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Independence in the Modern World.

Wealthier, Happier, Fairer: Why Not Scotland?

BUILDING A NEW
SCOTLAND

01

First Minister's Foreword

Since May last year, the Scottish Parliament has had a clear majority of Members who are in favour of independence and committed to giving the people of Scotland that choice in a referendum.

The Scottish Government is determined that the choice people make on independence will be an informed one.

To that end, this is the first in a series of **Building a New Scotland** papers designed to contribute to a full, frank and constructive debate on Scotland's future.

Independence in itself does not guarantee success for any country. For Scotland, the aspiration of a wealthier, fairer and more successful country will depend on democratic decisions made post-independence and the good stewardship of governments elected.

But the point is this: in an independent Scotland, crucial decision-making power will rest with the people who live here – not with Westminster governments that do not command the support of people in Scotland, and which pursue policies, for example, Brexit, that are deeply damaging to Scotland's interests.

As well as setting out the Scottish Government's view of the opportunities of independence and how the greater powers that it entails could be used to make Scotland wealthier, happier and fairer (recognising that others will have different and equally valid ideas), this series of papers will answer key questions about the transition to independence and the infrastructure that will be required for the effective governance of an independent country.

Of course, with regard to that latter point, it is worth noting that Scotland has already come a long way since 2014. A great deal of nation building has been done in the years since the last referendum. For example, in Revenue Scotland, we now have our own tax agency, and in Social Security Scotland, our own social security agency. We also have the independent Scottish Fiscal Commission and the Scottish National Investment Bank. In other words, substantial parts of the institutional infrastructure that an independent country would need, and which did not exist in 2014, are now in place.

The series of papers that will be published in the months ahead will set out details on all of the key issues that people will want to be informed about.

However, any case for change must inevitably begin with an analysis of the 'status quo'.

Has Scotland's position as part of the UK allowed us to reach our full potential – and will it do so in future, especially now that the UK is outside the EU?

The analysis put forward in this paper, comparing the economic and social performance of the UK (and therefore Scotland within it) to a number of comparator countries suggests – overwhelmingly – that independent countries of Scotland's size do better.

This poses fundamental questions for everyone who has the highest ambition for Scotland.

Why are neighbouring independent countries of Scotland's size wealthier, happier and fairer than the UK?

Why do they, and indeed other countries in north-west Europe regardless of size, frequently out-perform the UK across a range of key measures that determine well-being?

And, fundamentally, if these countries can be successful, why not an independent Scotland, given the abundance of talent, resources and natural advantages we possess?

It seems clear from the evidence in this paper that the status quo is not allowing Scotland to fulfil our potential, and that the UK economic model, and Westminster decision-making, are holding us back.

It follows that if the status quo is not working, we should ask how best to fix it.

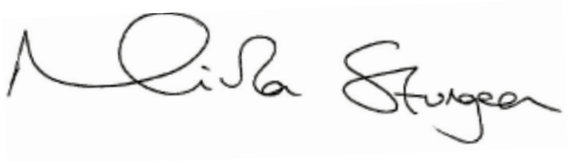
It is hard to conceive that being part of a UK outside the EU – and with a UK government acting to limit, not expand, our Parliament's economic autonomy – will help Scotland close the gaps in performance set out here.

What this – and the papers that follow – will seek to do is to demonstrate that becoming an independent country, while forging a close and constructive partnership with the rest of the UK and with our fellow Europeans, can and will help Scotland match the performance of our neighbours and fulfil our potential.

This is not an abstract issue – it is about the prosperity, earnings, opportunities and wellbeing of everyone in Scotland, now and for generations to come.

We are a brilliant country in so many ways – but a glance at many of our European neighbours tells us we can do better. That should excite and inspire us. But first we must equip ourselves with the powers of independence that they already possess.

In this first paper, the Scottish Government presents key evidence to support the informed, inclusive debate that people in Scotland deserve. We look forward to hearing others' views as we work together to build the better Scotland we know is possible.



Rt Hon Nicola Sturgeon MSP
First Minister of Scotland

Contents

List of Figures

Introduction

Much of the debate on the economics of Scottish independence doesn't, paradoxically, concentrate on independence.

Instead the focus tends to be on the estimated fiscal position of Scotland within the United Kingdom (UK).

That tells us nothing about how Scotland would perform as an independent country and is, in any case, an argument for change, not against it.

The focus of this paper is on the future and on how to strengthen Scotland's economic and social performance (which would of course also be the most effective way to improve Scotland's fiscal position). The success of comparable countries – all independent, some of a similar size to Scotland – point the way forward.

This paper shows that the UK is already performing poorly relative to a group of such countries and there is a broad consensus that Brexit will lead to a further deterioration in the UK's relative economic performance. Improving the Scottish economy will therefore become even harder if Scotland stays tied to the under-performing UK model.

What do these other countries have that Scotland does not? They have significantly more economic policy autonomy and a much greater ability to tailor policies to their own specific circumstances. The evidence points to independence broadening the policy options available to address areas of relative under-performance and to make the most of Scotland's potential.

This paper discusses how other countries use the full powers of independence and, in doing so, describes the additional options that would become available to an independent Scotland.

The full powers of independence won't guarantee success – but they will increase Scotland's potential and put the levers of change in the hands of the Scottish Government.

This paper:

- Sets out an analysis of the UK's performance across a range of economic and social indicators relative to that of a range of comparable countries.
- Provides detailed evidence to show that a comparator group of European countries out-performs the UK on a range of measures.
- Provides further evidence confirming the success – sustained over the long-term – of independent European nations of Scotland's size relative to the UK (and other nations).
- Discusses the policies, mechanisms and institutions underpinning the success of the comparator group and how these might influence an independent Scotland's approach to economic and social development. The evidence suggests that the full powers of independence are necessary for Scotland to fulfil its potential.
- Provides the context for forthcoming papers in the prospectus series by highlighting the opportunities that could be created by independence.
- Highlights some specific policies pursued with success by these nations that could be chosen by governments in an independent Scotland.

10 key facts on the UK's comparative performance

This paper compares the UK's performance across a range of economic and social indicators with that of Scotland's neighbours in Europe: Denmark, Sweden, Finland, Norway, Iceland, Ireland, Switzerland, Austria, Belgium and the Netherlands – referred to as **'the comparator countries'**. The choice of comparator countries is explained in the Economic and Social Context section of this paper.

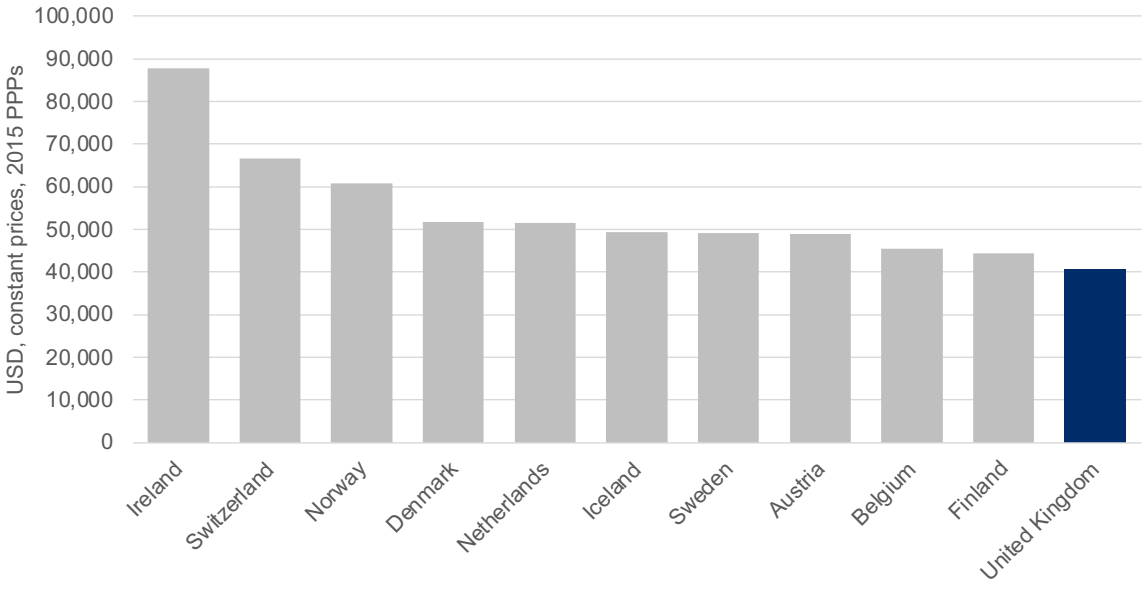
The evidence presented in this next section of the paper is clear-cut: these countries frequently outperform the UK, with the best performers creating virtuous cycles by which economic dynamism and social solidarity become mutually reinforcing.

The comparator countries are wealthier

01 The comparator countries are wealthier – some much wealthier – than the UK

In 2020[1] gross domestic product (GDP) per capita was as follows: Ireland ($87,735 – please refer to footnote),[2] Switzerland ($66,674), Norway ($60,912), Denmark ($51,772), Netherlands ($51,572), Iceland ($49,416), Sweden ($49,098), Austria ($48,908), Belgium ($45,559), Finland ($44,451) and the UK ($40,607). The UK's GDP per capita fell below the Organisation for Economic Co-operation and Development (OECD)[3] average ($40,941) in 2020 (measure: US Dollars, constant prices, 2015 Purchasing Power Parities (PPPs)).[4] (See Chart 1.)

Chart 1
GDP per head of population, 2020



Source: OECD level of GDP per capita and productivity dataset

1 2020 was an unusual year due to the impacts of the COVID-19 pandemic. However, for this and other indicators where 2020 statistics are used (because full datasets for 2021 were not available at the time of writing), the pattern from recent years has not changed. The analysis, and the conclusions drawn from it, would not change by using data from earlier years.

2 Ireland is included here as it is one of the comparator countries, but the problems of using GDP as a measure of the Irish economy have been set out by Byrne S, Conefrey T and O'Grady M (2021) The Disconnection of GDP from Economic Activity Carried out in Ireland (Central Bank of Ireland). The specific issues with GDP related measures for Ireland do not, however, affect the overall proposition in this paper that the comparator countries outperform the UK on a wide range of measures.

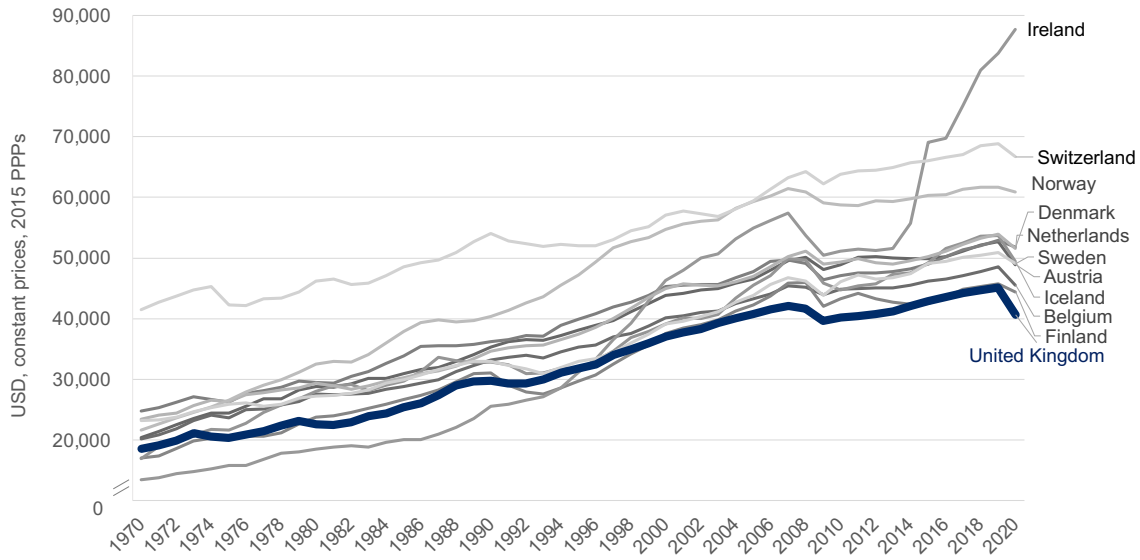
3 The Organisation for Economic Co-operation and Development (OECD) is an intergovernmental economic organisation with 38 member countries founded in 1961 to stimulate economic progress and world trade. It is one of the world's largest and most trusted sources of comparative socio-economic data and analysis.

4 OECD (2022) GDP per capita and productivity levels, OECD Productivity Statistics (database), https://doi.org/10.1787/data-00686-en (accessed March 2022)(2020 data most recent complete data for comparator countries). (USD, constant prices, 2015, PPPs). See OECD explanation of Purchasing Power Parities (PPPs).

02 The comparator countries have maintained the wealth gap with the UK over time

With the exception of one country in one year (Finland in 2015), GDP per capita has been higher than the UK in all the comparator countries in every year since 2000.[5] (See Chart 2.)

Chart 2
GDP per head of population over time, 1970-2020



Source: OECD level of GDP per capita and productivity dataset

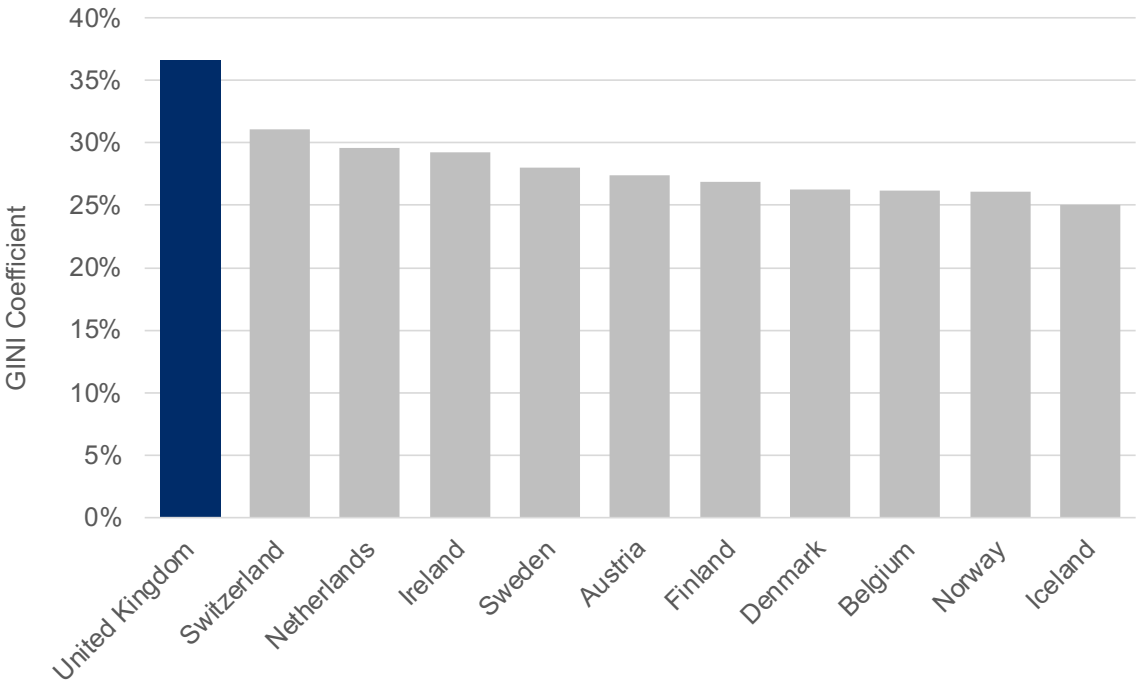
5 OECD (2022) GDP per capita and productivity levels, OECD Productivity Statistics (database), https://doi.org/10.1787/data-00686-en (accessed March 2022). As noted previously, Ireland's relative performance on GDP-related measures should be treated with caution. It is also worth noting the impact of oil production on Norway's GDP per capita from the 1980s onwards.

The comparator countries are fairer

03 Income inequality is lower in the comparator countries

All the comparator countries have significantly lower income inequality than the UK, with Iceland, Norway, Belgium, Denmark, Finland, Austria and Sweden among the ten most equal nations.[6] (See Chart 3.)

Chart 3
Income inequality (Gini coefficient, 0% = complete equality; 100% = complete inequality), 2020 or latest available



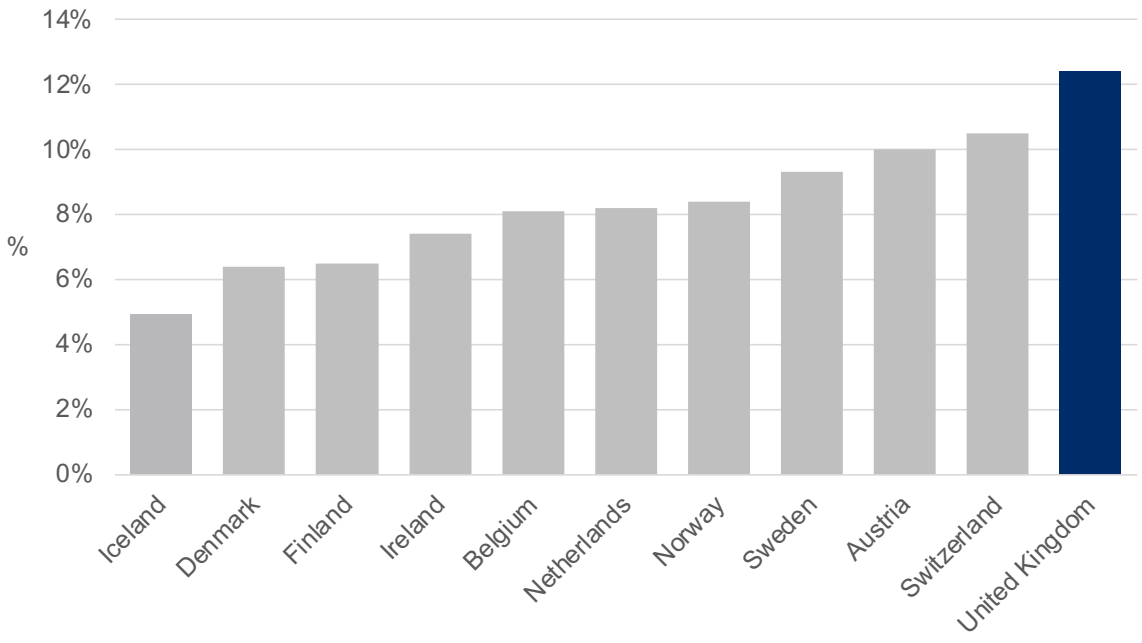
Source: OECD income inequality data

6 OECD (2022) Income inequality (indicator). doi: 10.1787/459aa7f1-en (Accessed March 2022). A full definition of the Gini coefficient can be found on this page together with other measurements such as the Palma ratio. The UK's performance does not change when using the Palma ratio.

04 Poverty rates are lower in the comparator countries

In 2020, out of 40 countries in the OECD statistics, Iceland had the lowest rate of poverty followed by Denmark (3rd), Finland (4th), Ireland (5th), Belgium (8th), Netherlands (9th), Norway (11th), Sweden (13th), Austria (16th), Switzerland (17th) and the UK (23rd).[7] (See Chart 4.)

Chart 4
Poverty rates, 2020 or latest available



Source: OECD poverty rate data

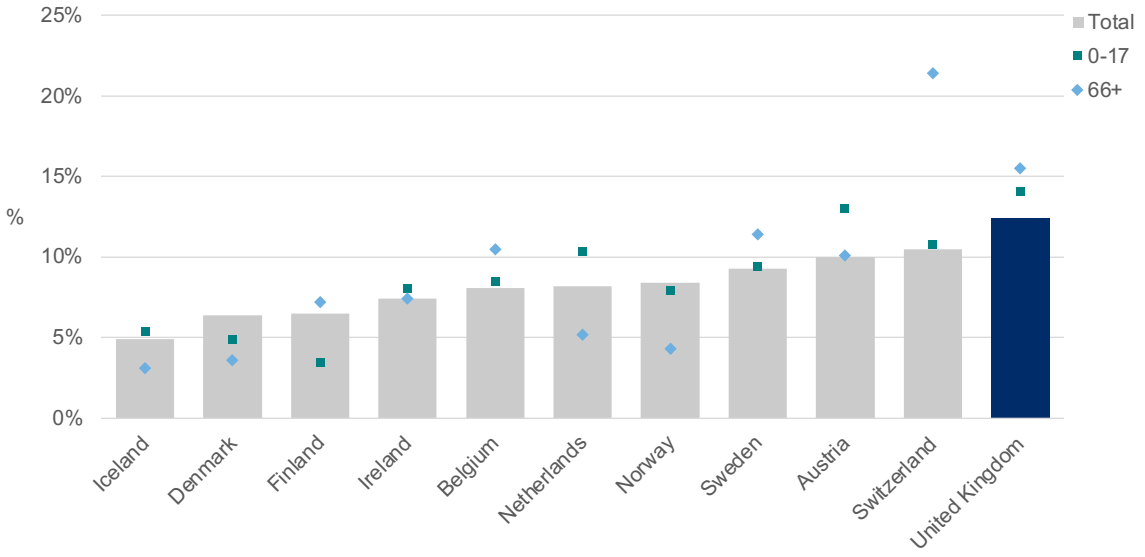
7 OECD (2022) Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed March 2022)

05 There are fewer children and pensioners living in poverty in the comparator countries

In 2020, the poverty rates for children (aged 0-17 years) and pensioners (aged over 66 years) were lower in all the comparator countries than in the UK – with the exception of pensioners in Switzerland.[8] (See Chart 5.)

