

Minute of the Fourth Meeting of the Council of Economic Advisers

18th & 19th August 2016 (St Andrews House)

The following Council Members were present:

First Minister Nicola Sturgeon MSP (18th only)
Crawford Beveridge (Chair)
Professor Sir Harry Burns
Professor Mariana Mazzucato (18th only)
Jim McColl
Amanda McMillan
Professor Sir James Mirrlees
Professor Anton Muscatelli
Professor Frances Ruane

Also present:

Cabinet Secretary for Economy, Jobs and Fair Work
Cabinet Secretary for Finance and the Constitution (18th only)
Leslie Evans, Permanent Secretary, Scottish Government
Liz Ditchburn, DG Economy, Scottish Government
Sarah Davidson, DG Communities, Scottish Government (18th only)
Dr Gary Gillespie, Chief Economist, Scottish Government
Uzma Khan, Senior Economist, Office of the Chief Economic Adviser, Scottish Government
Gary McIntyre, Assistant Economist, Office of the Chief Economic Adviser, Scottish Government

Purpose

This note provides an overview of the key points arising during the fourth meeting of the refreshed Council of Economic Advisers. The meeting took place over the mornings of 18th and 19th August 2016.

18 August 2016

Welcome

The First Minister and the Chair of the Council of Economic Advisers welcomed attendees and outlined the programme for the meeting.

Apologies had been received from Professors Sara Carter and Joseph Stiglitz, who were unable to attend the meeting owing to conflicting engagements. Professor Mariana Mazzucato joined the meeting on 18th August by teleconference.

Update on Developments

The Chair gave an update on developments since the last Council meeting in February.

Council Members had held a conference calls with officials in March and May. Following an action from February's meeting, the calls had considered the outline and content of the Council's draft report.

Several Council members had been involved in wider engagements in recent months. Professor Anton Muscatelli had been appointed as Chair of the First Minister's Standing Council on Europe, which Amanda McMillan and Professor Frances Ruane had also been appointed members of. The Council held its first meeting on 13th July. Crawford Beveridge and Frances Ruane had been invited to sit on the Ministerial Review Group for the end-to-end review of Scotland's Enterprise and Skills agencies, which had met on 12th July and 17th August.

Role and Operation of the Council

The Chair gave an outline of the proposed role and remit of the Council. The Council's high-level remit would continue to be to advise the First Minister on actions that could be taken to improve competitiveness and tackle inequality in Scotland. Within this, the Council would provide advice in the following areas:

- **Inclusive Growth** – The Council will continue to advise the Scottish Government in the development of its inclusive growth policy agenda. Within this, the Council will help to identify policy areas that the Scottish Government should focus on to improve access to economic opportunities and reduce inequalities, and advise on methodologies and approaches that could be employed in Scotland to support policy development around inclusive growth.
- **Innovation** – The Council will provide an international perspective on Scotland's broader innovation performance and challenges, and help to identify actions that could be taken forward to improve Scotland's innovation performance.
- **Fiscal Matters** – The Council has been asked to provide advice to the First Minister on fiscal matters, particularly on analysis of revenue risks and possible mitigating actions associated with differential additional rates of income tax between Scotland and the rest of the UK, following the devolution of powers to set the rate and bands of income tax in Scotland to the Scottish Government.
- **Economic Issues** – The Council will provide advice on the economic impacts of Brexit for Scotland to complement the work of the First Minister's Standing Council on Europe.

Council Members were content to note the outline of their roles at this stage. It was agreed that a follow-up conference call would be arranged to consider the details of the remits in greater depth.

Update on the State of the Economy

The Chief Economist gave an update on recent economic developments in the global, UK and Scottish economies. Points made during this update included:

- The Scottish economy has remained resilient over the past 18 months despite challenging external conditions. Scottish GDP growth remained positive throughout 2015, at 2.1% over the year, although growth slowed significantly towards the end of 2015 and into 2016.
- Persistently low oil prices were having significant adverse impacts on profitability in the sector, with consequent impacts on employment in the sector, the supply chain, and the wider economy of Aberdeen and the North East.
- Trends in global restructuring had led to a number of large plant closures in 2015 and 2016 as activity moved abroad, and weaker external demand and the relative strength of Sterling had created difficult trading conditions for Scottish firms.
- The Scottish labour market has been resilient, with employment and unemployment rates in Scotland remaining close to their long-run trends through 2015 and into 2016.
- The UK's vote to leave the EU creates a number of concerns for the Scottish and UK economies, reflected in downward revisions to growth forecasts for Scotland and the UK for 2016 and 2017.
- The value of Sterling fell immediately following the referendum result, and was around 10% below its pre-referendum value against the Dollar and the Euro. This could lead to domestic inflation and challenges for import-heavy firms as imports become more expensive, however exporters could experience a boost in demand as their goods and services become relatively cheaper to the rest of the world.
- As a small open economy, exports and imports are very important to Scotland, and the economic impacts of Brexit are dependent on future agreements on trade and other areas of interest to Scotland.

The following points were raised by the Council in the discussion:

- The importance of raising confidence amongst consumers and businesses in the short-term was highlighted as a key priority for counteracting the uncertainty arising from the EU referendum vote.
- Understanding how different enterprises and industries in Scotland are impacted by the result is important to assess how Scotland can adapt and respond to the economic consequences of Brexit.
- Scotland has created a nimble impression in response to the referendum result, and there could be opportunities arising from Brexit for industries to reallocate skills and resources to the areas where they would be most beneficial.
- There was a recognition that Scottish businesses would benefit from being more export-oriented, and analysis of which regions in Scotland rely heavily on exports would help to identify where Scotland's relative strengths are.

