

**Council of Economic Advisers
Conference Call
8th March 2019**

Call Participants:

Crawford Beveridge – Chair of the Council
Harry Burns
Jim McColl
Sara Carter
Julia Unwin
Craig Clark
Anton Muscatelli
The Chief Economist – Chief Economist, Scottish Government

Also Attending:

Alison Lang, OCEA, Scottish Government
Michael Cairns, OCEA, Scottish Government

Apologies: Joseph Stiglitz and Mariana Mazzucato.

Update on Developments

Recent Engagements

- The Chief Economist updated members on recent engagements, including a recent meeting with Mariana Mazzucato and Julia Unwin as well as a scheduled call with Professor Joseph Stiglitz.

No Deal Brexit Analysis

- Prior to the call, a progress update of the on-going no deal Brexit analysis being carried out by the Scottish Government was circulated to members. Members were provided with an update of this analysis on the call, primarily in regards to the risks of a no deal on food and medical supplies.
- Members inquired about the severity of potential impacts on food supplies in Scotland relative to rUK. The Chief Economist highlighted that the resilience committee, chaired by the First Minister, have had a series of engagements with major retailers and distributors, and have carried out significant work on food security in Scotland, noting plans are being formed to maintain food supplies. It was also noted investigations into the potential impact of a no deal Brexit on medical supplies have also been carried out.
- The Chief Economist also highlighted that analysis indicates the impacts are likely to be non-uniform across Scotland, with some sectors, such as agriculture and fishing, in remote areas, being identified as particularly at risk of reduced capacity, with smaller plants most at risk. Some other sectors, such as oil and gas, were noted to be much less exposed.
- Members were also provided with an update on the economy side, in which it was noted that there are indications of businesses hoarding cash and holding high levels of stocks in anticipation of a no deal, and that SMEs are largely underprepared.

- Members noted the analysis carried out on no deal Brexit, and inquired if the Scottish Government have been carrying out parallel work on other potential deals/scenarios. The Chief Economist responded that additional work is being carried out on tariff structures and Scotland's input into any potential future trade deals, but that the focus would remain on preparing for a no deal unless such a risk is eliminated.

Scottish National Investment Bank

- The Chief Economist provided members with an overview of a progress update on Scotland's National Investment Bank, a note on which was circulated to members following the call.
- The introduction of the bill to parliament was noted, alongside The Chief Economist's role on the Bank's development board, on-going discussions with HM Treasury, and the increase in the active resourcing of the bank. It was also highlighted that there are still a number of outstanding issues related to the bank's operation.
- Members noted the progress and inquired about how the bank's missions are being embedded in practice, and The Chief Economist advised that while recent focus has been on establishing governance structures, the aim is still to have a mission-orientated focus.
- It was also noted that Mariana Mazzucato will be delivering a keynote presentation on the mission-orientated approach to finance at the Scottish Government on 22nd March, for which The Chief Economist extended invitations to other members to attend.

Wellbeing Economy Governments Conference

- The Chief Economist updated members on the Wellbeing Economy Governments meeting which took place in Paris on 19th February, the day after the First Minister launched the latest SG hub in Paris.
- It was noted the First Minister and the OECD's Chief Statistician, Martine Durand attended, alongside The Chief Economist, Ambassadors from Iceland and New Zealand, and officials from Sweden and France.
- Members were provided with a brief update on the group's objectives and an overview of the discussion which took place.

CEA May Meeting

- Members were asked to note the upcoming CEA meeting in Edinburgh on 2nd/3rd May, and note this coincides with the first WEGo Policy Lab taking place in Edinburgh on 1st/2nd May. Invitations were extended to members to attend the WEGo session to feed into discussions, and it was noted that invitations would be extended to the officials from Iceland and New Zealand, who will be in Edinburgh for the WEGo session, to attend the CEA meeting.
- Members were asked to note the recent publication of the Alison Rose Review on Female Entrepreneurship, and requested a summary to be circulated following the call.

Review of New Work Themes

- The Chief Economist highlighted the transition from “work streams” to three “work themes” of competitiveness, resilience and wellbeing, and uncertainty and responsiveness, within which there will be specific projects. It was noted this gives the council flexibility to respond to current issues in times of uncertainty, and that there are some continuing themes picking up on different elements.

Work Theme 1 – Competitiveness

- The Chief Economist highlighted that the focus has been on Scotland’s competitive tax position and reiterated the council’s remit to monitor ‘tipping points’ and the impacts of tax differentials between Scotland and rUK on business investment. It was noted that previous work has focused on the behaviour effects of differentials in the top rate of tax, but the work has since been expanded further the analysis beyond the top rate.
- Members inquired about carrying out work on strategies to strengthen Scotland’s manufacturing sector under this work theme, and requested an update on the sector at the next CEA meeting. Members highlighted there are some strong areas in manufacturing, but there is a need to boost the sector, and skills shortages from Brexit would likely negatively impact on the sector.
- Members noted the increasing body of technology and valuable research from universities in Scotland and their role in supporting industry in Scotland.

Work Theme 2 – Economic Resilience and Wellbeing

- The Chief Economist reiterated that the Wellbeing Economy Governments Policy Labs are the current project under this work theme.
- Members highlighted the importance of planning for economic change and suggested work being carried out on how we can better predict big change and develop appropriate responses, and requested a discussion of this at the next CEA meeting in May. It was advised that such work is being carried out, with reference to the on-going work on resilience in communities, related industries and companies from exposure to Brexit, much of which has been carried out alongside enterprise agencies and local authorities.
- Members also suggested work being carried out on the interaction between the benefits system and the vulnerability of SMEs.

Work Theme 3 – Uncertainty and Responsiveness

- Prior to the call, an update on Scotland’s export growth plan was circulated to members. The Chief Economist provided an overview, noting the export gap analysis model and corresponding recommendations on which companies and sectors to target to boost exports, and the recommended strategies to achieve this. It was also noted that a more targeted approach such as that adopted by New Zealand and Ireland could potentially help to boost exports. It was highlighted there are limitations to how far the data can take this analysis, due to particular strengths Scotland has which are not captured in the data.

- Members highlighted the potential opportunity to learn from New Zealand's experience trading with the EU under WTO rules, in the context of Brexit.
- Members discussed the impact of climate change and stressed the importance for environmental considerations across government business.

Actions

- Officials to follow up on the invitations extended to CEA members to attend the first WEGo Policy Lab session in Edinburgh.
- Officials to circulate the details of the keynote presentation being delivered by Mariana Mazzucato at the Scottish Government on 22nd March.
- Officials to circulate the progress update on Scottish National Investment Bank to members.
- Officials to provide members with an update on Scotland's manufacturing sector at the next CEA meeting.
- Future projects suggested by members to be discussed further at the next CEA meeting.