Chart 5

Poverty rates (total, 0-17 year-olds and people aged 66 year and older), 2020 or latest available



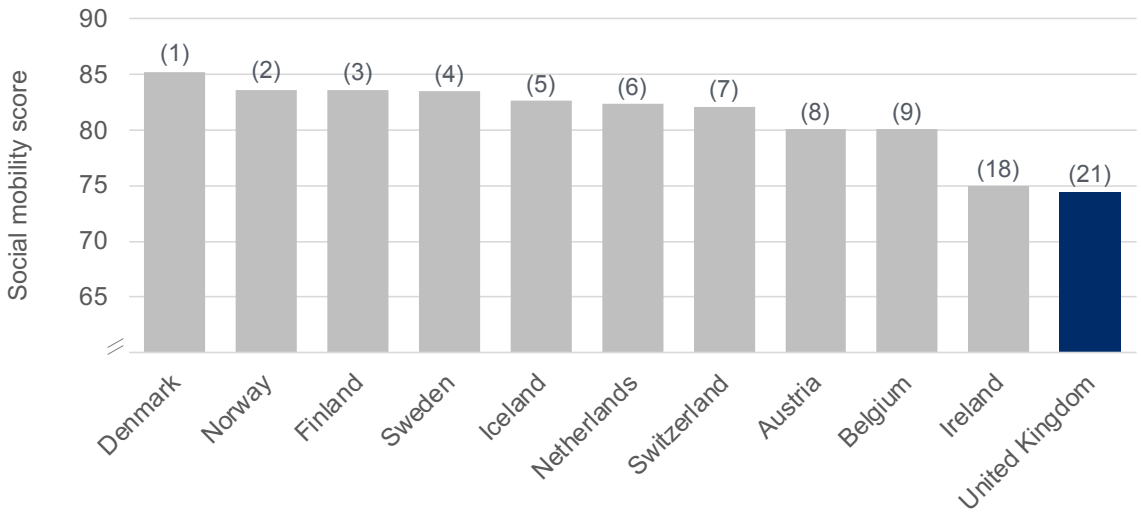
Source: OECD poverty rate data

8 OECD (2022) Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed March 2022)

06 The comparator countries have higher social mobility

Comparator countries account for the top nine places in the World Economic Forum's Social Mobility Index 2020 which ranks 82 countries; Ireland is 18th and the UK 21st.[9] (See Chart 6.)

Chart 6
Global Social Mobility Index, 2020 (country rankings in brackets)



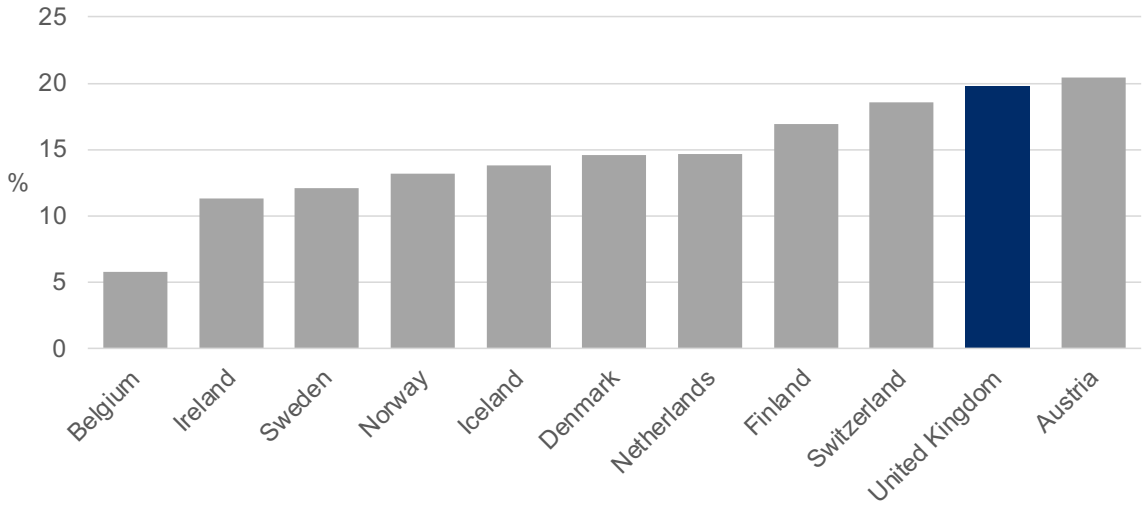
Source: Global Social Mobility Index 2020 | World Economic Forum (weforum.org)

9 World Economic Forum (2020) The Global Social Mobility Report 2020 – Equality, Opportunity and a New Economic Imperative. The World Economic Forum states "Social mobility can be understood as the movement in personal circumstances either 'upwards' or 'downwards' of an individual in relation to their parents. In absolute terms, it is the ability of a child to experience a better life than their parents". Its Global Social Mobility Index focuses on the drivers of relative social mobility (health, education, technology access, work opportunities, working conditions and fair wages, and social protection and inclusive institutions). Higher scoring countries on the index have more of the right conditions in place to foster social mobility than lower scoring countries.

07 Most of the comparator countries have a smaller gender pay gap

In 2018 – the most recent year for which Eurostat data for all countries are available – only Austria had a higher gender pay gap than the UK. Belgium had the lowest gap, at 5.8%, followed by Ireland 11.3%, Sweden 12.1%, Norway 13.2%, Iceland 13.8%, Denmark 14.6%, Netherlands 14.7%, Finland 16.9%, Switzerland 18.6%, UK 19.8%, and Austria 20.4%.[10] (See Chart 7.)

Chart 7
Gender pay gap in unadjusted form, 2018



Source: Eurostat – Gender pay gap in unadjusted form statistics (europa.eu)

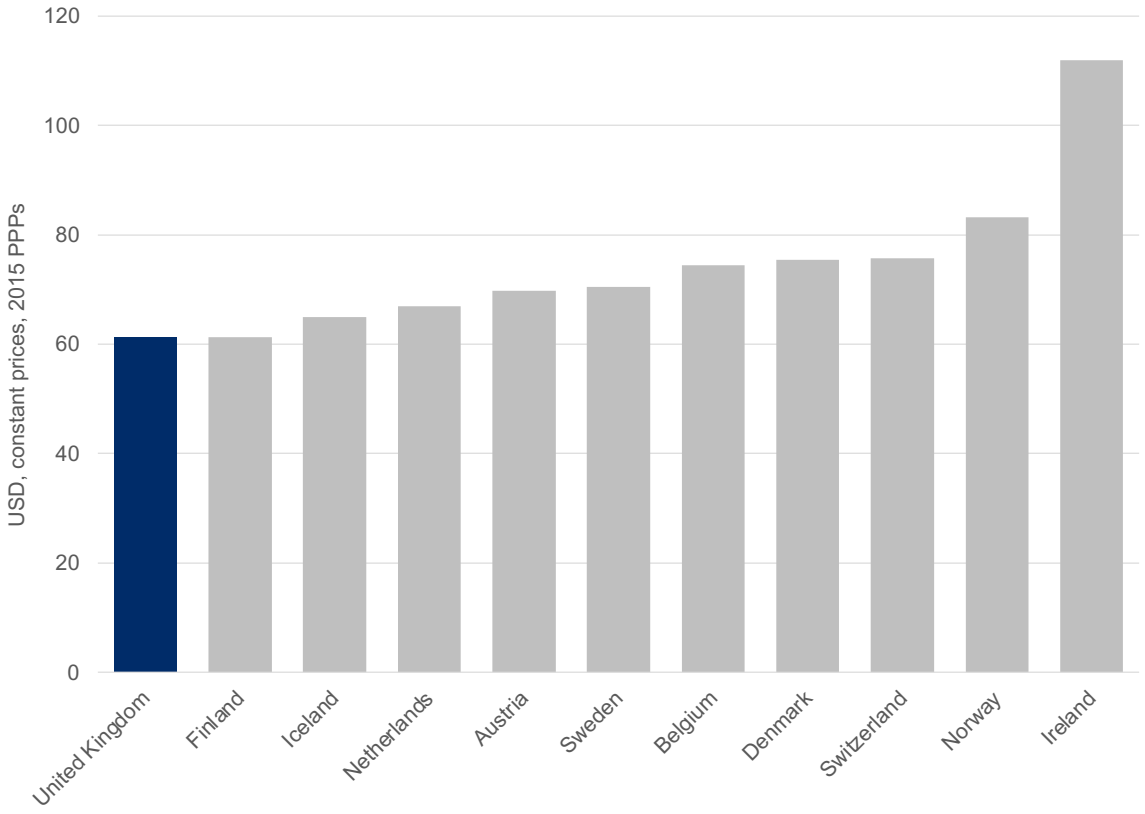
10 Eurostat (2022) Gender pay gap in unadjusted form statistics (europa.eu) (accessed March 2022). 2018 data is used as it is the latest year in the dataset for which complete comparable data is available for the UK and comparator countries at the time of writing. The indicator measures the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.

The comparator countries have more productive and innovative economies

08 The comparator countries have higher productivity – often significantly higher – than the UK

In 2020, GDP per hour worked (US Dollars, constant prices, 2015 PPPs) was as follows: Ireland (111.8),[11] Norway (83.2), Switzerland (75.7), Denmark (75.4), Belgium (74.5), Sweden (70.5), Austria (69.8), Netherlands (67.0), Iceland (64.9), Finland (61.3) and the UK (61.3).[12] (See Chart 8.)

Chart 8
GDP per hour worked, 2020

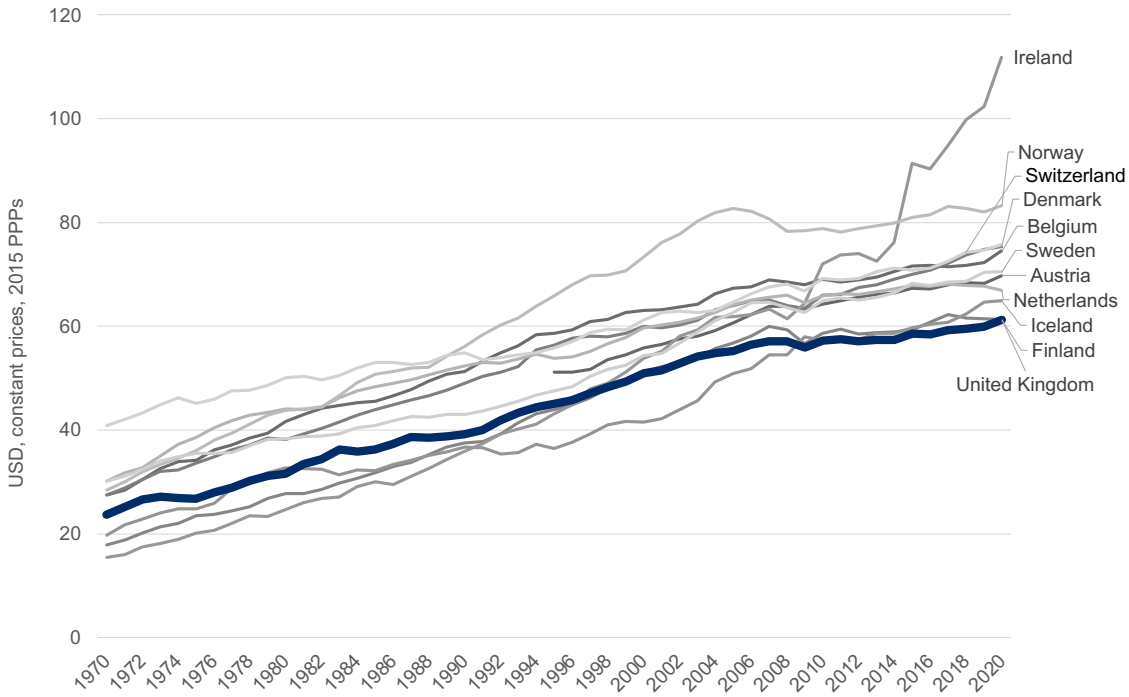


Source: OECD level of GDP per capita and productivity dataset

11 As noted previously, Ireland's relative performance on GDP-related measures should be treated with caution.
12 OECD (2022) GDP per capita and productivity levels, OECD Productivity Statistics (database), https://doi.org/10.1787/data-00686-en (accessed March 2022)

Again, the relatively better performance has been maintained over time. With the exception of Finland and Iceland in some years, productivity has been higher in all comparator countries in every year since 2000. (See Chart 9.)

Chart 9
GDP per hour worked over time, 1970-2020

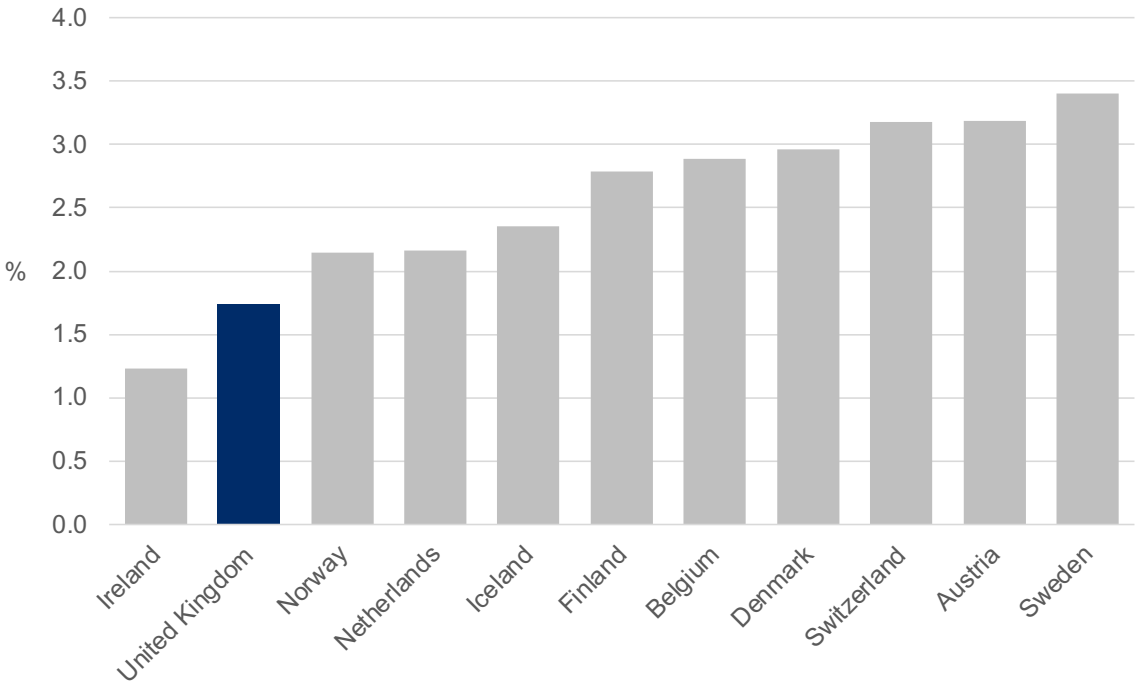


Source: OECD level of GDP per capita and productivity dataset

09 Gross expenditure on research and development is higher

All the comparator countries except Ireland spend more on research and development than the UK. The full OECD dataset over time shows that the UK has spent below the OECD average in every year since 2000, while Denmark, Finland and Sweden have spent well above.[13] (See Chart 10.)

Chart 10
Gross expenditure on research and development as percentage of GDP, 2020



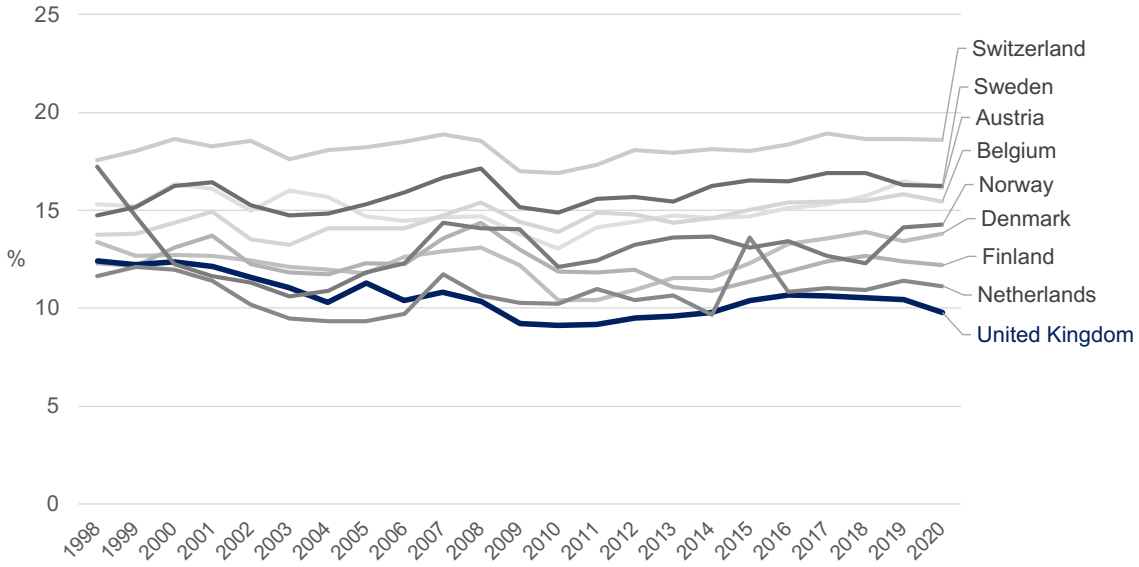
Source: OECD gross domestic spending on research and development (R&D) data

13 OECD (2022) Gross domestic spending on R&D (indicator). doi: 10.1787/d8b068b4-en (Accessed March 2022)

10 Business investment is higher

Business investment is higher in all the comparator countries for which we have data, in most years.[14] (See Chart 11.)

Chart 11
Business investment as a share of GDP over time, 1998-2020



Sources: GDP and spending – Investment by sector – OECD Data and Gross fixed capital formation (% of GDP) | Data (worldbank.org). Business investment as a share of GDP has been calculated by multiplying Gross Fixed Capital Formation (GFCF) expressed as a percentage of GDP by the proportion of corporate investment in total GFCF for each country.

These 10 key facts, and their associated charts, are now considered in more detail in the main body of the paper.

14 OECD (2022) Investment by sector (indicator). doi: 10.1787/abd72f11-en (Accessed March 2022), and Gross fixed capital formation (% of GDP) | Data (worldbank.org). Corporate investment as a share of total investment (as measured by Gross Fixed Capital Formation) in Ireland has increased from 52% to 90% between 1998 and 2020, reflecting a shift in activity of multinationals over this period. Ireland is an outlier with respect to this indicator and has been excluded from the chart for presentational reasons. Comparable data are not available for Iceland for this indicator.

Economic and social context

There have been significant changes in the global environment in the period since the independence referendum in 2014, so the context in which Scotland's future must now be debated has changed markedly as a result. Of most obvious and direct impact, Brexit – as well as being imposed on Scotland against our democratic choice – has set the UK on an economic path that imposes higher barriers to trade with Europe,[15] and is likely to lead to slower growth compared to European Union (EU) membership[16] and increasing remoteness from our previously close economic partners and fellow Europeans in the EU.[17] The COVID-19 pandemic has also had major economic and social impacts. Most recently, war in Ukraine has created instability. Energy and commodity prices are soaring, adding to inflationary pressures and exacerbating the squeeze on low income households,[18] and there is a risk of global recession. In the longer term, the conflict also has the potential to provoke a fundamental re-ordering of global energy supply chains.[19] The pandemic has also exposed the UK economy's long-term structural weaknesses, including the prevalence of work that is vital, but low-wage and insecure.[20]

The past decade has also served to clarify the nature and extent of the great challenges – demographic, technological, distributional and, most pressingly, environmental – that will characterise the 21st century economy. The analysis in this paper indicates that the UK is not well placed to meet these challenges. Compared to the comparator group of nations, the UK has low productivity and business investment (including in research and development) (see Section 1B Economic dynamism), high poverty and inequality (Section 1C Social solidarity), and a relatively weak record in sustaining effective approaches to economic development (Section 2 Observations on the UK model). In these regards, the UK is not well placed to meet the great challenges of the 21st century listed above, and other countries – wealthier, more productive and less unequal – are better prepared to meet those challenges.[21]

15 The EU-UK Trade and Cooperation Agreement includes a number of non-tariff barriers to trade as explained here: Sanders, F (2021) Post-Brexit trade (KPMG).

16 Many reports from a wide range of respected economic researchers confirm the negative economic impacts of Brexit. For instance, the Office for Budget Responsibility's Brexit Analysis (2022) assumes that Brexit "will reduce long-run productivity growth by 4% relative to remaining in the EU". The Centre for European Reform found that 'In October 2021, UK goods trade was 15.7% or £12.6 billion lower than it would have been if the UK had stayed in the EU's single market and customs union' (Springford J (2021) The Cost of Brexit (Centre for European Reform))

17 The UK Government's The Benefits of Brexit report (2022) set out a range of ways in which the UK will seek to diverge from EU regulatory standards.

18 For instance, International Monetary Fund Staff Statement on the Economic Impact of War in Ukraine, March 5 2022

19 For instance, Montgomery S (2022), War in Ukraine is changing energy geopolitics (The Conversation)

20 OECD (2022) Wage levels (indicator). doi: 10.1787/0a1c27bc-en. Measuring security of employment is a contentious area (see: O'Connor, S. We're still in the dark about insecure work, Financial Times, 20 April 2021) and there is no simple, agreed measure as for other aspects of the labour market such as employment and unemployment rates. However, there is compelling evidence that volatility of earnings including as a result of irregular payments and hours are significant issues in the UK labour market (e.g. Tomlinson D (2018) Irregular Payments: Assessing the breadth and depth of month to month earnings volatility (Resolution Foundation) and Living Wage Foundation (2021) Almost two-fifths of working adults are given less than a week's notice of working hours).

21 In launching its UK 2030 Inquiry, the Resolution Foundation argued that "It is also not clear that the UK state has the capacity to respond adequately to this scale of [demographic, technological and environmental] change. Assessments of the UK's economy have repeatedly highlighted weaknesses in the state's institutional capacity, or wish, to shape industrial outcomes, with no long-term frameworks to govern industrial change" (Bell T et al. (2021) The UK's Decisive Decade: The launch report for The Economy 2030 Inquiry (Resolution Foundation). See also the World Economic Forum's assessment of 'readiness for economic transformation' discussed in the Economic dynamism section of this paper.