Inclusive Growth

The Chief Economist gave an overview of developments around the inclusive growth workstream since the February meeting of the Council. Points covered in the update included:

- The Scottish Government has continued to engage with international organisations on its inclusive growth policy agenda, including with the OECD and the World Bank, as well as the UK Government's Department for International Development.
- The Scottish Government is committed to hosting an international conference on Inclusive Growth, to take place before the end of the current Parliament.
- Following on from previous Council discussions, Scottish Government officials have been developing an inclusive growth diagnostic for Scotland, to help identify issues that may be holding Scotland back from achieving more inclusive growth. This includes national, regional and sectoral analysis to explore barriers to inclusive growth in Scotland.
- Analysis at the national level is based around benchmarking potential constraints to inclusive growth with small open economies like New Zealand, Switzerland, Sweden, Denmark and Finland. Additional social and economic analysis is used to explore potential reasons behind why particular barriers to achieving inclusive growth exist.
- The analysis from the inclusive growth diagnostic brings together social and economic dimensions. The findings from this analysis can be used to inform policy in this area.

The following points were noted during the discussion on this topic:

- Members welcomed the progress with the inclusive growth diagnostic work, and commented that the Scottish Government's approach to inclusive growth had moved on significantly since the Council had first met.
- Members highlighted the successes of 'complex systems approaches' to understanding the causes behind issues such as infant mortality and early deaths, and commented that a similar approach could help achieve inclusive growth, though there was a recognition that there are difficulties in scaling up this approach to address issues in the whole economy.
- There was recognition that Scotland's focus on inclusive growth differentiated Scotland from the rest of the UK, and that there were benefits to pursuing this agenda regardless of the wider economic context.
- Appetite for inclusive growth thinking is growing in the UK, with growing emphasis from organisations such as the Joseph Rowntree Foundation and the Royal Society for Arts.

Council Report

The Chair gave Council Members a brief overview of the Council's report, which had been discussed in detail with Members during conference calls in May. The report presents the views, advice and recommendations that the Council has put forward to the First Minister to date in its workstreams on inclusive growth, innovation, and measures of economic progress.

Council Members commented that the report provided an accurate summary of their deliberations to date, and were content to note, subject to minor amendments, that the report would be published over the coming weeks.

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Applications of Inclusive Growth

Uzma Khan gave a presentation to the Council on a regional pilot of an inclusive growth diagnostic that Scottish Government officials are undertaking in conjunction with North Ayrshire Council. The presentation covered a place-based analysis of inclusive growth, which sought to uncover influences on opportunities in North Ayrshire, what trends and outcomes are particular to the local area, and what factors could be compounding exclusion from growth in North Ayrshire.

- The analysis took a people-centred approach, exploring outcomes from early years, school, youth, working age and through to retirement in North Ayrshire. A benchmarking exercise compared outcomes in North Ayrshire against other local authorities in Scotland, across factors that could influence inclusion across a broad range of socio-economic dimensions, including labour market outcomes, health and wellbeing, equality of opportunity, skills, social capital, and geography.

Council Members raised the following points in the discussion:

- Adequate childcare is important for encouraging labour market participation, however a lot of childcare is provided informally.
- Individuals who do not work due to caring responsibilities may be discouraged from entering the labour market through confidence, education, skills or experience to enter employment.
- Members highlighted the importance of building individuals' self-worth and self-belief in helping them to gain skills and qualifications, which can lead to quality employment and lead to better health outcomes.
- Members commented that organisations that work on behalf of individuals to improve their lives need to be joined up, and that resources should be allocated to addressing the root causes of deprivation that occur early on in life.

Improvement Science in Scotland

Professor Sir Harry Burns gave a presentation on his developing work around taking an improvement science approach to delivering inclusive growth. The work is being informed by experiences of addressing 'complex system' issues in projects in health and social care settings.

The complex systems approach has aimed to address issues, such as surgical mortality, by looking at a broad range of drivers contributing to the problem and making a number of incremental process changes to help alleviate it. Central to the success of the complex systems approach is that individuals working on the front line are involved in the improvement design process, and that changes to processes are persistently tested, measured, and adjusted according to results.

Professor Burns is developing a framework to apply this approach to the Scottish Government's Purpose of delivering sustainable, more equitable economic growth.

Enterprise and Skills Review

The Cabinet Secretary for Economy, Jobs and Fair Work gave Council Members a brief overview of the on-going review of Scotland's enterprise and skills agencies. The review is assessing Scottish Enterprise, Skills Development Scotland, Highlands and Islands Enterprise, and the Scottish Funding Council, to ensure that the agencies are delivering the joined-up support that young people, universities, colleges, training providers, businesses and workforce need.

The review is taking place over the Summer of 2016, and its recommendations will be focused on three main aims:

- Achieving the Government's ambition as set out in Scotland's Economic Strategy and National Performance Framework, so that the Scottish Government's outcomes in respect of innovation, investment (including human capital) and internationalisation lead to a step change in Scotland's economic performance and a more productive and inclusive economy.
- Ensuring that the Scottish Government and its partners' economic and skills interventions are shaped by users' needs and the opportunities users can create as a result of these interventions. The review will address the requirements of an open, modern and advanced economy, including the diverse range of opportunities and challenges in Scotland, and how local and regional approaches that build on national and local assets and relationships can best exploit and tackle them.
- Ensuring that delivery continuously reflects best practice in terms of achieving effective outcomes, driving improvement and optimising public value in the delivery, efficacy and effectiveness of our interventions, and ensuring that it is flexible and fits with the evolving fiscal and regulatory landscape of enhanced devolution.

Council Members discussed progress with the review, the challenges of aligning institutions, and the need to have a clear and unified focus across the enterprise and skill system.