an advance in high technology industries. The Scottish electronics industry, for instance, saw its output rise by 133% compared to only 55% in the UK as a whole. Since these industries were small to start with, however, the impact on employment was modest in absolute terms. Electronics employment rose by only 5,000 jobs.

All-told, therefore, there has been a steady fall in manufacturing employment since its peak of 750,000 in 1966. This fall has accelerated since 1979 with a loss of 200,000 jobs - more in the last seven years than in the previous fourteen - and manufacturing employment stands now at 400,000.

On the productivity side, of course, growth has been rapid, reflecting a sharp fall in over-manning and greater competitiveness. Since 1979, manufacturing productivity has shown an annual increase of 5% compared to 3.7% for the UK as a whole.

There have also been improvements in service employment (up 36,000) and self-employment (up 45,000 jobs). However, the rise in service jobs masks a shift from traditional services like transport to financial services (up 32,000) and public sector health and education (up 39,000).

The pains of Scotland's restructuring have been deep and prolonged; the benefits were only beginning to appear last year when the fall in the oil price occurred. This delayed them still further. As a result, when the UK's economic recovery was bearing real fruit, Scotland looked left out.

HOUSING POLICY AND CONSERVATIVE SUPPORT IN SCOTLAND

During my recent visit to Edinburgh discussion turned to the reasons underlying the lack of support for the Conservative Party in Scotland and the effect that current changes in Housing Policy might have on this.

The first point was that Scotland does not have a natural Labour monopoly. Only one party has ever attained a majority both of seats and of the popular vote in a general election in Scotland - the Conservative Party in 1955. The decline in support for the Conservatives since then results from a combination of:

- Scottish Office officials say that Conservatism is moribund in Scotland, lacking intellectual vigour and effective leadership. The Conservative-led Edinburgh District Council opposed Government policies in the early 1980s and its inept approach culminated in loss of control of the Council in 1984 for the first time ever.
- The decline in manufacturing industry in Scotland and a consequent higher relative level of unemployment.
- The dominance of public rented housing. Because the Labour Party is seen as the champion of the public rented sector, tenants identify with the Labour Party.

Current housing policies are expected to have a major impact on this. Provided they are pursued vigorously but sensitively will lead to a resurgence of support for the Conservatives in two ways.

Owner Occupation

First, owner occupation has much further to go in Scotland. There is a gap between the attitudes of successive generations to owner occupation. It is now the preferred option for those in their 20s and 30s but local authority renting is still preferred by older people. This divide in opinion is probably 10 to 20 years behind that in England but as time goes on more and more people will come to prefer owner occupation and identify their interests with the Conservatives as the party most closely associated with it.

Although right to buy has had less impact than in England up to now, this is partly because low local authority rents have made renting much cheaper than buying. Now that the Government is forcing up local authority rents the costs of the two options are much closer (and owner occupation is already cheaper for those with maximum discounts) and will probably be broadly comparable within two to three years.

The Independent Rented Sector

The other area in which they see the Labour Party as very vulnerable is in its management of the local authority housing stock in Scotland. The Labour Party, in pursuing a low rent policy, has seriously neglected the maintenance of the stock but at present tenants are prepared to put up with their lot because they believe there is no alternative. The private rented sector which, as in England, was at one time the majority tenure had a very poor record in Scotland and the folk mythology is still that only the public sector can provide good quality rented housing.

These attitudes are already beginning to change with tenants in the worst local authority housing seeking and getting their housing transferred to cooperatives. The current

Housing Bill will encourage the development both of housing associations and responsible commercial landlords as alternatives to the local authority. Once it is generally accepted that these alternatives can provide better quality accommodation than the local authority, tenants will increasingly want to switch to alternative landlords and see, for the first time, the Conservatives as champions of their interests.

Scottish Office Ministers need to consider how to promote this policy actively to stimulate rapid progress and change public attitudes. The SDA is still seen as a Labour creation that continues despite the present Government. By contrast Scottish Homes can provide a focus for housing policy as an instrument of Thatcherism working in the interests of Scottish tenants.

Conclusion

Scottish Office Ministers need to consider how to promote the Government's housing policies actively. If they are vigorously pursued they should in due course lead to a major switch in political allegiances.

Peter Stredder

PETER STREDDER