This first **Building a New Scotland** paper is part of a series that will form a fully updated prospectus for an independent Scotland. Further economy-themed papers will set out how the powers of independence could be used to improve economic and social outcomes.

In this paper, we present evidence to show that across a range of key economic and social measures, the UK is out-performed by a comparator group of European countries.

This strongly suggests that Scotland's performance suffers from being tied to an increasingly outmoded economic and social model and would benefit from applying lessons from the different models discussed in this paper. The full powers of independence would extend the opportunities for applying these lessons.

Four points should be emphasised at the outset:

i The status quo no longer offers stability and continuity

Given Brexit, and with the economic effects of COVID-19 still emerging, now is an appropriate time to consider fundamental improvements to a prevailing economic and social model that is not allowing Scotland to fulfil her potential. Independence – and the economic powers it entails – can help facilitate and hasten this and will better equip us to build an economy in the interests of all people in Scotland.[22] Indeed, the weakness of the UK's social and economic outcomes compared to those of the other nations discussed in this paper reflects a relatively poor record in the design and implementation of the effective economic and social policies that are needed to meet current and looming challenges.[23] For Scotland, these weaknesses should not be an argument for maintaining the system of governance that has produced them – instead, these weaknesses, and the need to address them to better address the challenges we face, are a powerful argument for change.

ii Relative to its European peers, the UK model is increasingly outmoded

A range of publications have assessed Scotland's economic performance. Most recently, through our National Strategy for Economic Transformation (NSET), the Scottish Government set out measures to boost the economy with the limited powers available in a devolved context. In that publication, as well as outlining Scotland's progress and potential, there was a frank assessment of what more needed to be done and how Scotland compared in some key respects with other countries:

> "Despite our wealth, too many households continue to live in poverty as a result of structural inequalities. Healthy life expectancy is too low in the most deprived areas of our country. Tackling the underlying causes of inequality in our society and providing economic opportunity is vital in order to improve life chances. Scotland's productivity lags behind that of many other advanced economies and whilst we continue to innovate too few of our ideas are turned into businesses and too few of our new businesses are scaling up successfully."[24]

This paper is designed to contribute to the debate over Scotland's future by focussing on the UK's performance relative to some of its nearest neighbours as a means of demonstrating long-run relative underperformance under the current constitutional arrangements and, therefore, the potential for independence to raise the bar.

22 The Scottish Government is a founding member of the Wellbeing Economy Governments (WEGo) group, an initiative where member countries are working together to understand key priorities for a wellbeing economy.

23 For instance, the OECD's UK Economic Snapshot (December 2021) noted that the UK has 'one of the highest shares of under-qualified workers among OECD countries'; that 'after decades of public under-investment, there is a considerable need to invest in infrastructure, including digital'; and that 'high child-care costs continue to pose a problem for working mothers'.

24 Scottish Government (2022) National Strategy for Economic Transformation, p11

The fact is that Scotland's policy options remain constrained by the current devolution settlement and embedded features of the prevailing UK economic model, as illustrated in Section 2 of this paper. The policy decisions taken by successive UK Governments have to a significant extent determined the pace and shape of Scotland's economic development.

Box 1, below, summarises the economic powers retained by the UK Parliament and Government at Westminster. The Scottish Government has some powers that it can and does use to improve Scotland's economy, but most key economic powers (monetary and fiscal policy, trade, employment and industrial relations, competition and company law) are reserved.

Box 1
Reserved economic powers

- Foreign affairs and international trade
- Fiscal, economic and monetary system, including most aspects of taxation
- Most social security benefits including universal credit, child benefit, state pension and pension credit
- Tax credits
- Minimum wage
- Financial regulation
- Immigration
- Key aspects of energy policy, including North Sea revenues, generation and supply of electricity, offshore exploration and extraction
- Trade and industry, including company law, competition and consumer protection some aspects of transport, including
- international air connectivity
- Employment legislation and industrial relations
- Broadcasting and media
- Telecommunications regulation

Since the Scottish Parliament was established in 1999 there has been some extension of devolved powers. However, that trend has been reversed in recent years with the UK Government imposing new constraints on devolved decision-making, most notably through the UK Internal Market Act 2020 (IMA) which was passed by the UK Parliament despite the Scottish Parliament refusing consent. By introducing measures that will in effect enforce UK-wide uniformity, the Act has, for example, limited the Scottish Parliament's options to address public health matters, such as food content standards or alcohol-related harm.[25]

Alongside the IMA, there is also a risk of further dilution of devolved powers if the UK Government decides to accept reduced standards to secure a Free Trade Agreement with another country. The United States, for example, has previously been clear that agriculture, food standards and drug prices will be on the table in any future trade deal with the UK.[26] As things

25 In the Act, the UK Government also took back spending powers in devolved policy areas that had been removed from it on the establishment of devolution in 1999. That has enabled it to exercise unilateral control over the UK replacement to EU Structural Funds ESF (the Shared Prosperity Fund, or SPF), bypassing the Scottish Parliament and Government and undermining devolved decision-making. The UK Government has also ceased participation in the European student mobility programme Erasmus+ and replaced it with the UK Turing scheme. The replacement scheme is likely to see Scotland worse off financially, leaving us unable to capitalise on our historic excellent performance under Erasmus and with reduced opportunities for students, teachers and young people (Scottish Government (2021) After Brexit: The UK Internal Market Act and devolution).

26 Office of the United States Trade Representative (2019) United States-United Kingdom Negotiations – Summary of Specific Negotiating Objectives

stand, the Scottish Parliament does not have the power to resist any future UK Government imposing lower standards in Scotland, should it choose to do so.[27] This poses significant risks to the economy. For instance, the food and drink sector is proportionately more important economically to Scotland than it is for the UK as a whole. The industry's success is predicated on the quality guarantee that comes with Scottish provenance and therefore any change in regulatory approach that prioritised volume over standards could have a severe impact.

Despite a majority of people in Scotland voting to remain within the European Union – and within a Single Market which, by population, is seven times the size of the UK – the Scottish Parliament was powerless to prevent Brexit. Indeed, the particularly damaging form of Brexit chosen by the UK Government has increased barriers both to freedom of movement and to trade with Europe.[28]

The prevailing UK economic and social model – the result of policy choices taken over decades and long distinct from its European peers – has generated relatively poor outcomes. A relatively high employment rate has been accompanied by weak productivity, low investment and high inequality of incomes. In the words of the UK Government's own Levelling Up White Paper, geographical inequality remains a "striking feature of the UK" with "economic growth and the higher productivity which drives it…over-concentrated in specific areas, particularly the South East of England".[29] This latter point is particularly instructive because of its persistence. UK Governments have often made the same point and expressed determination to tackle this 'striking feature' without success. For example in 2010 David Cameron, then Prime Minister, stated: "Our economy has become more and more unbalanced, with our fortunes hitched to a few industries in one corner of the country".[30] And yet it is clear from the Levelling Up White Paper how little progress has been achieved. Levelling up is unlikely to be achieved by the current – and increasing – UK centralisation of economic policy and powers away from the governments of Scotland, Wales and Northern Ireland.

Brexit will almost certainly exacerbate at least some of the UK's longstanding structural problems[31] by, for example, further reducing the scope for productivity growth by establishing barriers to trade.[32]

In this respect, the assessment and arguments presented by Professor Kevin O'Rourke discussing Ireland's economic development as an independent country is of interest. Professor O'Rourke argues that "a plausible candidate" for Ireland's economic underperformance in the period between 1954 and 1973 (when Ireland joined the then EEC) was "excessive reliance on the sluggish British economy". Ireland's improved economic performance after 1973, even before the creation of the Single Market, coincided with its rapidly decreasing dependence on the UK for trade. "EEC membership led to a far more diversified Irish economy, less dependent on its immediate neighbour, and healthier as a result."[33] If, as many economists predict,[34] economic growth in the UK is again to become relatively sluggish because of the decision to leave the EU, questions must be raised for Scotland about whether it too will suffer from excessive reliance on such an economy.

27 Scottish Government (2020) UK internal market: initial assessment of UK Government proposals
28 See Scottish Government (2021) The Brexit vote 5 years on what do we know so far? and Scottish Government (2019) Scotland's Place in Europe: assessment of the revised withdrawal agreement and political declaration
29 UK Government (2022) Levelling Up the United Kingdom, Executive summary, p1
30 Cameron, D. Transforming the British Economy: Coalition plan for economic growth (UK Government speech, 28 May 2010)
31 See for instance: Sandbu, M. Brexit and the Future of UK Capitalism and Weldon, D. 'The British Model and the Brexit Shock: Plus ca Change?', The Political Quarterly, Vol 90, Issue S2, 2019.
32 The Office for Budget Responsibility's Brexit Analysis (2022) assumes that Brexit "will reduce long-run productivity growth by 4% relative to remaining in the EU".
33 O' Rourke, K (2019) A Short History of Brexit (Pelican), p143. Ireland's comparative performance through this period is also discussed in detail in O Grada, C and O'Rourke, K (2021) The Irish economy during the century after partition (The Economic History Review).
34 See references in footnote 16.

This paper sets out evidence of relative economic performance and begins to discuss the issues that might arise for Scotland in pursuing a new development model as an independent country. These issues will be addressed in further papers to be published as part of the **Building a New Scotland** series. The prevailing UK model, its distinguishing characteristics and performance, is considered in more detail below.

iii Countries of Scotland's size have consistently out-performed the UK across a range of economic and social indicators

Many of Scotland's near neighbours in Europe have thrived in the globalised economy of the 21st century, reconciling economic dynamism with strong social safety nets and outperforming the UK on a range of metrics. The high performance of these relatively small, more agile nations confirms their ability and propensity to make policy choices that are better suited to their needs and circumstances.

This paper looks specifically at the economic and social models which are both relevant to Scotland's circumstances (can Scotland learn from their policy choices?) and consistent with the current Scottish Government's aims and objectives (achieving greater equality alongside productivity growth).

Although it is possible to learn something from all national models, those pursued in, for instance, the city-state ports of Hong Kong and Singapore have very limited applicability to Scotland's circumstances or ambitions. There is much to learn from New Zealand's recent development – and it has made some interesting policy choices[35] – but its high agricultural share in output and relative geographic remoteness limits its relevance as a comparator country for this analysis. Luxembourg performs well but its tax structure[36] and prevalence of cross-border workers[37] renders it an unsuitable comparator.

This analysis therefore focuses on Norway, Sweden, Denmark, Finland, Iceland, Ireland,[38] Belgium, Austria, the Netherlands and Switzerland – referred to as '**the comparator countries**'. These are relatively small nations in close geographic proximity to Scotland and they provide relevant examples for an independent Scotland to learn from and possibly emulate.

The evidence presented here shows that these countries frequently outperform the UK across a range of measures and that the best performing nations in this cohort are countries of Scotland's size. As the evidence presented below indicates, the comparator countries outperform the UK across a wide range of economic and social metrics by:

- exploiting the intrinsic advantages ("effective, responsive governments, with a well-developed sense of strategic capacity, high levels of trust and social cohesion, and the ability to adapt to changing international circumstance"[39]) enjoyed by countries of this size; and,
- making better policy choices that are consistently tailored to their own specific circumstances and challenges.

35 For instance, the introduction of a Fair Pay Agreements Bill to the New Zealand Parliament.

36 Though Luxembourg has a population of around 630,000, it attracts as much foreign direct investment (FDI) as the United States. The International Monetary Fund describes these inflows and outflows as "phantom investment." Damgaard J, Elkjaer T and Johannesen N. (2019) The Rise of Phantom Investments (International Monetary Fund)

37 There are almost 220,000 cross-border workers in Luxembourg which has a working population of only 499,100 (as at the end of March 2022) Luxembourg Government – Labour market and active population information page.

38 As noted previously, in terms of the statistical analysis included in this paper, Ireland is a special case. The consensus view is that GDP, as conventionally measured across nations, overstates Ireland's national wealth and therefore affects other measures in which GDP is the denominator e.g. debt and deficit. However, although these statistical issues may affect Ireland's standing on some specific indicators, they do not undermine the overall proposition of this paper: that the UK generally under-performs against the comparator nations.

39 See Skilling D (2018) Policy insights for Scotland from small advanced economies (Reform Scotland in association with the Scottish Policy Foundation), and analysis by David Skilling, Landfall Strategy Group, for the Sustainable Growth Commission (2018).

Of course, nothing in the analysis presented in this paper is meant to suggest that the comparator countries are immune to global shocks or that their governments do not sometimes take poor policy decisions. The negative impact of the global financial crisis on Ireland and Iceland reflected issues with domestic banking regulation and the serious imbalances that had been allowed to develop in those economies. Rather, the intention of this paper is to highlight the continuing success of the comparator nations relative to the UK across a range of key economic and social indicators, and invite an informed discussion of the reasons for it.

iv Scotland is well positioned to learn from the experience of other nations and use the powers accruing through independence to improve economic, social and environmental outcomes significantly

Scotland possesses similar – or greater – natural resource endowments and intrinsic advantages to the comparator nations in many regards. Indeed, Scotland has a range of assets, specialisms and capabilities that stand it in good stead to maximise the opportunities of independence quickly. In addition to our vast natural and renewable energy resources, these include (but are not limited to):

- **A strong and globally recognised track record of invention, innovation and learning**, stretching from the Enlightenment to the present day, and our universities' place at the global frontier of research in areas such as life sciences and data analytics.[40]
- **Strong business sectors** – through longstanding comparative advantages in food and drink, financial services, energy and advanced engineering to emerging competitive edges in low carbon, sensors, advanced therapies, sub-sea technologies and data analytics.[41]
- Our **natural heritage and capital**[42] – providing exceptional opportunities for tourism and underpinning **a unique and recognised brand.**
- **World class universities** – in the latest Times Higher Education World University Rankings 2022, Scotland has three universities in the top 200 (the University of Edinburgh, the University of Glasgow and the University of Aberdeen). Scotland has more universities per million people in the top 200 when compared to the rest of the UK and ranks third globally on this metric, behind Switzerland and the Netherlands.[43]
- **An outward looking culture** which resonates around the world through a **huge, enthusiastic and influential diaspora**.[44]
- **A welcoming business environment** including a highly skilled workforce, an asset routinely identified by inward investors as a key attraction. Scotland continues to perform well in attracting foreign direct investment[45] reflecting the success of an **experienced and effective international support network** led by Scottish Development International.

40 For instance, Knight Frank recently identified Edinburgh and Glasgow as the two most innovative UK cities outside London (Knight Frank (2022) UK Cities: Themes for 2022) citing strengths in university research, patent generation, spin off company formation and high research income from industry. The life sciences sector in Scotland contributes £2.4bn gross value added to the Scottish economy and has grown 7% each year since 2010 (Scottish Development International (n.d.) Health and life sciences industries).

41 Further information on the strengths of Scotland's industrial sectors can be found on the Scottish Enterprise website.

42 Scottish natural capital assets that can currently be valued were estimated by ONS to be £206 billion in 2018 (the latest year for which complete figures are available). Scottish Government (2022) Scottish Natural Capital Accounts 2022

43 Scottish Government analysis of the Times Higher Education (2022) World University Rankings 2022

44 The Scottish diaspora has been estimated at between 28-40m people with around 6m in the US alone (Scottish Government (2009) The Scottish Diaspora and Diaspora Strategy). The GlobalScot network continues to support investment in and internationalisation of the Scottish economy and recently celebrated its 20th anniversary.

45 The EY Scotland Attractiveness Survey 2021 found that 'Scotland is outpacing the UK and the rest of Europe in attracting and securing FDI, reaching its highest attractiveness level ever'

- **A strong commitment to building a wellbeing economy and a world-leading approach to Net Zero**[46] – no longer seen as barriers to sustainable economic growth, these are increasingly regarded as markers of any nation serious about long-term economic development.
- **A global outlook**, pro-EU and supportive of international institutions.[47]
- **A reputation for quality** – provenance continues to be a key selling point for many of our goods, particularly in food and drink.[48]

Using the limited devolution of the current constitutional settlement, and as reflected in the new National Strategy for Economic Transformation, Scotland has already started to depart from aspects of the economic model pursued by successive UK Governments. For example, through its Fair Work agenda, the Scottish Government has established new institutions (the Fair Work Convention) and developed creative policies (e.g. Fair Work First) to ensure that every possible mechanism is used to improve the range and quality of employment in Scotland.

The success of an independent Scotland would depend on the decisions taken by the governments and parliaments elected by the people of Scotland, but the full powers of independence would allow us to go further and achieve better outcomes in these and other areas. For example, full control over tax and benefits could help accelerate progress towards the ambitious targets that have been set by the Scottish Parliament for reducing child poverty.[49]

46 The Scottish Government's commitment to Net Zero and developing a wellbeing economy is outlined in the National Strategy for Economic Transformation (2022).

47 See for instance, the following recent Scottish Government publications: Programme for Government 2021-22; Steadfastly European: Scotland's past, present and future (March 2021); The European Union's Strategic Agenda 2020-24: Scotland's Perspective (2021); Arctic Connections: Scotland's Arctic policy framework (2019).

48 The Scottish Government plan Scotland: A Trading Nation (2019) explains the importance of provenance and Scottish branding for food and drink exports. Food and drink is Scotland's top international export sector.

49 Scottish Government (2022) Tackling Child Poverty Delivery Plan 2022-26

Section 1

How well does the UK compare?

This section considers evidence across four areas: macroeconomic outcomes, economic dynamism, social solidarity, and the labour market. Of course there are other aspects of national performance – such as the full range of indicators presented in the Scottish Government's own National Performance Framework – that also could have been considered, including some in which Scotland has unique and widely recognised potential, such as culture and the environment. But ultimately the economic and social success of a nation depends on the choices it makes as well as its cultural or natural resource endowments. The indicators presented here reflect the outcomes of different national choices and are sufficient to show that the comparator nations are, relative to the UK, wealthier, happier and fairer.

Note: the analysis in this and following sections has been compiled from the latest available data at the time of writing (March - April 2022).

A) Macroeconomic Outcomes

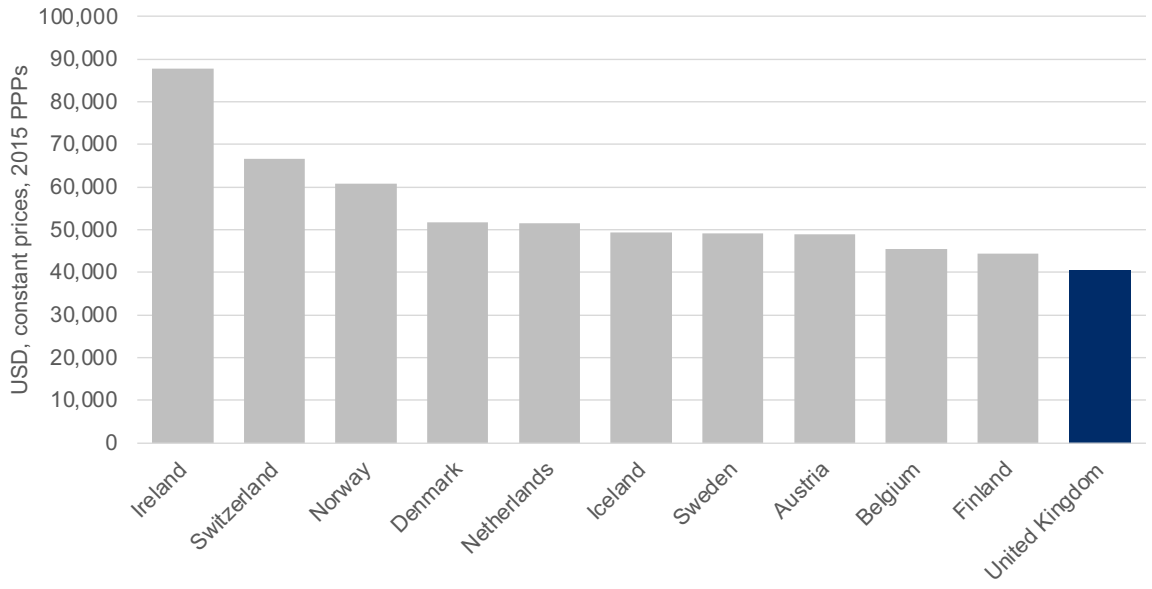
Key Point

The comparator countries – all independent – have generally maintained sound macroeconomic policies and credible institutions over the long-term, providing the strong foundations on which to build and sustain the economic dynamism and social solidarity described in later sections.

The comparator nations are internationalised, open economies – some on the geographical periphery of Europe – which have established macroeconomic frameworks that fit their circumstances and provide the stability required for successful long-term development. The strong macroeconomic performance of these economies is apparent across a range of indicators. The comparator countries have:

- **Higher GDP per head – the comparator countries are wealthier than the UK.** In 2020, GDP per capita (USD, constant prices, 2015 PPPs) was as follows: Ireland ($87,735), Switzerland ($66,674), Norway ($60,912), Denmark ($51,772), Netherlands ($51,572), Iceland ($49,416), Sweden ($49,098), Austria ($48,908), Belgium ($45,559), Finland ($44,451) and the UK ($40,607). The UK's GDP per capita fell below the OECD average ($40,941) in 2020.[50] (See Figure 1.)

Figure 1
GDP per head of population, 2020

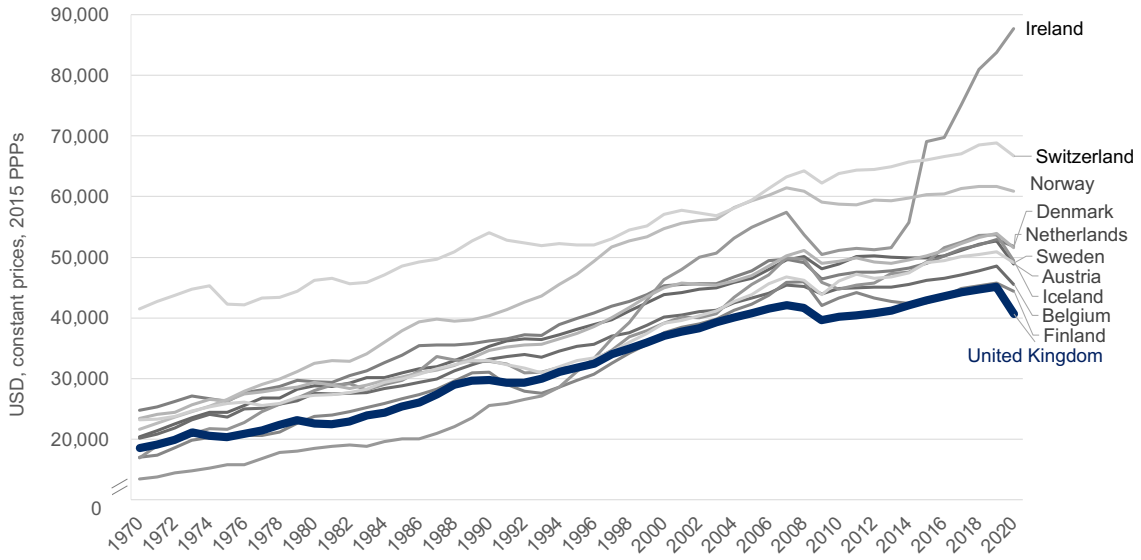


Source: OECD level of GDP per capita and productivity dataset

50 OECD (2022) GDP per capita and productivity levels, OECD Productivity Statistics (database), https://doi.org/10.1787/data-00686-en (accessed March 2022). As noted previously, Ireland's relative performance on GDP-related measures should be treated with caution.

- **Sustained this higher wealth over time.** With the exception of Finland in 2015, GDP per capita has been higher in all the comparator countries in every year since 2000.[51] (See Figure 2.)

Figure 2
GDP per head of population over time, 1970-2020

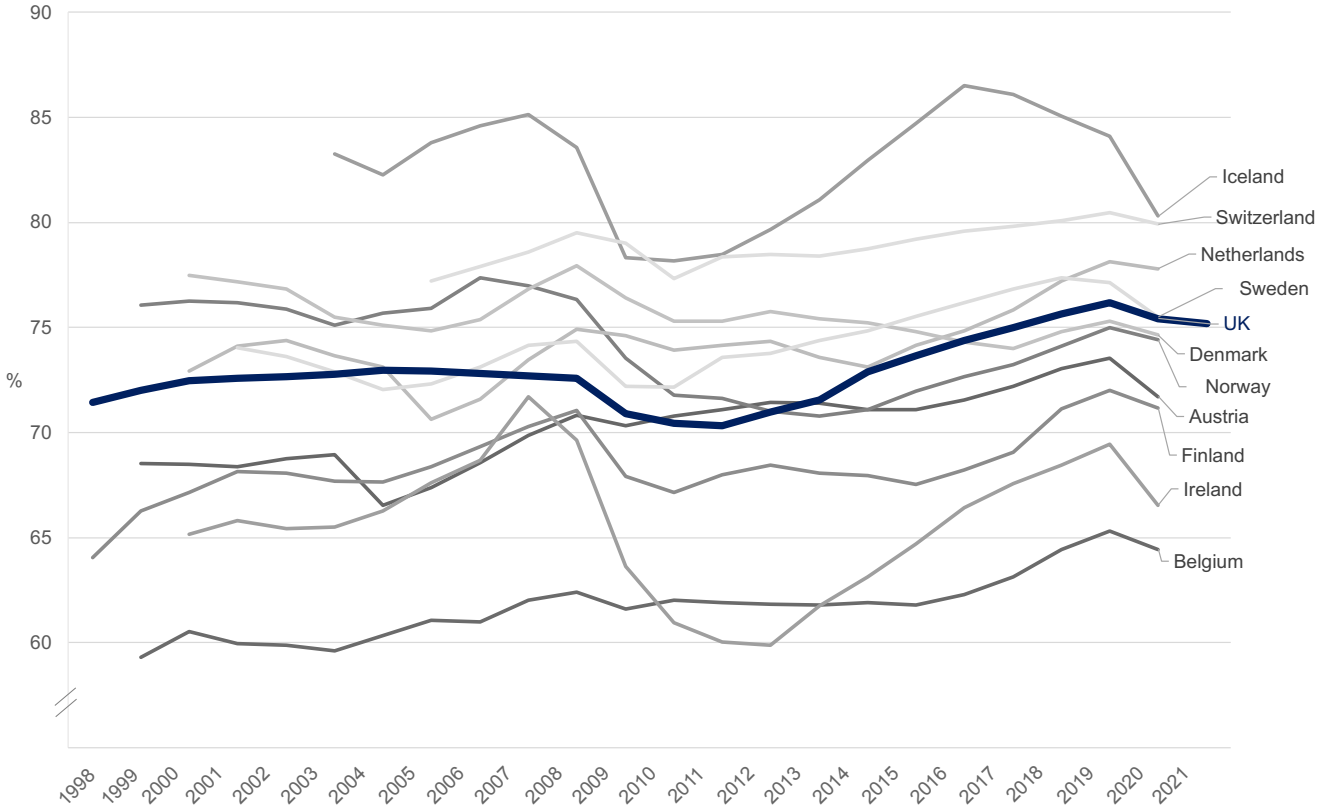


Source: OECD level of GDP per capita and productivity dataset

- **Sustained high employment rates.** Perhaps the strongest achievement of the UK economy in recent decades is achieving and maintaining **a high employment rate** (less positive elements of the UK labour market will be discussed in later sections). Yet Iceland and Switzerland have sustained a significantly higher employment rate than the UK, and Norway, Denmark, the Netherlands and Sweden have fluctuated around the UK rate.[52] (See Figure 3). The UK's success in sustaining high employment (when compared to all OECD nations) is unexceptional when measured against the comparator group.

51 OECD (2022) GDP per capita and productivity levels, OECD Productivity Statistics (database), https://doi.org/10.1787/data-00686-en (accessed March 2022)
52 OECD (2022) Employment rate (indicator). doi: 10.1787/1de68a9b-en (Accessed March 2022)

Figure 3
Employment rate over time (% of working age population), 1998-2021



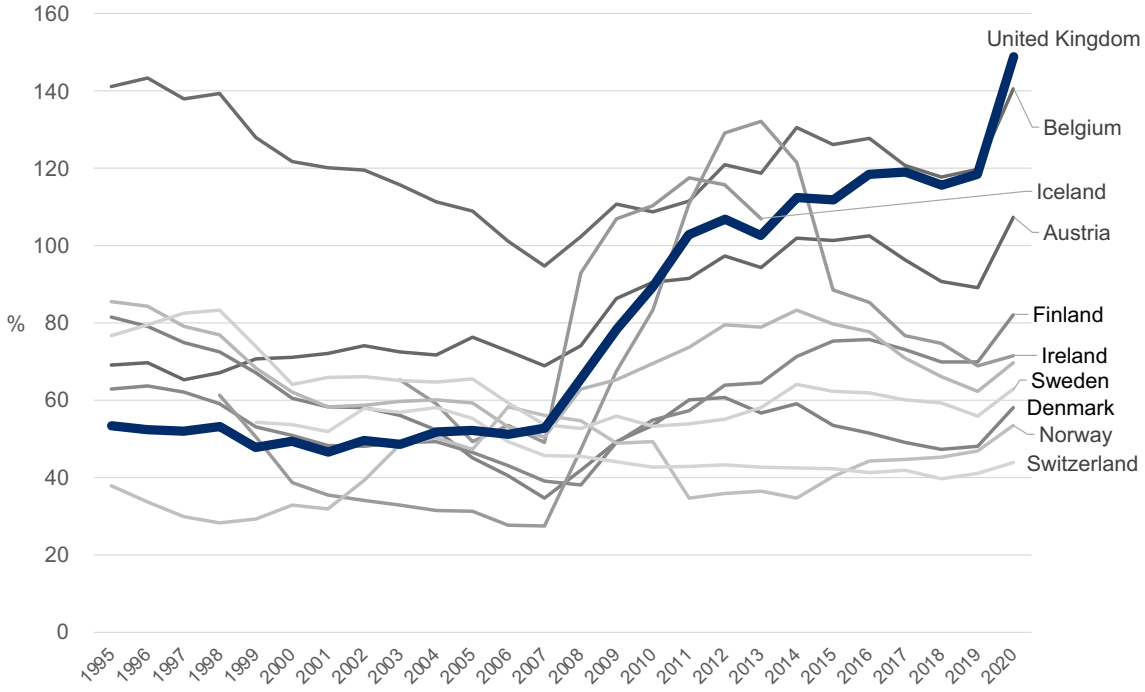
Source: OECD employment rate data

In addition, the comparator countries have:

- **Achieved lower debt and deficits as a share of GDP**:
  - Debt: the comparator nations currently have lower debt burdens than the UK, although it is important to note that performance has fluctuated over time, with the global financial crisis having a more severe impact in some countries than others.[53] (See Figure 4.)

53 OECD (2022) General government debt (indicator). doi: 10.1787/a0528cc2-en (Accessed March 2022)

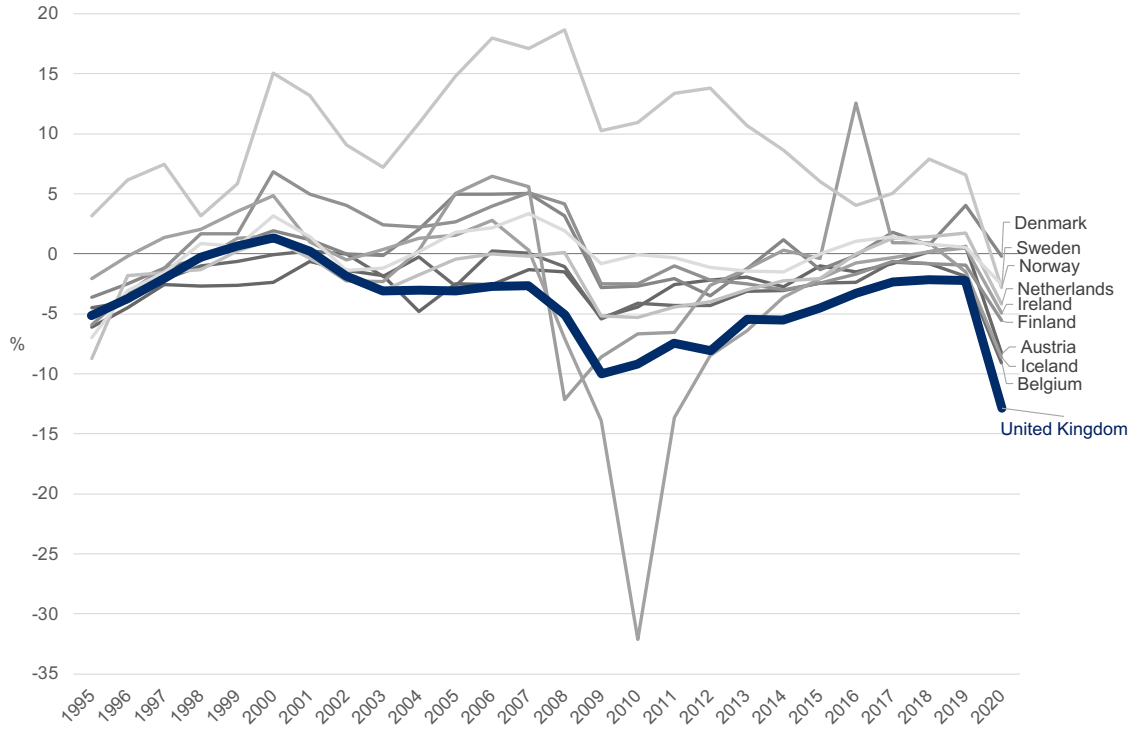
Figure 4
Debt as a share of GDP, 1995-2020



Source: General government – General government debt – OECD Data

- Deficit: similarly, the UK's fiscal deficit is high in comparison to the comparator nations.[54] (See Figure 5.)

Figure 5
General government deficit (% of GDP), 1995-2020

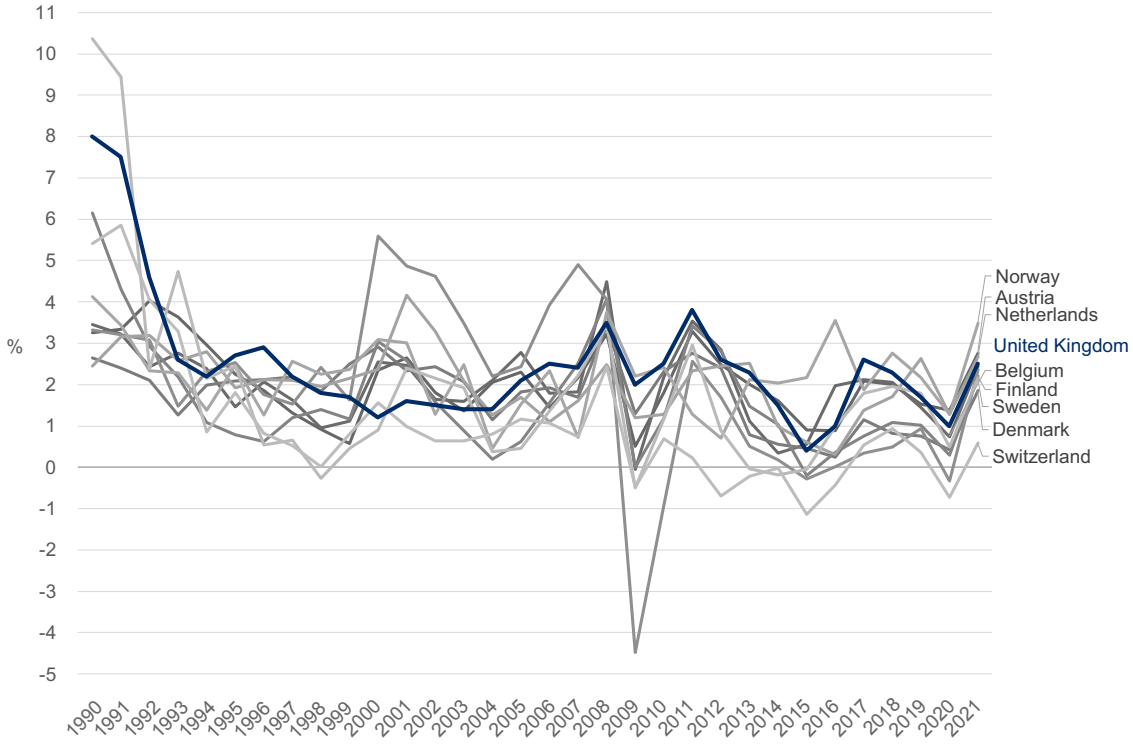


Source: OECD general government deficit data

54 OECD (2022) General government deficit (indicator). doi: 10.1787/77079edb-en (Accessed March 2022). Please note that a high deficit equates to a low position on this chart given that a negative number denotes government borrowing i.e. the country with the highest deficit will have the lowest position in the chart.

- **Generally achieved low and stable inflation**[55] (See Figure 6.)

Figure 6
Year on year annual inflation rates (%), 1990-2021



Source: OECD – Inflation (CPI) data

As noted in the introduction, the comparator nations are open, highly internationalised economies and as such they have not been immune to global shocks – indeed, these shocks have sometimes been severe. Due to the scale of their banking sectors, Ireland and Iceland faced massive fiscal challenges – significantly greater than those faced by the other comparator nations or the UK – in the wake of the global financial crisis. However, despite the scale of the shock, both recovered more rapidly than was widely predicted at the time and their economic and social models remained intact.[56]

In general, the comparator nations have benefitted from effective monetary and fiscal management by credible institutions which has created the stability on which these countries have built and sustained economic dynamism and social solidarity. We now consider these in turn.

55 OECD (2022) Inflation (CPI) (indicator). doi: 10.1787/eee82e6e-en (Accessed March 2022)

56 International Monetary Fund (2015) IMF Survey: Iceland Makes Strong Recovery from 2008 Financial Crisis (IMF Country Focus); Fitzgerald, J (2016) The Irish Crisis: Origins and resolution (The New Palgrave Dictionary of Economics)

B) Economic dynamism

Key Point

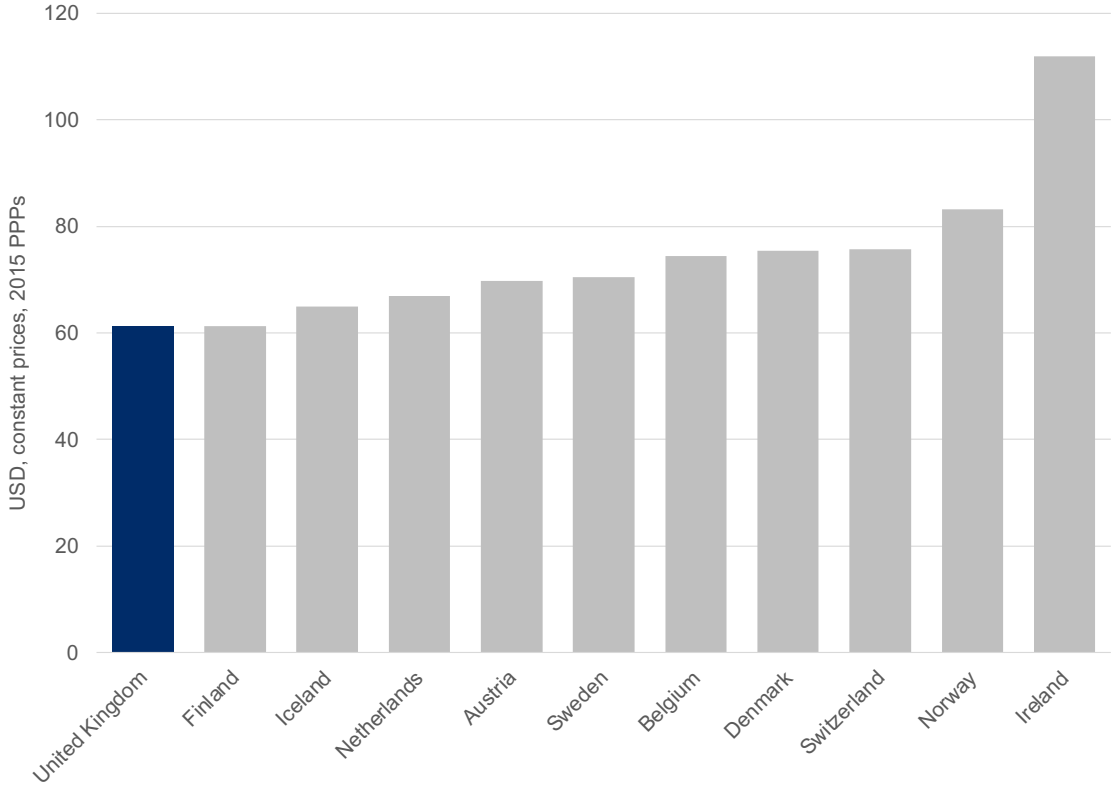
Lack of scale has not prevented the comparator nations from successfully developing – and maintaining over the long-term – some of the world's most dynamic, productive, innovative and internationalised economies.

Commentary on the comparator nations – especially the Nordic nations – tends to focus on equality of outcomes (especially income and gender equality) and high levels of employment. However, although often overlooked, the sustained success of these nations in developing dynamic, highly productive, innovative exporting economies is highly impressive. These countries routinely outperform the UK on measures of productivity and innovation.

The comparator nations:

- **Achieve higher productivity – often significantly higher – than the UK**. In 2020, GDP per hour worked (USD constant prices, 2015 PPPs) was as follows: Ireland ($111.8), Norway ($83.2), Switzerland ($75.7), Denmark ($75.4), Belgium ($74.5), Sweden (470.5), Austria ($69.8), Netherlands ($67.0), Iceland ($64.9), Finland ($61.3) and the UK ($61.3).[57] Again, the relatively better performance has been maintained over time. With the exception of Finland in 2015, productivity has been higher in all comparator countries in every year since 2000. (See Figure 7 and Figure 8.)

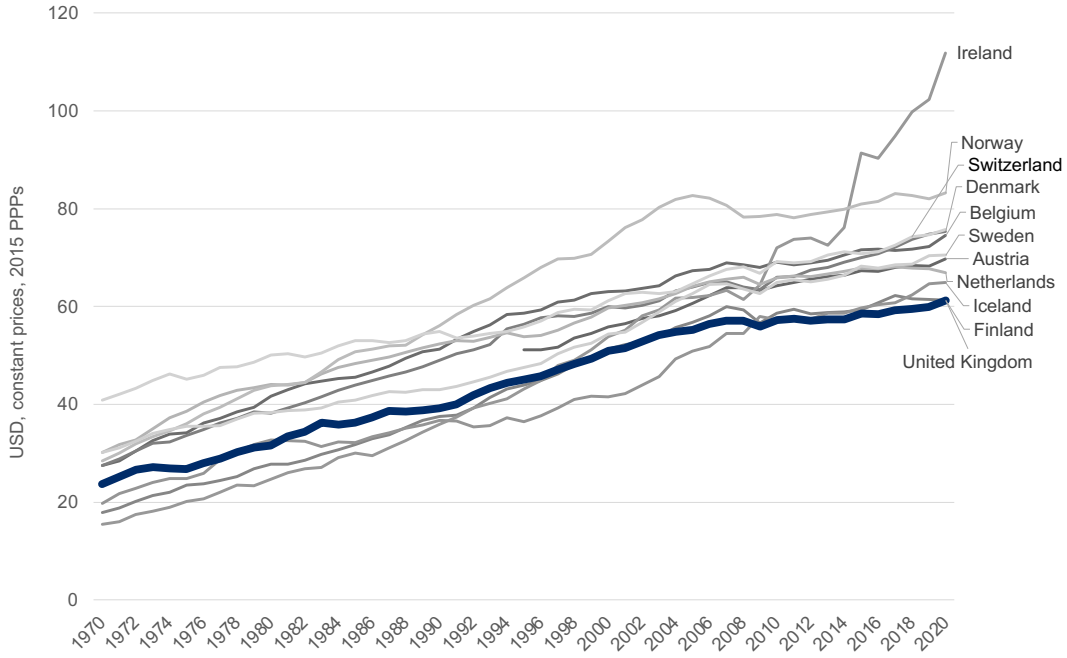
Figure 7
GDP per hour worked, 2020



Source: OECD level of GDP per capita and productivity dataset

57 OECD (2022) GDP per capita and productivity levels, OECD Productivity Statistics (database), https://doi.org/10.1787/data-00686-en (accessed March 2022)

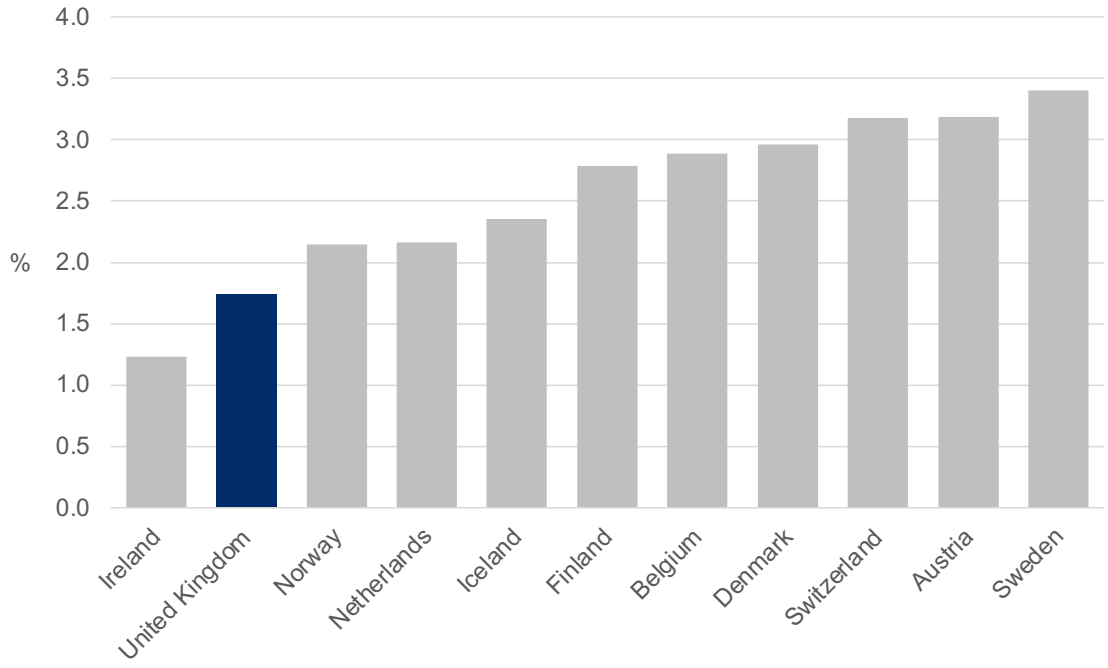
Figure 8
GDP per hour worked over time, 1970-2020



Source: OECD level of GDP per capita and productivity dataset

- **Invest more in research and development.** All the comparator countries except Ireland spend more on research and development than the UK. The full OECD dataset over time shows that the UK has spent below the OECD average in every year since 2000 while Denmark, Finland and Sweden have spent well above.[58] (See Figure 9.)

Figure 9
Gross expenditure on research and development as percentage of GDP, 2020

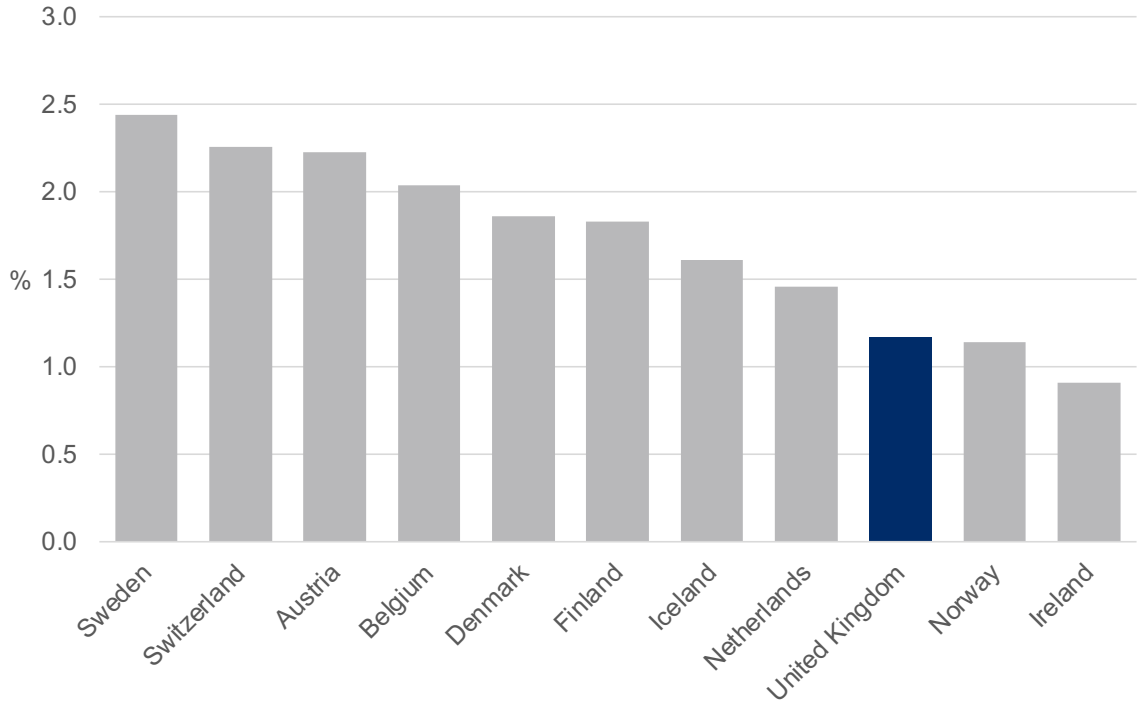


Source: OECD gross domestic spending on research and development (R&D) data

58 OECD (2022) Gross domestic spending on R&D (indicator). doi: 10.1787/d8b068b4-en (accessed March 2022)

- **Invest more in business enterprise research and development.** Sweden, Switzerland, Austria, Belgium, Denmark, Finland, Iceland and the Netherlands all spend more on business enterprise research and development than the UK.[59] (See Figure 10.)

Figure 10
Investment in business enterprise research and development (% of GDP), 2019

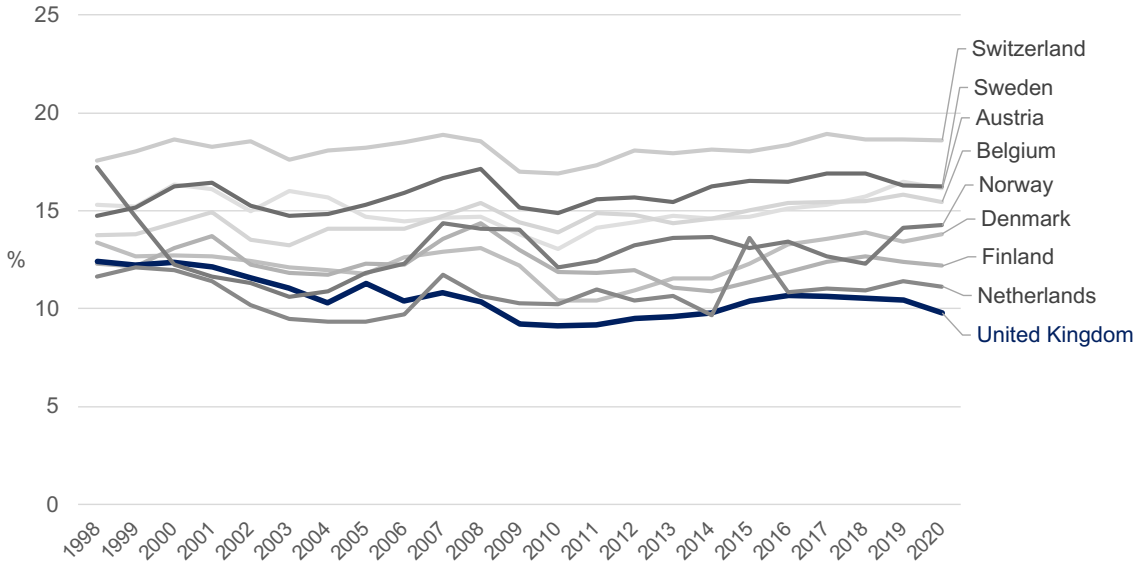


Source: Gross expenditure on research and development Scotland 2019 – gov.scot (www.gov.scot)

59 Scottish Government (2020) Gross expenditure on research and development Scotland 2019

- **Achieve higher business investment,** in all comparator countries where we have data, in most years. Indeed, the UK has the lowest rate of business investment in the OECD apart from Greece.[60] (See Figure 11.)

Figure 11
Business investment as a share of GDP over time, 1998-2020



Sources: GDP and spending – Investment by sector – OECD Data and Gross fixed capital formation (% of GDP) | Data (worldbank.org). Business investment as a share of GDP has been calculated by multiplying Gross Fixed Capital Formation (GFCF) expressed as a percentage of GDP by the proportion of corporate investment in total GFCF for each country.

- **Register more patents per million of population.** Although the UK ranked well (16th globally) in 2019, all the comparator countries except Ireland and Iceland performed better: Switzerland (3rd), Denmark (7th), Sweden (8th), Finland (9th), Netherlands (10th), Austria (11th), Norway (14th), and Belgium (15th).[61]

60 OECD (2022) Investment by sector (indicator). doi: 10.1787/abd72f11-en (Accessed March 2022), and Gross fixed capital formation (% of GDP) | Data (worldbank.org)

61 WIPO (2020) World Intellectual Property Indicators 2020 (World Intellectual Property Organization). See resident patent applications per million population for the top 20 origins, 2019, page 46. Ireland and Iceland are outside the top 20 countries considered in this analysis.

Global surveys/indices

The comparator nations also tend to perform strongly across the various global surveys of innovation and competitiveness:

- **The IMD World Competitiveness Report 2021** analyses and ranks 64 countries based on 334 competitiveness criteria and 'according to how they manage their competencies to achieve long-term value creation'. The 2021 report ranked Switzerland 1st, Sweden 2nd, Denmark 3rd, Netherlands 4th, Norway 6th, Finland 11th, Ireland 13th, UK 18th, Austria 19th, Iceland 21st, and Belgium 24th.[62]
- The **Global Innovation Index** 'aims to capture the multi-dimensional facets of innovation and provide the tools that can assist in tailoring policies to promote long-term output growth, improved productivity, and employment growth'. The 2021 index covered 132 nations and ranked Switzerland 1st, Sweden 2nd, UK 4th, Netherlands 6th, Finland 7th, Denmark 9th, Iceland 17th, Austria 18th, Ireland 19th, Norway 20th and Belgium 22nd.[63]
- The **World Economic Forum Global Competitiveness Report 2020** assessed 34 nations for **'readiness for economic transformation'** (defined as a full integration of social, environmental and institutional targets into their economic systems over the next five years). The comparator countries scored well with only Ireland and Austria scoring below the UK: Finland was the highest scoring nation (69.9) followed by Sweden (68.5), Denmark (66.5), Netherlands (66.3), Switzerland (62.5), Belgium (63.6), UK (61.4), Ireland (60.9) and Austria (60.3).[64]
- The **Bloomberg Innovation Index** analyses 60 nations using dozens of criteria grouped into seven metrics: research and development, gross value added by manufacturing, productivity, high-tech company density, researcher concentration, tertiary efficiency, and patent activity. The 2021 index ranked Switzerland 3rd, Sweden 5th, Denmark 6th, Finland 8th, Netherlands 9th, Austria 10th, Belgium 14th, Norway 15th, Ireland 17th, UK 18th and Iceland 28th.[65]
- The **World Economic Forum Global Competitiveness Report 2020** ranked the top ten countries on **ICT adoption, digital skills and digital legal framework**. Sweden featured in the top ten on all three indicators, Finland and the Netherlands in two, and Denmark and Norway in one each. The UK did not feature in the top ten in any of these categories.[66]

Not all the comparator countries out-perform the UK on every indicator listed in this section. But the best performing comparator countries perform better than the UK across many. And what really distinguishes these nations is their ability – sustained over the long-term – to marry economic dynamism with deep social solidarity.

62 IMD (2021) The World Competitiveness Yearbook 2021
63 World Intellectual Property Organization. (2021) Global Innovation Index 2021 World Intellectual Property Organization)
64 Schwab K, Zahidi S and World Economic Forum (2020) The Global Competitiveness Report: Special Edition 2020 – How Countries are Performing on the Road to Recovery (World Economic Forum, p51 (Norway and Iceland not included in the analysis)
65 Bloomberg Innovation Index 2021 (paywall). Also see this summary of results from the European Commission (2021) Bloomberg Innovation Index
66 Schwab K, Zahidi S and World Economic Forum (2020) The Global Competitiveness Report: Special Edition 2020 – How Countries are Performing on the Road to Recovery (World Economic Forum), p18

C) Social solidarity and quality of life

Key Point

Arguably the world's most enduringly successful societies – as shown by a range of indicators – are independent countries of Scotland's size which have successfully married economic dynamism with social solidarity. Relatively high social spending and relatively equal income distributions have not proved barriers to robust economic development.

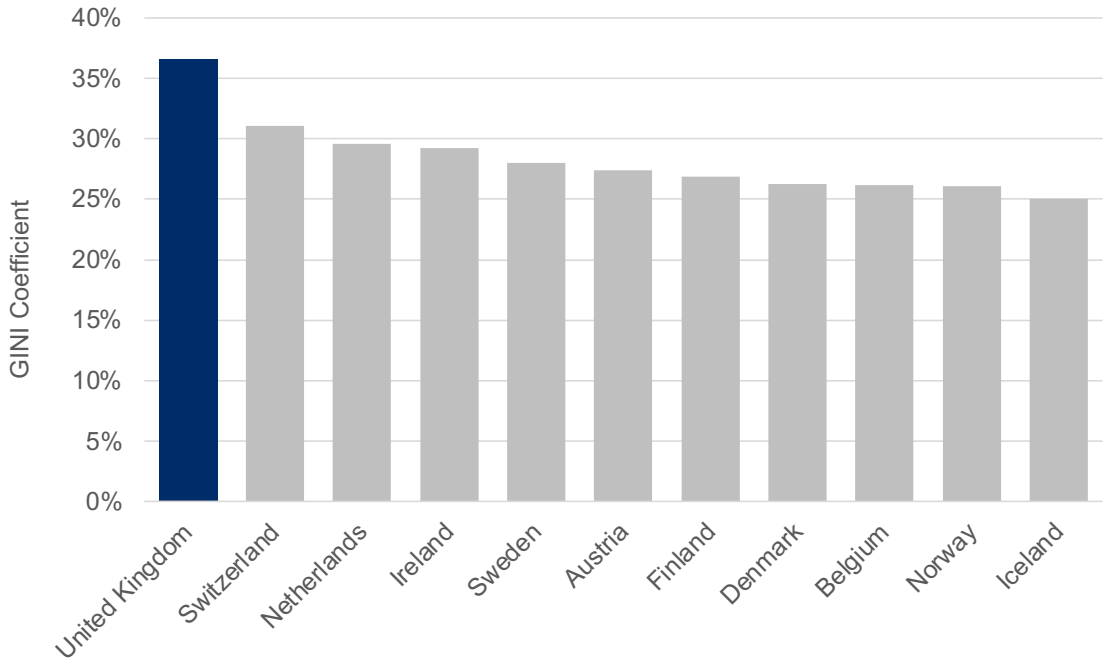
The contrast with the comparator countries is stark. As set out above, these nations have managed to equal or out-perform the UK across a range of economic indicators. Despite 'competitiveness' often being used as a justification for UK social and labour market reforms, it is striking how these comparator nations have managed to balance – over the long-term – excellent economic outcomes with consistently strong performance across a range of social indicators.[67]

Relative to the UK, the comparator countries have:

- **Lower income inequality.** All the comparator countries have significantly lower income inequality than the UK, with Iceland, Norway, Belgium, Denmark, Finland, Austria and Sweden among the ten most equal nations.[68] (See Figure 12.)

Figure 12

Income inequality (Gini coefficient, 0% = complete equality; 100% = complete inequality), 2020 or latest available



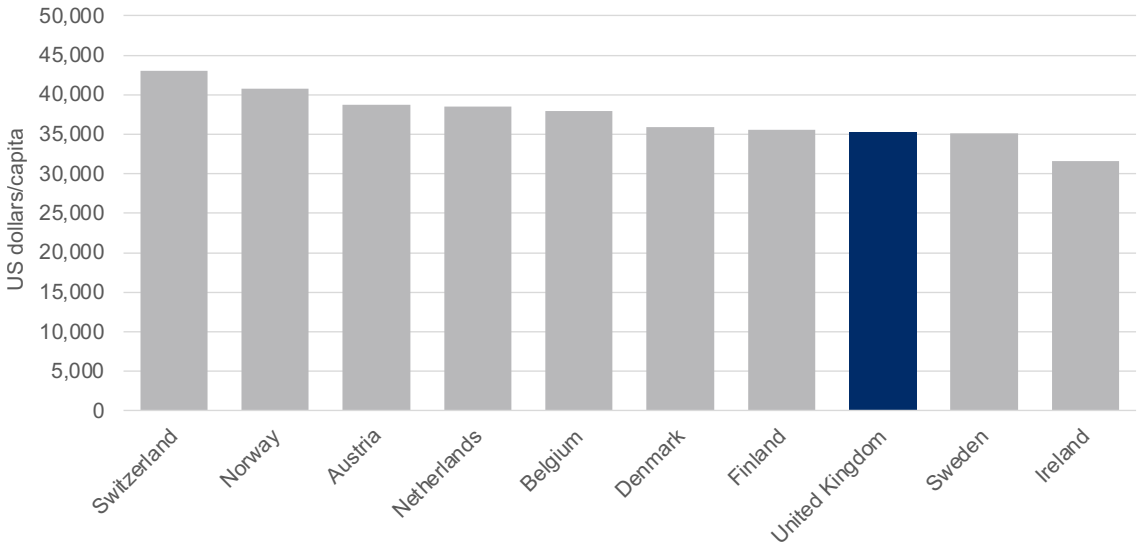
Source: OECD income inequality data

67 Overall, relative to other advanced nations, the UK has high inequality of income, extreme regional inequality and lower social mobility. See Key Fact 3 and Key Fact 6 above and section on regional equality below.

68 OECD (2022), Income inequality (indicator). doi: 10.1787/459aa7f1-en (Accessed March 2022). A full definition of the Gini coefficient can be found on this page together with other measurements such as the Palma ratio. The UK's performance does not change when using the Palma ratio.

- **Higher gross household disposable income** (including social transfers in kind, $/per capita 2020) with the exception of Ireland and Sweden. Switzerland's gross household disposable income was $43,035, followed by Norway ($40,743), Austria ($38,726), Netherlands ($38,552), Belgium ($37,926), Denmark ($35,849), Finland ($35,536), UK ($35,350), Sweden ($35,091) and Ireland ($31,553).[69] (See Figure 13.)

Figure 13
Gross household disposable income (US dollars per capita), 2020 or latest available

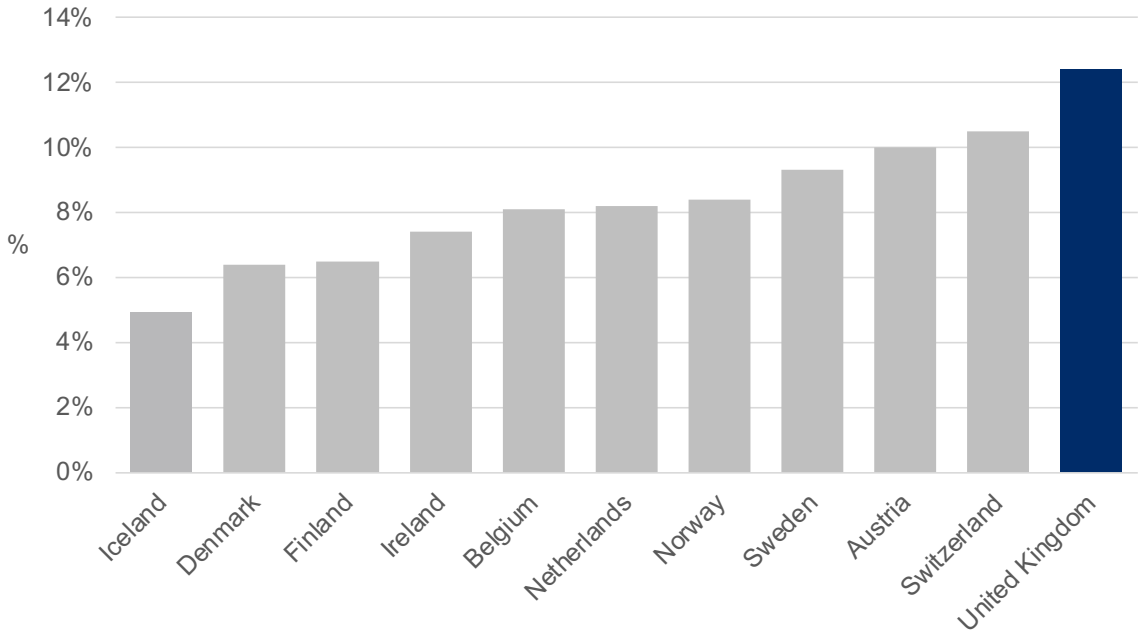


Source: OECD Household disposable income data

69 OECD (2022), Household disposable income (indicator). doi: 10.1787/dd50eddd-en (Accessed March 2022)

- **Lower poverty rates.** In 2020, out of 40 countries in the OECD statistics, Iceland had the lowest rate of poverty followed by Denmark (3rd), Finland (4th), Ireland (5th), Belgium (8th), Netherlands (9th), Norway (11th), Sweden (13th), Austria (16th) and Switzerland (17th). The UK had the 23rd lowest rate of poverty in the OECD.[70] (See Figure 14.)

Figure 14
Poverty rates, 2020 or latest available



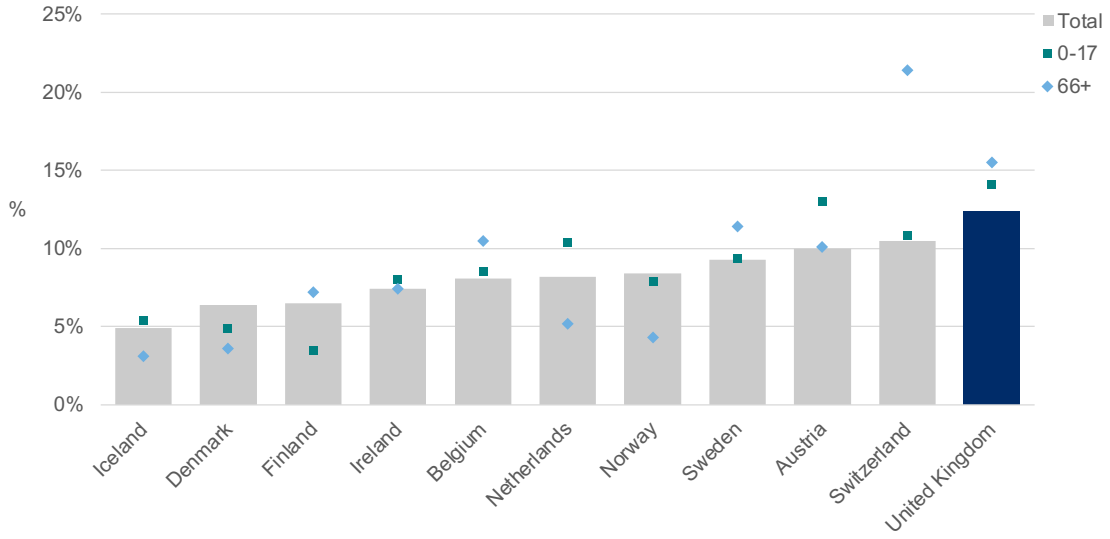
Source: OECD poverty rate data

70 OECD (2022) Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed March 2022) (including full explanations of how the rates are calculated)

- **There are fewer children and pensioners living in poverty in the comparator countries**. In 2020, the poverty rates for children (aged 0-17 years) and pensioners (aged over 66 years) were lower in all the comparator countries than the UK – with the exception of pensioners in Switzerland.[71] (See Figure 15.)

Figure 15

Poverty rates (total, 0-17 year-olds and people aged 66 year and older), 2020 or latest available

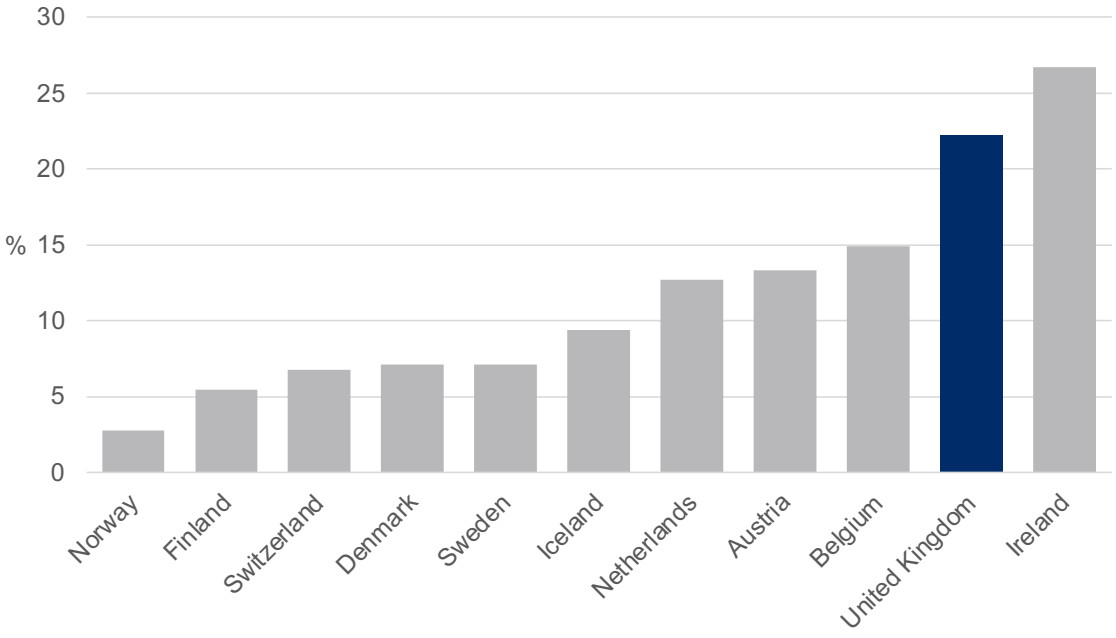


Source: OECD poverty rate data

- **Fewer children living in material deprivation** with the exception of Ireland. The rate in Norway was 2.8%, Finland 5.5%, Switzerland 6.8%, Sweden 7.1%, Denmark 7.1%, Iceland 9.4%, Netherlands 12.7%, Austria 13.3%, Belgium 14.9%, UK 22.2% and Ireland 26.7%.[72] (See Figure 16.)

Figure 16

Child specific material deprivation rate by age (children aged 1 to 15), 2014



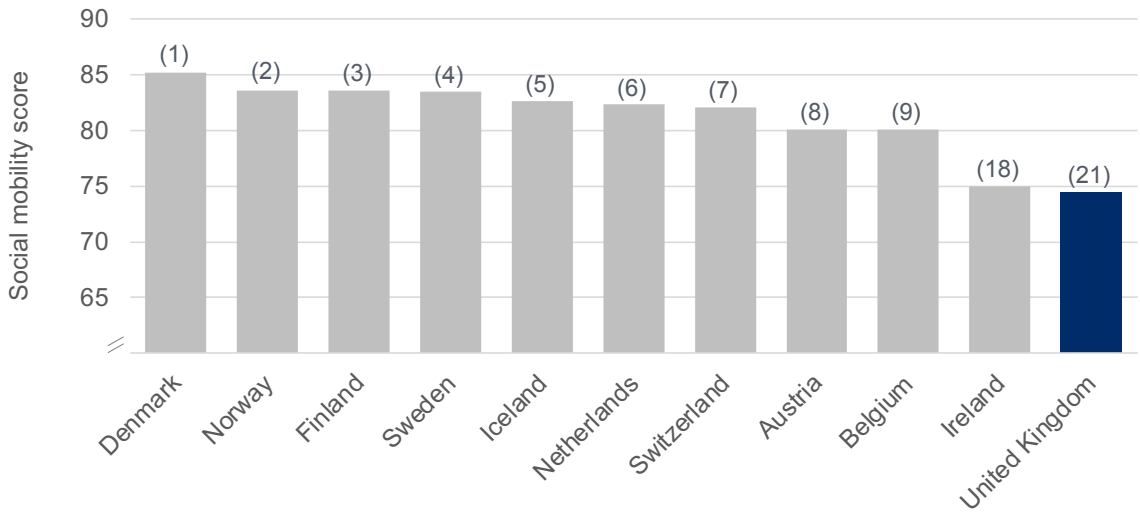
Source: Child specific material deprivation by age (children aged 1 to 15 years), Eurostat

71 OECD (2022) Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed March 2022)

72 Eurostat Child specific material deprivation by age statistics. Most recent available Eurostat data is for 2014, (children aged 1 to 15 years) (Accessed March 2022)

- **Higher social mobility**. Comparator countries account for the top 9 places in the World Economic Forum's Social Mobility Index 2020 which ranks 82 countries; Ireland is 18th and the UK 21st.[73] (See Figure 17.) Also, comprehensive OECD analysis in 2018 concluded that it would take on average 5 generations for those born in low-income families to approach the mean income in the UK. Denmark was the only country assessed as achieving this change within 2 generations. Finland, Norway and Sweden took 3 generations and Belgium and the Netherlands 4. Austria, Ireland and Switzerland sit alongside the UK on 5 generations.[74]

Figure 17
Global Social Mobility Index, 2020 (country rankings in brackets)



Source: Global Social Mobility Index 2020 | World Economic Forum (weforum.org)

- **Higher life expectancy**. All the comparator countries have higher life expectancy at birth than the UK's 80.4 years – Norway (83.3 years), Iceland (83.1), Sweden (82.5), Finland (82.2), Denmark (81.6), Netherlands (81.5), Austria (81.3), Switzerland (83.2), Ireland (82.8) and Belgium (80.9).[75]

Happiness and wellbeing

The better social outcomes achieved in the comparator countries are reflected in the more established surveys and indices of happiness and wellbeing:

- **United Nations Human Development Index** (HDI) 2020 rankings – the HDI is a composite indicator measuring performance across the 3 'dimensions' of 'long and healthy life', 'knowledge' and 'a decent standard of living'. Norway topped the 2020 rankings followed by Ireland and Switzerland (joint 2nd), Iceland (joint) 4th, Sweden 7th, Netherlands (joint) 8th, Denmark 10th, Finland (joint) 11th, UK 13th, Belgium (joint) 14th and Austria 18th.[76]

73 World Economic Forum (2020) Global Social Mobility Index 2020
74 OECD (2018), A Broken Social Elevator? How to Promote Social Mobility
75 OECD (2022), Life expectancy at birth (indicator). doi: 10.1787/27e0fc9d-en (Accessed March 2022)
76 UN Human Development Index Rankings 2020 (reporting 2019 HDI values) (Accessed March 2022)

- **OECD Better Life Index 2020** aims to "involve citizens in the debate on measuring the well-being of societies, and to empower them to become more informed and engaged in the policy-making process that shapes all our lives". The **Life Satisfaction** indicator considers people's evaluation of their life as a whole. It is a weighted-sum of different response categories based on people's assessment of their current life relative to the best and worst possible lives for them on a scale from 0 to 10. In 2020, Finland (7.9) scored the highest in the OECD followed by Iceland (7.6), Denmark (7.5), Switzerland (7.5), Netherlands (7.5), Norway (7.3), Sweden (7.3), Austria (7.2), Ireland (7.0), and Belgium and the UK (6.8).[77]
- **World Happiness Report 2021** uses data from 350,000 interviews across 95 countries to assess subjective happiness. In 2020, Finland ranked 1st among all countries surveyed followed by Iceland (2nd), Denmark (3rd), Switzerland (4th), Netherlands (5th), Sweden (6th), Norway (8th), Austria (10th), Ireland (13th), Belgium (17th) and the UK 18th.[78]
- Our World in Data **Self-reported Life Satisfaction 2020** asks respondents to "imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?" Finland achieved the highest score of all nations (7.82) followed by Denmark (7.64), Iceland (7.56), Switzerland (7.51), Netherlands (7.41), Sweden (7.38), Norway (7.37), Austria (7.16), Ireland (7.04), UK (6.94) and Belgium (6.80).[79]
- **The Global Wellbeing Index 2020** is based on 17 indicators including happiness, social progress and economic performance. In 2020, Denmark ranked first followed by Norway (2nd), Finland (3rd), Switzerland (4th), Sweden (5th), Iceland (7th), Austria (9th), Netherlands (11th), Ireland (12th), UK (15th) and Belgium (17th). The 2020 report found that "The Nordic nations score higher at all levels of wellbeing compared to the G20".[80]

Regional equality

Measuring regional equality is complex and different results can emerge depending on the territorial units and measures of output or income used in the analysis. It is difficult to reach concrete conclusions on the basis of a single indicator.

For example, in 2019, the Resolution Foundation concluded that "on the key productivity measure of output per worker, the UK is the most geographically unequal G7 country, with even greater inequality than the US" but conversely that "a different picture emerges when looking at typical household incomes after housing costs across the UK regions and nations. This is partly due to the state reducing gaps through redistributive policies, and because geographic income inequality has fallen over the last 30 years".[81]

Professor Philip McCann[82] a leading authority on regional economics, recently examined the issue of whether the UK displays high levels of interregional inequality in the context of 28 different indicators and 30 different OECD countries, concluding that "The result is clear. The UK is one of the most interregionally unbalanced countries in the industrialised world…and almost certainly the most interregionally unequal large high-income country".[83] Indeed, as referenced earlier, successive UK Governments have acknowledged this persistent issue.[84]

77 OECD Better Life Index. (OECD Statistics page for Better Life Index Data) (Accessed March 2022)
78 Helliwell J et al. (2022) World Happiness Report 2021 (World Happiness Report) p18
79 Ortiz-Ospina E and Roser M (2022) Happiness and Life Satisfaction (Our World in Data)
80 Global Wellbeing Indicators 2020
81 Clarke S. (2019) Mapping Gaps: geographic inequality in productivity and living standards (Resolution Foundation)
82 Professor McCann, co-director of the Productivity Insights Network, was recently appointed Chair of Urban and Regional Economics at Alliance Manchester Business School, University of Manchester
83 Productivity Insights Network (2019) Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK (University of Manchester) p14
84 UK Government (2022) Levelling Up the United Kingdom, p1

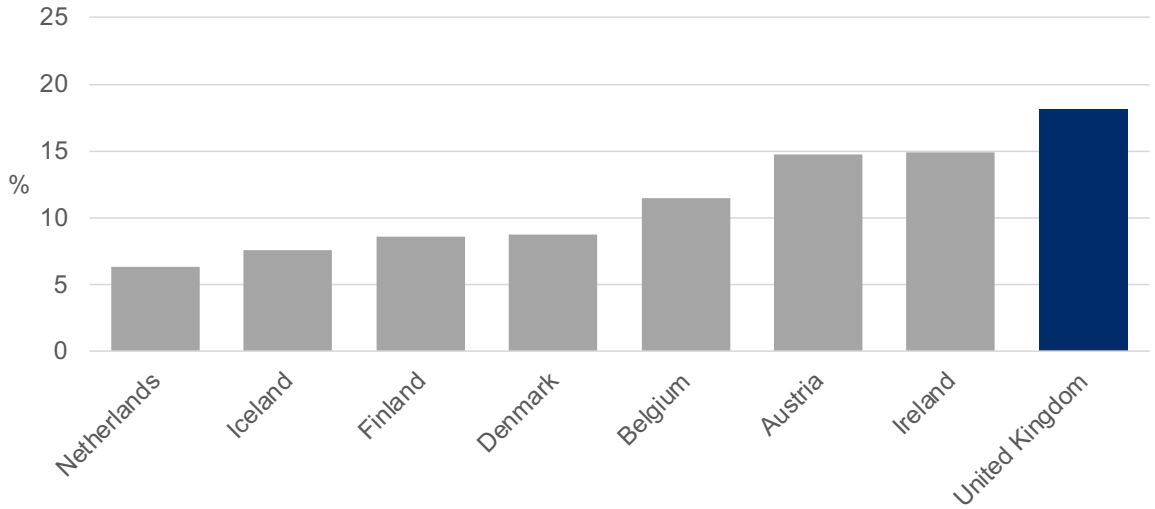
D) The labour market

As will be discussed later, the labour market is an area of significant policy divergence between the UK and comparator countries. The UK has deregulated its labour market[85] and policy has deliberately[86] sought to undermine or weaken 'institutions' such as trade unions and the collective bargaining of wages, terms and conditions. While the comparator nations have all deregulated to some extent (most have below OECD average levels of employment protection legislation[87]), they have also retained relatively high levels of trade union membership and collective bargaining coverage and these counter-balancing institutions have led to different outcomes.

Relative to the UK, the comparator nations have:

- **Higher average wages**. In 2020, average wages (US dollars) were $67,488 in Iceland followed by Switzerland ($64,824), the Netherlands ($58,828), Denmark ($58,430), Norway ($55,780), Belgium ($54,327), Austria ($53,132), Ireland ($49,474), UK ($47,147), Sweden ($47,020) and Finland ($46,230). In considering these figures, it should be borne in mind that Sweden and Finland have significantly lower income inequality than the UK.[88]
- **A lower proportion of low wage earners as a proportion of all workers.** The incidence of low pay in the UK is 18.1%. The comparator countries have lower rates, with some significantly lower such as the Netherlands (6.4%), Iceland (7.6%), Finland (8.6%) and Denmark (8.7%).[89] (See Figure 18.)

Figure 18
Share of workers earning less than two-thirds of median earnings (%), 2020 or latest available

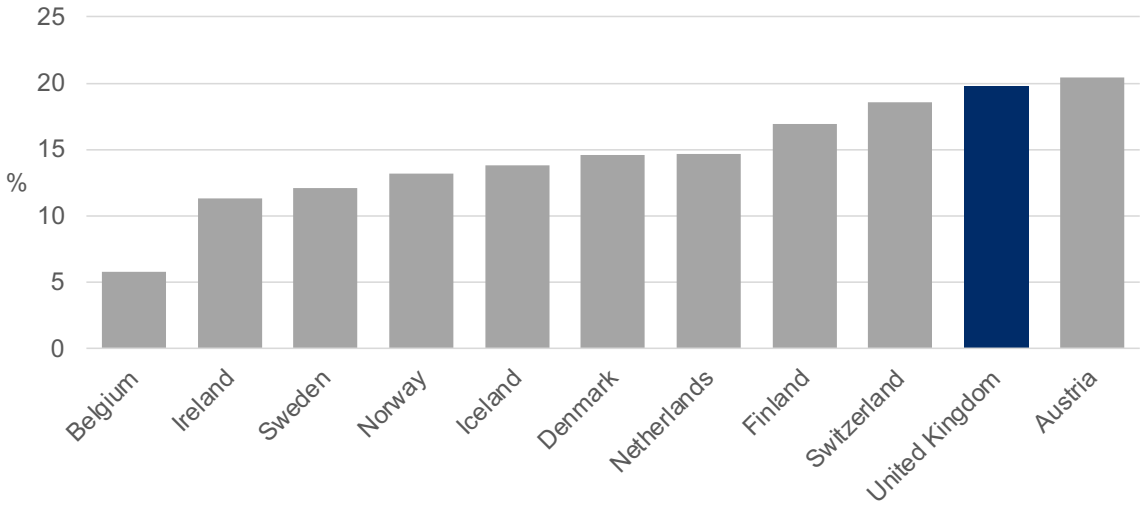


Source: Earnings and wages – Wage levels – OECD Data

85 OECD Indicators of Employment Protection Legislation (latest year 2019) Among OECD nations, only the US has fewer legal employment protections than the UK.
86 For instance, the Employment Acts of 1980 and 1982, and the abolition of the National Economic Development Council in 1992. A pertinent recent example would be the decision to abolish the UK Commission for Employment and Skills (an advisory body on skills and employment policy involving trade unions, employers and government) in 2017.
87 OECD Indicators of Employment Protection Legislation (latest year 2019)
88 OECD (2022) Average wages (indicator). doi: 10.1787/cc3e1387-en (Accessed March 2022)
89 OECD (2022) Wage levels (indicator). doi: 10.1787/0a1c27bc-en (Accessed March 2022). Norway and Switzerland are not included in this dataset. The incidence of low pay refers to the share of workers earning less than two-thirds of median earnings.

- **A lower proportion of income accruing to the top 1%.** A higher proportion accrues to the top 1% in the UK (12.6%) than in all the comparator countries: Netherlands 6.2%, Iceland 7.6%, Belgium 7.8%, Sweden 9.0%, Austria and Norway 9.3%, Finland 10.1%, Switzerland 10.6%, Denmark 10.7% and Ireland 11.3%.[90]
- **A lower gender pay gap.** In 2018 – the most recent year for which Eurostat data for all countries are available – only Austria had a higher gender pay gap than the UK. Belgium had the narrowest gap, at 5.8%, followed by Ireland 11.3%, Sweden 12.1%, Norway 13.2%, Iceland 13.8%, Denmark 14.6%, Netherlands 14.7%, Finland 16.9%, Switzerland 18.6%, UK 19.8% and Austria 20.4%.[91] (See Figure 19.)

Figure 19
Gender pay gap in unadjusted form, 2018



Source: Eurostat – Gender pay gap in unadjusted form statistics (europa.eu)

- **Fewer people in-work and at risk of poverty.** In 2018 – the last year for which data for all countries are available – the proportion of people in work aged 18-64 years at risk of poverty was: Finland 3.1%, Ireland 4.8%, Belgium 5.1%, Denmark and Norway 6.1%, Netherlands 6.1%, Iceland (7.3%), Sweden 7.1%, Switzerland 7.4%, Austria 8.0%, and the UK 10.4%.[92]
- **Fewer employees working very long hours** – defined as the proportion of employees whose usual hours of work per week are 50 hours or more. In 2020, only 0.3% of workers in the Netherlands worked very long hours, followed by Switzerland 0.4%, Sweden 0.9%, Denmark 1.1%, Norway 1.4%, Finland 3.6%, Belgium 4.3%, Ireland 4.7%, Austria 5.3%, and UK 10.8%. Only Iceland (11.7%) has a higher proportion.[93]
- **Significantly higher statutory sick pay.** The UK has the lowest level of mandatory sick pay in the OECD. In most of the comparator countries (Ireland also has relatively low mandatory sick pay), the proportion of an individual's wages that are covered by sickness benefits varies between 70 per cent and 100%.[94]

90 United Nations Development Programme (2020) Human Development Reports – Income share held by richest 1% of population (UNDP). Definition: share of pre-tax national income held by the richest 1% of the population. Pre-tax national income is the sum of all pre-tax national income flows accruing to the owners of the production factors, labour and capital, before taking into account the tax/transfer system and after taking into account the pension system.

91 Eurostat (2022) Gender pay gap in unadjusted form statistics (europa.eu) (accessed March 2022). The indicator measures the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.

92 Eurostat (2022) In-work at risk of poverty rate by age and sex statistics 2018, the latest year for which data for all countries are available

93 OECD Better Life Index 'Employees working very long hours indicator' which measures the proportion of employees whose usual hours of work per week are 50 hours or more.

94 OECD Report (2020) Paid sick leave to protect income health and jobs through the Covid crisis, July 2020, p9, Figure 3. See also OECD (2020) Supporting people and companies to deal with the Covid-19 virus March 2020

Section 2

Different models, better outcomes

This section seeks to highlight some of the factors that help explain the better performance of the comparator countries relative to the UK. A full outline and explanation of the particular characteristics of each country model is not attempted. Each national model is different. Rather, the focus is on the factors which are, to a greater or lesser extent, common to the comparator countries and which distinguish them from the UK.

It is important to note that an independent Scotland would make its own choices, tailored to our own circumstances and the priorities of governments elected from time to time. The key point is that independence would afford us the policy autonomy – which the comparator countries already have – to create an economic model and pursue policies designed to better match the performance of these other countries.

Comparator country models

A) Social security regimes

There are different ways to categorise welfare states but a classic approach[95] identifies three main groups:

- Liberal: characterised by modest means tested benefits targeted at low income recipients and often associated with stigma;
- Conservative: prioritising family-based assistance; and,
- Social democratic: universal systems based on an equality of high standards and not an equality of minimal needs. Costs of caring for the young, ill and old are socialised resulting in high social costs which in turn incentivises full employment (i.e. the durability of the model rests on maintaining a high employment rate to sustain high social spending).

In this typology, the UK and Ireland are liberal regimes with elements of the other two (e.g. the UK health service), the Nordics social democratic and the other comparator countries conservative with, depending on the country, some social democratic or liberal characteristics. Different approaches to the welfare state help explain key differences between models including the extent of public spending and the prominence given to employability systems.

A key aspect of the comparator countries – and an area where the UK is something of an outlier amongst European nations – is the relative generosity of out-of-work benefits. The 'net replacement rate' (defined as the ratio of net household income during a selected month of the period of unemployment to the net household income before the job loss) ranges between low and extremely low across UK household types. As Table 1 confirms, net replacement rates tend to be significantly higher in the reference group nations, especially for single-person households.

95 Esping Anderson, G. The Three Worlds of Welfare Capitalism. Princeton University Press 1990

Table 1
Net replacement rates (%) 2020 (Eurostat)[96]

	Household type (people/previous earnings as % of average wage/months unemployed)					
	Single person/ 100%/2 months	Single/ 67%/2 months	Single/ 67%/13 months	One earner couple, 2 children/ 100%/2 mths	One earner couple with 2 children/ 100%/7 mths	Single adult, 2 children/ 100%/13mths
Belgium	68.2	89.9	64.2	64.9	59.2	61.9
Denmark	56.9	81.9	81.9	63.0	63.0	65.5
N/lands	74.5	71.4	68.4	78.2	74.9	66.8
Austria	55.0	55.0	50.6	59.3	59.3	55.8
Finland	54.4	58.0	58.0	61.7	61.7	67.0
Sweden	48.1	69.4	59.0	52.5	45.9	50.8
Norway	63.3	67.5	67.5	66.5	66.5	73.9
Ireland	27.9	36.8	38.0	54.8	54.8	41.6
Switz/d	71.3	71.6	71.6	81.9	81.9	82.4
Iceland	62.2	74.7	61.2	73.0	56.6	59.3
UK	**15.3**	**21.60**	**21.6**	**44.3**	**44.3**	**38.1**

Source: Eurostat Net Replacement Rate including Unemployment Benefit 2020

UK policy has tended to be designed in the belief that generous benefits will reduce work incentives and that the driving imperative should be to get people into jobs as quickly as possible.[97] However, experience in the comparator nations suggests that higher benefits not only cushion the impact of unemployment on household incomes, but can also help the labour market clear more efficiently. High replacement rates – and higher spend on active labour market policies – allow unemployed workers to take time to find a job that suits them leading to better 'matches' between employer and worker.[98] The stronger safety net also emboldens workers to change jobs more often – a key mechanism by which higher wages are achieved.[99]

96 European Commission (2022) Indicator data- Net Replacement Rate including UB (Accessed 14 March 2022). This source provides data back to 2001 which shows that although there has been some movement – both up and down – in national replacement rates, the differentials between countries are long-standing. The situation described in Table 1 is not an artefact of temporary support measures introduced in response to the Covid-19 pandemic.

97 See for instance the current UK Government's 'Way to Work' initiative (January 2022) and this response – Wilson T (2022) Way to Work – A first step, but we can and must do better (Institute for Employment Studies) – which discusses the problems with a 'jobs-first' approach.

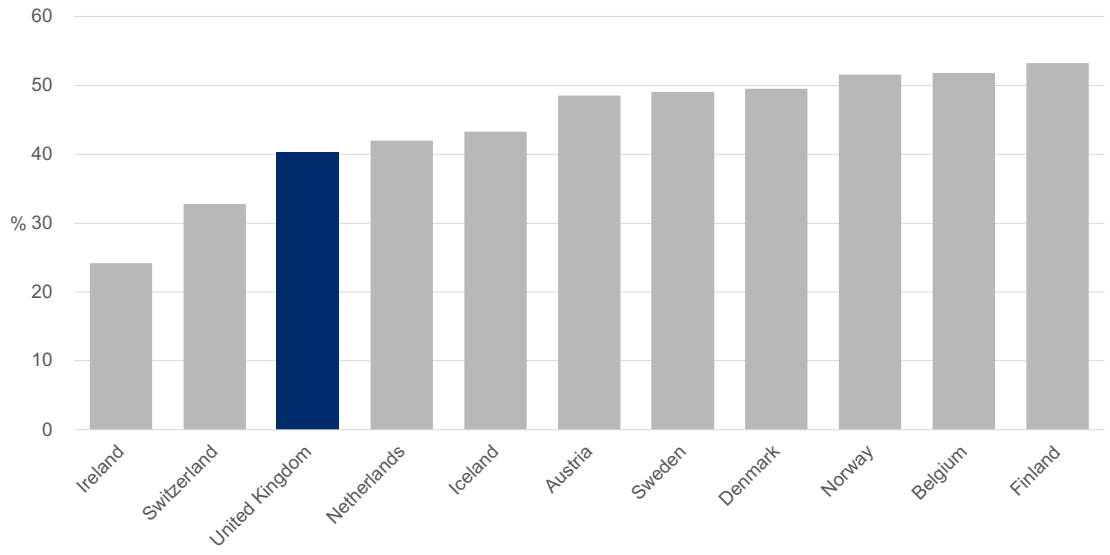
98 There is evidence that high replacement rates coupled with well-funded and effective labour market policies are particularly successful in creating better job matches in Denmark and Sweden. See, for instance, Bjorsted E, Bova E and Dahl S. Lessons from the Nordics: How to Fight Long-term Unemployment, Review of European Economic Policy, Vol 51, No 3, 2016, pp. 172-178

99 The slowdown in US wage growth post financial crisis has been attributed to a decrease in job-to-job moves, see Danninger, S (2016) What's Up With U.S. Wage Growth and Job Mobility? (IMF Working Paper). For a broad discussion on job mobility and wages, see Cominetti N et al. (2022) Changing Jobs? Change in the UK labour market and the role of worker mobility (Resolution Foundation).

Box 2
Tax and public spending

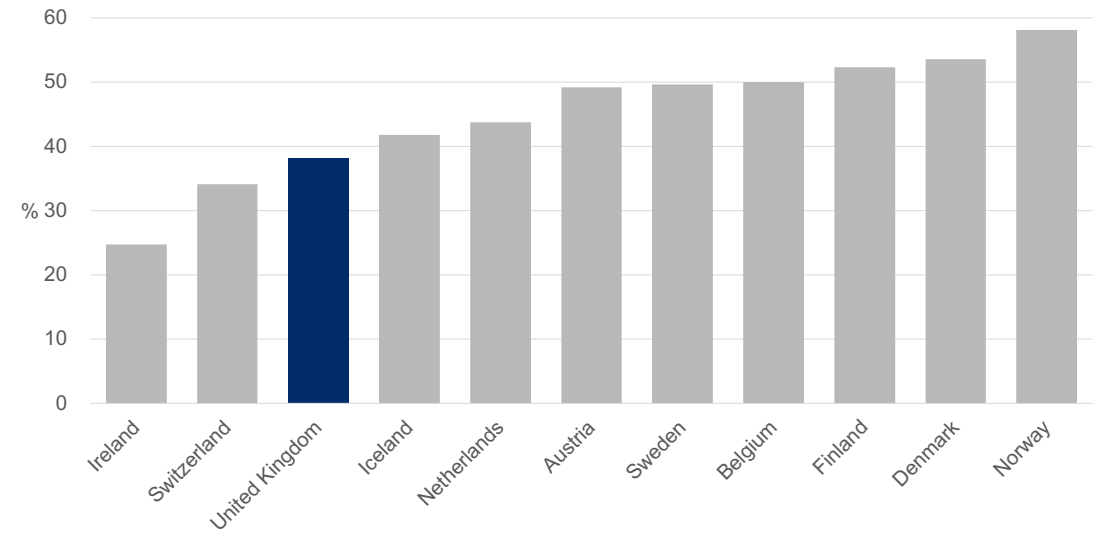
Public spending as a proportion of GDP and the taxation required to fund that spending are higher in all the comparator countries except Ireland and Switzerland.[100, 101] (See Figure 20 and Figure 21.)

Figure 20
General government spending as % of GDP, 2020 or latest available



Source: OECD data on General government spending

Figure 21
General government revenue as % of GDP, 2020 or latest available



Source: OECD data on General government revenue

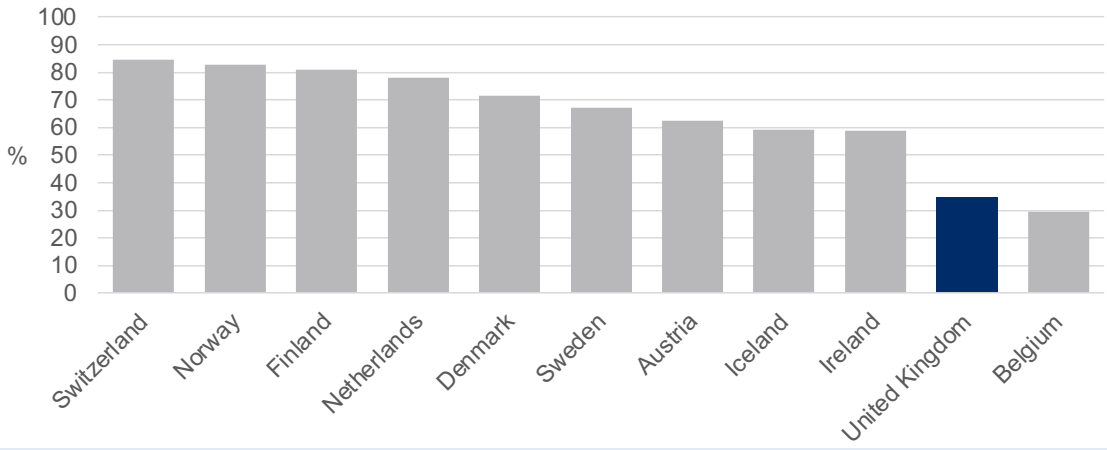
100 OECD (2022) General government spending (indicator). doi: 10.1787/a31cbf4d-en (Accessed March 2022)
101 OECD (2022) General government revenue (indicator). doi: 10.1787/b68b04ae-en (Accessed March 2022)

The experience of the comparator nations demonstrates the range of choices provided by independence. Ireland and Switzerland, where tax and spending are relatively low, have chosen developmental paths quite distinct from the higher spending, higher tax Nordic nations. The structure of taxation across countries also varies significantly.

Why are most of the comparator countries able to sustain relatively high spending over the long-term? Evidence suggests that higher confidence in government is correlated with higher levels of willingness to comply with taxes[102] and, with the exception of Belgium, all the comparator countries are more successful in this respect:

- **Trust in government** – percentage share of the population responding "yes" to the question "In this country do you have trust in national government?" – Switzerland 84.6%, Norway 82.9%, Finland 80.9%, Netherlands 78.1%, Denmark 71.6%, Sweden 67.1%, Austria 62.6%, Iceland 59.2%, Ireland 58.8%, UK 34.7% and Belgium 29.5%.[103] (See Figure 22.)

Figure 22
Trust in government, 2020



Source: OECD Trust in Government data

Since 1999, the Scottish Social Attitudes survey has found that, by a margin of 30 percentage points or more, adults in Scotland have been significantly more likely to say that they trust the Scottish Government to act in Scotland's best interests 'most of the time' or 'just about always', than to say that they trust the UK Government to do so.[104]

In a recent article for the Economics Observatory, the leading economist, Tim Besley, (also drawing on the Scottish Social Attitudes Survey data) noted that people in Scotland already have significantly more trust in Holyrood than UK citizens do in Westminster. He also notes that relatively high government revenues are not – as is often claimed – a barrier to growth and economic dynamism:

102 Besley, T. State Capacity, Reciprocity and the Social Contract, Econometrica, Vol 88, Issue 4, July 2020, pp1307-1335
103 OECD (2022) Trust in government (indicator). doi: 10.1787/1de9675e-en (Accessed March 2022)
104 Reid, S, Montagu I, and Scholes A (2019) Scottish Social Attitudes Survey 2019: attitudes to government and political engagement (Scottish Government). Data are available for all years between 1999-2019, apart from 2008, 2014 and 2018. Data from the most recent Scottish Social Attitudes survey are due to be published in autumn 2022.

> "Far from impeding prosperity, it is high-growth countries that tend to have a larger share of tax revenues in GDP. This is partly because governments with high fiscal capacity have strong incentives to invest in prosperity to maintain and build the tax base; and hence they tend to strengthen other branches of the state that support economic development. For example, investing in the health and education of citizens or regulating an economy in a way that supports growth will pay dividends in the form of higher tax revenue."[105]

Under independence, Scotland will have full control of fiscal powers and the ability to make its own choices on tax and spending. Of course, retaining the confidence of international financial markets requires all countries to be mindful of the impact of their policy choices on fiscal credibility. But Scotland will be able to chart a course on tax and public spending which, like the best performing comparator nations, can over the long-term help to balance social solidarity with economic dynamism.

B) Labour market policies

Denmark's 'flexicurity'[106] labour market has often been held up as a model for Scotland and others to seek to replicate.[107] A key feature of the flexicurity model is Denmark's very high spend on Labour Market Policies (LMPs). Denmark routinely spends more – often significantly more – on LMPs than any other advanced nation both in total[108] and on key LMPs such as 'training' and 'sheltered and supported employment and rehabilitation'.[109] Although Denmark is something of a positive outlier, all the other comparator nations spend significantly more than the UK where spend is exceptionally low.

The UK stopped participating in Eurostat and OECD surveys of LMP spend in 2011 and therefore up to date comparisons are impossible but in 2011 the UK was spending 0.5% of GDP on LMPs while, despite having a lower rate of unemployment, Denmark was spending 3.6%.[110] Denmark, Austria and Finland continue to spend significantly more on training than other OECD nations and Denmark is an outlier in terms of its spend on 'sheltered and supported employment and rehabilitation'.[111]

In these highly internationalised economies, it is accepted that some firms will fail to maintain competitiveness. However, public support for internationalisation is maintained in large part because of the strong support to displaced workers provided through relatively high benefits and access to quality retraining opportunities.[112]

Some LMP services are already the responsibility of the Scottish Government but it would be immensely challenging to fund a Danish-style LMP regime (costing between 3 and 4 % of GDP) under the limited fiscal powers of devolution.

105 Besley T and Dann C (2022) How might an independent Scotland build fiscal capacity? (Economics Observatory)
106 For background, see European Commission – What is flexicurity?
107 For example, the Sustainable Growth Commission (2018) Scotland – The New Case For Optimism: A strategy for inter-generational economic renaissance
108 Brewer M et al. (2022) Social Insecurity: Assessing trends in social security to prepare for the decade of change ahead (Resolution Foundation) p74, Figure 27
109 OECD (2022) Public spending on labour markets (indicator). doi: 10.1787/911b8753-en (Accessed March 2022)(latest data 2019)
110 OECD (2022) Public spending on labour markets (indicator). doi: 10.1787/911b8753-en (Accessed March 2022) 'Total Spend' indicator, latest data 2019
111 OECD (2022) Public spending on labour markets (indicator). doi: 10.1787/911b8753-en (Accessed March 2022) 'Sheltered and supported employment and rehabilitation' indicator, latest data 2019
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Box 3
Sweden's Job Security Councils

The immediate and severe labour market impact of the COVID-19 pandemic provoked interest in the various institutions and mechanisms deployed in other countries to address employment insecurity and assist workers' transition into new jobs. Sweden's Job Security Councils (JSCs)[113] were highlighted by some but proposals for how similar bodies might be established in Scotland (or the UK) were often based on the erroneous assumption that JSCs are operated and funded by government. In fact, JSCs are an initiative of the social partners (trade unions and employers/employer federations) and function entirely independently of government. Therefore, considering the background to JSCs can help to illuminate some key differences between the approaches of the UK and comparator countries to labour market challenges and, more broadly, industrial transition.

What are Job Security Councils?
JSCs are non-profit foundations based on collective agreements between social partners. They provide support to employees who have lost – or are at risk of losing – their jobs due to collective redundancies (not dismissal on personal grounds). The JSC helps employees in their efforts to find new employment by providing advice and support on job search and application, training and business start-up support. JSCs:

- are funded through social partner contributions – there is no direct state funding. The premiums paid by participating companies vary between sectors and occupational groups. About 0.3% of the wage bill is paid by each affiliated company.
- are managed by a board of representatives from the different partners involved in the collective bargaining agreement, with the seats split equally between employer and worker representatives. The board decides on the scope and content of the support granted.
- cover most sectors, industries, occupational groups and types of companies.
- can provide support for extended periods of time – in some agreements, the support activities last for a maximum of five years, or until the employee has found a new job or chosen to discontinue their relationship with the council. However, support usually is provided for a period of six to eight months.

JSCs attract interest due to their success: as of 2019, 9 out of 10 active job-seeking clients found new jobs, entered education or training or became self-employed within seven months of their initial contact with the JSC. Around 7% of clients start own businesses and – crucially – 68% achieve an equal or higher salary earned in the job they were forced to leave.[114]

What can Scotland learn from Job Security Councils and other social partner-led initiatives?
In the UK, similar services are almost exclusively funded, and often provided, by the public sector. In Sweden – and other comparator nations – social partners are heavily involved in the design, delivery and funding of services which help to achieve excellent labour market outcomes. More generally, better resourced social partners, with high membership levels and relationships developed through sectoral collective bargaining, are well placed to contribute significantly to consensus-driven approaches to economic development and industrial transition.

113 Background on JSCs can be found at European Monitoring Centre on Change (2021) Job Security Councils (Eurofound); Trade Union Advisory Committee (2018) The Swedish Job Security Council – a case study on social partners' led transitions (TUAC); Nance, M and Daly, J (2018) The Nordic Model and Structural Change: Lessons from the Collapse of Saab Automobile AB (Intereconomics)
114 European Monitoring Centre on Change (2021) Job Security Councils (Eurofound)

C) Excellent business locations

The policy debate in the UK has often assumed a trade-off between the strength of social protections and the dynamism of the business environment – however the experience of the comparator nations confirms that this trade-off, if it exists at all, is a complex one. Indeed, recent research finds that a strong social safety net encourages the risk-taking that must be a necessary component of any successful innovation system.[115]

Data presented in earlier sections confirms that the comparator nations are productive, innovative and successful in international markets. Ireland, Denmark, Finland, the Netherlands, Sweden and Switzerland all have more tech start-ups per capita than the UK.[116]

Businesses in these nations are not heavily regulated or over-taxed.[117] OECD indicators of product and labour market regulation confirm that the UK is relatively deregulated but also that most of the comparator nations have levels of regulation below the OECD average.[118]

However, the comparator countries also benefit from a range of institutions that allow the economy to derive the benefits of a light regulatory regime whilst avoiding the potential downsides of, for example, low wage, insecure work.

D) Social partnership

Although different countries operate different models involving both formal and informal consultative mechanisms, all the comparator countries have (or in Ireland's case, has recently operated) highly developed forms of social partnership which has been defined as 'institutionalised co-operation between business and labour, sometimes overseen by governments'.[119] Social partnership refers primarily to a cooperative relationship between the central confederations of business and labour and to their joint involvement with government in the task of economic and social management. Social partnership is a major factor explaining the ability of the comparator nations to manage industrial change and pursue consensus-driven economic development.[120]

Social partnership reflects the fact that economic interests (employers and workers) are highly organised relative to the UK; both trade unions[121] and employer organisations[122] have much higher membership than their British counterparts and collective bargaining coverage is significantly broader.

115 Koo J, Choi Y and Park I (2019) Innovation and Welfare: the marriage of an unlikely couple (Policy and Society). Other recent research highlights the positive impact of greater equality on productivity (for instance, Hseih, C-T et al. (2019) *The Allocation of Talent and US Economic Growth* (Econometrica) and the negative impact of persistent inequality on innovation – for instance, Bell, A et al. Who Becomes an Inventor in America? The Importance of Exposure to Innovation, Quarterly Journal of Economics, Vol 134, Issue 2 May 2019, pp647-713.

116 State of European Tech 2020

117 The combined national and sub-national tax rate on profits for the majority of comparator nations ranges between 20-25%. Ireland is an outlier at 12.5% and the UK rate is currently 19%. OECD Statutory Corporate Income Tax Rate data (combined central and sub-national government rates) 2021.

118 OECD Indicators of Employment Protection Legislation and Indicators of Product Market Regulation

119 Coulter, S (2018) Social Partnership in the Europe in the face of the future (LSE)

120 The Sustainable Growth Commission emphasised the importance of consensus-driven approaches to economic development as a key characteristic of successful, smaller nations.

121 The Nordics have the highest rates of trade union density in the OECD. Although the Netherlands and Switzerland have lower rates of trade union membership than the UK, more workers in these nations benefit from being part of a collective agreement. See OECD Trade Union Dataset

122 Cazes S, Garnero A and Martin S (2017) The state of trade unions, employer organisations, and collective bargaining in OECD countries (VoxEU)

Box 4
Danish Disruption Council

The Danish Disruption Council (DDC) provides a positive recent example of the consensus-driven approach to economic development that is a distinguishing characteristic of the comparator countries. In establishing the DDC, the Danish Government asserted that:

> "We must carry on with the unique Danish tradition where **solutions to major societal challenges are found in close cooperation between elected representatives, social partners, companies, civil society, experts and citizens**. The Danish Disruption Council and the three most recent tripartite agreements on more apprenticeships, strengthened adult and continuing training, and integration of refugees to the labour market are good examples of that. The tripartite negotiations are based on a tradition that goes back more than a century, where the **Government and the social partners have continually come together to take joint responsibility for balanced, responsible solutions to labour market challenges.**"[123]

The DDC's purpose[124] was to analyse, discuss and offer suggestions for:

- "The creation of a strong Denmark where we can optimally seize technological opportunities in a way that benefits all Danes."
- "Maintain and expand a labour market characterised by dynamism, well-regulated conditions and an absence of social dumping."

The DDC was chaired by the Prime Minister and comprised 8 Ministers and 32 permanent members including social partners (6 trade union representatives), business representatives and experts.[125] The Council met 8 times over 18 months between 2017 and 2018. It identified 15 objectives under 4 themes: a prosperous welfare state with only small social divisions; future education in a digital world; competitive companies that are digital frontrunners; a robust, safe and flexible labour market. Therefore, Denmark's approach benefitted from the knowledge and legitimacy conferred by close cooperation of all economic interests. Denmark currently tops the EU Commission's Digital Economy and Society Index.[126]

E) Business enterprise – ownership and governance

The ownership and governance of businesses across the comparator countries differ quite significantly from the UK: workers tend to be more involved in corporate governance and there is a higher prevalence of cooperative and mutual ownership.

Codetermination

Corporate governance in the UK is much more weighted towards the interests of shareholders and this contrasts with Europe where 'codetermination' (or 'works councils') – the practice whereby workers of an enterprise have the right to vote for representatives to the board of directors (on the first or second tier boards) – is generally the norm.[127] A variety of arrangements exist in the reference nations but only Belgium has no codetermination, although Ireland's codetermination rights are limited to state-owned commercial enterprises and Switzerland's works councils have no statutory basis. In Sweden, workers can elect 2 or 3 representatives to the (1-tier) board and in Norway one-third of the board is elected by workers. In Denmark, there is one-third board-level representation rights in firms with 35 or more employees.[128]

123 Danish Government (2019) Follow-up on the Danish Disruption Council, p6
124 Thorman K (2018) The Disruption Council: a partnership for the future of Denmark (Danish Ministry of Employment), slide 6
125 Danish Government (2019) Follow-up on the Danish Disruption Council, p11
126 European Commission Digital Economy and Society Index 2021
127 For definition of and legal background to codetermination see Eurofound (2020) Co-determination
128 For a summary of national arrangements and legal status see: Conchon A (2015) Workers voice in corporate governance: a European perspective (Trades Union Congress)

Benefits of codetermination can include higher productivity (albeit the effects are often small),[129] the embedding of a more long-term outlook relative to firms driven by shareholder value imperatives,[130] higher capital formation[131] and enhanced resilience[132] (for instance, recovering more quickly from the global financial crisis). Income inequality tends to be lower in countries with far-reaching codetermination rights.[133]

Cooperatives, mutuals and foundations

The comparator nations all have high levels of cooperative ownership relative to the UK. The World Cooperative Monitor 2021 assesses the UK as having only 5 of the top 300 Cooperatives in the world as measured by turnover. Despite all having significantly smaller populations, Belgium and Austria have 4 each, Norway and Sweden 7 each, Denmark 9, Finland 10 and the Netherlands 17. France and Germany have 35 and 31 respectively.[134]

Cooperatives also account for substantial market shares in industries:[135]

- Agriculture – 83% in the Netherlands, 79% in Finland
- Forestry – 60% in Sweden and 31% in Finland
- Banking – 35% in Finland, 31% in Austria
- Retail – 36% in Finland and 20% in Sweden
- Pharmaceutical and health care – 18% in Belgium

A range of studies associate employee ownership with better productivity, pay, job stability, the creation and anchoring of jobs in local communities and firm survival.[136]

Box 5
Danish Industrial Foundations

Industrial foundations[137] can be found all over the world and include Tata Group (India), Hershey (US), Bosch (Germany) and The Guardian (UK). However, foundations are particularly prevalent in northern Europe, especially in Denmark which has some 1300 foundations accounting for around 70% of the total market capitalisation of the Copenhagen Stock Exchange. Foundations own three of the four largest Danish companies: AP Moller-Maersk, Novo Nordisk and Carlsberg.

Foundation ownership is a unique governance structure arising when a controlling stake in a company is donated to a foundation. The specific approach of each foundation depends on the charter describing their purpose and governance. Foundation ownership is long-term by design. Industrial foundations hold on to their companies as long as they can – in principle forever. This long-termism is in stark contrast to the rapid buying and selling of shares on modern stock exchanges.

129 Jaeger, S, Noy, S and Schoefer, B (2021) What Does Codetermination Do? (Harvard Law School)
130 Holmberg S. (2017) Fighting Short Termism with Worker Power (Roosevelt Institute)
131 Jaeger, S, Schoefer, B and Heining, J (2020) Labour in the Boardroom (The Quarterly Journal of Economics)
132 Hayden, G and Bodie M (2021) Codetermination in Theory and Practice (Saint Louis University School of Law)
133 Institute for Codetermination and Corporate Governance (2019) Why Codetermination?
134 Euricse Research Team (2021) World Cooperative Monitor 2021 (International Cooperative Alliance)
135 European Commission (n.d.) Cooperatives
136 Kruse, D (2016) Does employee ownership improve firm performance? (IZA World of Labor); Perotin V (2020) What do we really know about worker co-operatives? (Co-operatives UK); Logue, J and Yates, J (2006) Cooperatives, Worker-Owned Enterprises, Productivity and the International Labor Organization (Economic and Industrial Democracy)
137 Thomsen, J (2017) 'The Danish Industrial Foundations' (DJOF Publishing); Hansmann, H and Thomsen, J (2021) The Governance of Foundation-Owned Firms (Journal of Legal Analysis)

Defined as a foundation which owns one or more business companies, in legal terms industrial foundations are characterised by the following:

- Creation by donation (i.e. an irrevocable separation from the founder)
- Independence (a separate legal personality for the foundation)
- A non-selfish purpose (which goes beyond benefitting the founder)
- A foundation endowment (shares in a company plus, in most cases, a pool of liquid financial assets)
- A foundation organisation (i.e. a board of directors or trustees)
- A foundation charter (the constitution set up by the founder including goals and governance rules)
- Majority control (voting majority) of a business company
- Outside supervision (to ensure that the charter and the law are upheld, for example a regulator to whom the foundation is obliged to submit its annual reports)

Overall foundation-owned firms perform well in comparison with other firms:

- Larger foundation-owned firms have higher accounting profitability than the average Danish firm, although, some studies have found that industrial foundation-owned firms overall sometimes have lower profitability. However, the differences are not large and the same studies find that foundation owned firms take on less risk, have lower leverage and less volatile returns. Thus, risk adjusted returns may not be that different.
- Large foundation-owned firms have outstanding reputations which reflecting their commitment to social responsibility and long-termism.
- Foundation-owned firms achieve higher returns on their foreign direct investment and the high performing foundation-owned firms are more likely to be active in R&D.
- On the negative side, foundation-owned firms do tend to grow more slowly. One reason may be that they are more likely to be capital constrained i.e. less likely to borrow or issue new equity because they want to maintain control and ensure the survival of the company.

Foundations are simply another reflection of the different approaches to ownership and governance across comparator nations, approaches that contribute to better national outcomes. The Scottish Government recently established the Business Purpose Commission to advise on what might be achieved within devolved powers to further embed the purpose driven approaches which contribute to higher productivity and innovation as well as better social outcomes. Independence would significantly extend the scope for further approaches to shift Scotland away from the UK's prevailing short-termist business culture.

Observations on the UK model

The UK has long pursued a different economic path to that of most countries in northern and western Europe,[138] and the policy choices it has made have resulted in different – often radically different – outcomes.

Without the powers of independence, it is difficult – if not impossible – for Scotland to take a different path.

Drawing on a range of research and analyses, it is possible to list a set (in no particular order and not exhaustive) of characteristics that help define the UK model and explain its enduring structural problems.

Short-termism/Corporate Governance

The UK has a very distinct approach to ownership and corporate governance, one that differs markedly from the other nations considered in this paper. It is much more open to foreign buyouts, low prevalence of public ownership and a particularly active market for corporate control. The UK has more fragmented shareholding (fewer 'blockholders')[139] and a low prevalence of large family-owned firms.[140]

The Bank of England's former Chief Economist Andy Haldane has argued that "there is both direct and indirect evidence of investment having been adversely affected by short-termism on the part of either investors or managers or both"[141]. His conclusion is supported by the review of UK equity markets undertaken in 2012 by John Kay,[142] ex-member of the First Minister's Council of Economic Advisers, the work of the Purposeful Company Taskforce, Bank of England survey evidence[143] ("80% of all the publicly owned firms agreed that financial market pressure for short-term returns to shareholders had been an obstacle to investment" 2017) and numerous analyses linking poor corporate governance to fragmented shareholding,[144] weak employee engagement, low prevalence of family firms and a relatively high prevalence of hostile takeovers. The adverse outcomes include pay inequality and weak investment.[145]

138 Comparative political economy has tended to categorise the UK as a 'liberal market economy' (LME) along with the US, Australia, Canada and Ireland. The distinguishing characteristics of an LME are usually defined as uncoordinated and adversarial industrial relations; weak systems of vocational skills development; competitive and arms-length inter-firm relations; systems of corporate governance that exclude non-shareholder interests; and a reliance on short-term rather than patient capital. In comparison, 'co-ordinated market economies' (CMEs) such as Germany, Sweden and Austria tend to have more co-ordinated industrial relations; more developed systems of skill specific vocational education; more access to patient capital and more collaborative inter-firm relations. See, for instance, Hall, A and Soskice, D (2001) Varieties of Capitalism (Oxford Scholarship Online).

139 The Purposeful Company (2017) The Purposeful Company – Policy Report (Big Innovation Centre), p64

140 "The one country that stands out in this regard is the UK. It has far fewer family owners than most countries around the world, and even those that are family controlled display a high level of attrition through takeovers, financial failure or transitioning into some other form of ownership" Mayer, C. 'Prosperity' (Oxford University Press, 2019), page 90.

141 Haldane, A. Who Owns A Company? (Bank of England speech, May 2015)

142 Kay J (2012) Kay Review of UK Equity Markets and Long-Term Decision Making (UK Department for Business, Innovation and Skills)

143 Cunliffe, J. Are Firms Under-investing – and if so why? (Bank of England Speech, February 2017)

144 See for instance Professor Colin Mayer's recent books, 'Firm Commitment: Why the corporation is failing us and how to restore trust in it' (Oxford University Press, 2013) and 'Prosperity: Better Business Makes the Greater Good' (Oxford University Press, 2018).

145 See for instance Andrew Smithers' book 'The Road to Recovery: How and Why Economic Policy Must Change' (Wylie, 2013) and related 2015 Financial Times article Executive pay holds the key to the productivity puzzle.

Industrial policy

The UK's relatively low productivity has long been a concern of policymakers but a wide range of policy initiatives, including the deregulation and tax cuts of the 1980s and, more recently, a series of industrial strategies, have failed to close the gap with the best performing nations. The UK's approach to industrial policy has suffered from a lack of commitment, weak institutions and multiple coordination failures.

In a recent paper, Diane Coyle and Adam Muhtar argued that: "the UK's industrial policy since the 1970s has been characterised by frequent policy reversals and announcements, driven by political cycles, while multiple uncoordinated public bodies, departments and levels of government are responsible for delivery...A consequence of the policy inconsistency and poor coordination identified here is that UK industrial policy lacks adequate information feedback channels from outcomes to the policy process; there is a failure to learn or to build on successes".[146]

Deregulation

The UK's labour and product markets are among the most deregulated in the advanced world.[147] It has been argued[148] that the low regulation environment encourages firms to adopt 'low road' approaches to competitiveness through cost minimisation and work intensification rather than 'high road' approaches based on patient investment and greater focus on skills formation/ utilisation.

The UK Internal Market Act 2020 has already opened the door to the possibility of forced deregulation across the UK nations, where market access principles risk driving down standards and threaten devolved policy choices to maintain alignment with high EU standards on social, environmental and public health issues.[149] Further deregulation relative to current EU standards is now an explicit goal of the UK Government.[150]

Labour market inequality

One consequence of deregulation, relatively low trade union density, inadequate industrial policy and a low rate of capital investment is a labour market more polarised in terms of wage distribution than other advanced nations: the UK has a relatively high proportion of both low wage workers and very high earners (and therefore high income inequality).[151] Recent research for the Institute for Fiscal Studies argues that "the balance of bargaining power between employers and workers must be an essential part of a credible explanation for observed differences in the structure and change of national earnings distributions".[152] Again, the current balance of bargaining power in the UK reflects deliberate policy choices.

146 Coyle, D and *Muhtar, A* (2021) UK's Industrial Policy: Learning from the past? (Bennett Institute for Public Policy, University of Cambridge)

147 OECD Indicators of Employment Protection Legislation, 2019 and Product Market Regulation 2018 (both latest available data) (Accessed March 2022)

148 Michie, J and Sheehan, M (2003) Labour Market Deregulation, 'Flexibility' and Innovation (Cambridge Journal of Economics); Pannini, E) (2018) The Hidden Damages of Labour Market Deregulation and the Underrated Merits of Trade Unions (PhD Thesis, London School of Economics and Political Science)

149 Scottish Government (2021) After Brexit: The UK Internal Market Act and devolution (Scottish Government)

150 Rees-Mogg, J. 'I want Sun readers to write to me and tell me of any petty old EU regulation that should be abolished', The Sun, 10 February 2022

151 See references in labour market section, above.

152 Howell, D and Kalleberg, AL (2022) Labour market inequality: a comparative political economy perspective (IFS Deaton Review of Inequalities)

'De-institutionalisation'

The UK also has few of the deliberative and co-ordinating institutions common in Europe's co-ordinated market economies (e.g. national Economic and Social Councils, sectoral collective bargaining, works councils).[153] The UK's few remaining institutions of social partnership have in recent years been abolished (e.g. the UK Commission for Employment and Skills) or weakened (e.g. the role of the Low Pay Commission has diminished as government has started playing a direct role in setting the national minimum wage). As noted above, the lack of such institutions is particularly damaging in designing and implementing effective industrial policy.

Summary

The various components of the UK model discussed above combine in ways that help distinguish the UK from the comparator countries and explain its weak performance across the range of indicators discussed in this paper. For example, a number of commentators have attributed relatively weak productivity and relatively high income inequality to the short-termism resulting from the UK's distinct approach to ownership and governance, the failure to develop effective institutions and lack of commitment to industrial strategy.[154]

It is also important to note that the UK's distinguishing characteristics are to a large extent the results of a deliberate set of policies pursued since the 1980s. As one commentator has put it "the growth of finance, a flexible labour market, and a smaller state imprint on the economy than most western European countries were all components of the decision to chart a course towards a mid-Atlantic position".[155]

153 A recent report for Policy Exchange argued that "The British Economy in the course of the 1980s and 1990s was both de-industrialised and de-institutionalised; the legacy of both lies heavily on the contemporary British economy. The absence of these mediations between individuals, markets and the state are now holding the economy back" Bickerton C (Brexit and the British Growth Model: Towards a new social settlement page 38-39 (2018).

154 These components of the UK model are discussed in the previous section. For additional analysis and commentary linking them to low productivity and high inequality, see for instance: Mayer, C (2022) Inequality, firms, ownership and governance (IFS Deaton Review of Inequalities); Smithers, A (2019) Productivity and the Bonus Culture (Oxford University Press); Hutton W. 'How Good We Can Be' London: Little, Brown, 2015; De Loecker J, Obermeier T and Reenen J (2022) Firms and Inequality (IFS Deaton Review of Inequalities)

155 Sandbu, M. Brexit and the Future of UK Capitalism, Political Quarterly, Vol 90, Issue S2, pp187-199

Box 6
Ireland in the EU

Ireland's rapid growth in the 1990s and 2000s was due to the conflation of a number of factors: membership of the EU; creation of the single market; a large pool of English-speaking, underemployed but well-educated labour; a time zone convenient for US multinationals; the absorption of large amounts of EU structural funds used to boost skills and infrastructure; and, social partnership agreements that moderated wage demands and helped create macroeconomic stability.

It is instructive to compare Ireland's economic performance post-EU accession with that of Scotland, Northern Ireland and Wales who, over this period, remained too reliant on the relatively poorly performing UK economy:

> "...not only that the European Union was fundamental in transforming the Irish economy, but that Irish independence was essential in exploiting the opportunities which the European Union afforded...[Ireland] would never have done anywhere near as well as we in fact did, had we remained a mere region of the UK. Policy flexibility at a time of rapid change was essential, and that is what independence gave us".[156]

It is instructive to consider Ireland's recovery from the serious fiscal challenges it experienced 2008-2013. This was driven not by the structural reforms proposed by its creditors but by the effectiveness of its inward investment strategy, especially its ability to target and attract parts of important global supply chains in technology, pharmaceuticals and finance. Ireland had the flexibility and capability to respond rapidly in response to crisis.

Ireland also highlights the importance of **immigration policy**. The growth in Ireland's IT services sector would not have been possible without access to large numbers of skilled migrants. Higher levels of immigration would have a number of economic benefits for Scotland but would be particularly important for internationalisation: for instance, employing a recent immigrant increases the propensity of a firm to export to that person's home market. Ireland has also reversed the pattern of emigration that was prevalent until the 1990s.

156 O'Rourke, KH (2017) Independent Ireland in Comparative Perspective, Irish Economic and Social History, Vol 44, No 1, pp 19-45

Conclusions

An independent Scotland could not be transformed to match the success of the comparator countries overnight. The comparator country models discussed here – especially the Nordics – have benefitted from virtuous cycles created through persistently high investment in their people over time. But the examples in this paper illustrate the range of choices that would be available to an independent Scotland able to pursue different policies from those adopted by Westminster over many years.

No two national models are the same. A key lesson from the experiences of the countries considered above is that models evolve to reflect national circumstances, specific challenges, cultures, traditions and institutional legacies. For instance, the Nordic nations have made different choices to those of Ireland or Switzerland, reflecting different policy choices over time. Scotland's national development model would be informed, not dictated, by experience elsewhere.

But, as the analysis set out in preceding sections confirms, countries of a similar size are achieving better outcomes than Scotland is able to achieve with key economic and social powers reserved to the Westminster Parliament. These countries provide working examples of the possibilities and options available to an independent Scotland. Through the careful application to Scotland's specific circumstances, and drawing upon lessons from the economic development paths chosen by other nations, significant progress can be made across the range of economic and social priorities covered in this paper.

The evidence also suggests that the full powers of independence are necessary to build a successful model in which deep social solidarity and economic dynamism become mutually reinforcing, reflecting Scotland's needs and preferences. It would be extremely challenging to start investing in, for example, labour market policy at Danish or Swedish levels under the limited powers of devolution. Full powers over tax and spending – and the levers that allow us to increase revenues from stronger economic performance – would open up significant new choices and opportunities for an independent Scotland.

There will of course be a range of views about precisely how and whether progress in Scotland with those full powers can be achieved. Independence by itself will not guarantee improved performance: that will be determined by the quality of decision-making. The **Building a New Scotland** series will set out the Scottish Government's proposals, but we welcome contributions from across Scotland and look forward to a national debate about how as an independent country we can create a wealthier, happier and fairer Scotland.

Scottish Government
June 2022

Acronyms and definitions

BERD	Business Enterprise Research and Development
DDC	Danish Disruption Council
EEC	European Economic Community
ESF	EU Structural Funds
ESRI	Economic and Social Research Institute (Ireland)
EU	European Union
Eurostat	The statistical office of the European Union
FDI	Foreign Direct Investment
GDP	Gross domestic product (OECD definition of GDP)
GFCF	Gross Fixed Capital Formation
Gini coefficient	A measure of inequality in the distribution of household income. The Gini coefficient is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 (or 0%) in the case of perfect equality and 1 (or 100%) in the case of perfect inequality (OECD definition of Gini coefficient)
HDI	United Nations Human Development Index
ICT	Information and communications technology
IMA	UK Internal Market Act 2020
IMF	International Monetary Fund
IT	Information Technology
JSC	Job Security Council
LMP	Labour market policy
MSP	Member of the Scottish Parliament
NSET	National Strategy for Economic Transformation (Scottish Government publication)
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PPPs	Purchasing Power Parities (OECD definition of PPPs)
R&D	Research and development
SDI	Scottish Development International
SPF	Shared Prosperity Fund
Social Mobility	'Social mobility can be understood as the movement in personal circumstances either "upwards" or "downwards" of an individual in relation to their parents. In absolute terms, it is the ability of a child to experience a better life than their parents' (World Economic Forum definition of social mobility)
SGC	Sustainable Growth Commission
UB	Unemployment Benefit
UK	United Kingdom
USD	United States Dollars
WEGo	Wellbeing Economy Governments

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