

Minutes of the First Meeting of the Council of Economic Advisers

Bute House, Edinburgh, 3rd March 2015

The following Members of the Council were present:

First Minister Nicola Sturgeon MSP
Crawford Beveridge (Chair)
Sir Harry Burns
Professor Sara Carter
Jim McColl
Professor Sir James Mirrlees
Professor Frances Ruane

Also present:

Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy
Graeme Dickson, Director General Enterprise, Environment and Innovation, Scottish Government
Dr Gary Gillespie, Chief Economist, Scottish Government
Lucy Proud, Senior Economist, Office of the Chief Economic Adviser, Scottish Government
Liz Lloyd, Chief of Staff to the First Minister, Scottish Government
Mia Ayres, Deputy Private Secretary to the First Minister, Scottish Government
Jack Causley, Assistant Economist, Office of the Chief Economic Adviser, Scottish Government

Purpose

This note provides an overview of the key points arising during the first meeting of the refreshed Council of Economic Advisers. The Meeting was focussed on the future remit of the Council and the publication of Scotland's Economic Strategy.

Welcome

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

Members had earlier attended the launch of Scotland's Economic Strategy.

Before the business of the meeting began, the First Minister thanked all Members for their commitment to the Council and noted that the former First Minister valued the advice and contributions made by the previous Council.

Apologies had been received from Amanda McMillan and Professors Mazzucato, Muscatelli and Stiglitz, who were unable to attend the meeting.

Role and Operation of the Council

The Members discussed the role and future operation of the Council. The Chair noted that the Council will meet twice a year with the next meeting in the Autumn. He reflected on the operation of the previous Council and the importance of Council members working collectively and developing work and meeting outwith the full Council meetings. This approach worked well in the previous Council and he was open to Council members continuing on that basis. There were also opportunities for Council members to speak in public forums about Council work or in relation to their particular areas of expertise. The flexibility around how the Council operated was important and the extent of Members' involvement would depend on how much time they could commit.

During their discussion, Council Members were open to this type of approach.

Members recognised the twin objectives of improving competitiveness and tackling inequality set by the First Minister. The First Minister looked forward to receiving the Council's detailed advice on how to best progress both of these objectives and to build a greater understanding of the link between them both.

The First Minister, as part of, Scotland's Economic Strategy asked the Council for advice on how to measure progress as part of Scotland's National Performance framework. She acknowledged the expertise within the Council within this area and was seeking advice from the Council regarding the development of a set of measures of Scotland's performance across a wide range of dimensions of economic prosperity.

The Council welcomed this opportunity and agreed that this would be taken forward for consideration at the next meeting.

Update on Developments in the Scottish Economy

The Chief Economist provided an update on recent economic developments. Points discussed during this update included:

- The Scottish economy has been recovering and strengthening, with output expanding continuously for more than two years and moving beyond its pre-recession peak at the start of 2014.
- Aggregate trends within the Scottish labour market are also positive, with record levels of employment. However, structural challenges remain, in particular, high levels of underemployment, weak real wage growth, high levels of part-time working and high levels of youth unemployment.
- A number of areas of opportunity were noted. Domestic demand remained solid, while the Scottish labour market continued to strengthen. Both household and business confidence has largely been restored, and business surveys and independent forecasts indicated that the outlook remained positive for 2015.
- Several areas of uncertainty were highlighted. It was noted that productivity growth continues to disappoint, while growth in real wages remains slow. It

was also noted that conditions in Scotland's main export markets were mixed, with difficult conditions in the Eurozone economies sitting alongside the strong growth in the US economy. Further potential headwinds include the on-going growth impact of fiscal consolidation in the UK.

- The positive and negative implications for Scotland from the substantial fall in oil prices since the end of 2014 were also discussed.
- Members requested more detail on the underlying trends in the labour market in Scotland, how these linked to productivity and the extent to which these could be viewed as structural changes following the recession and recovery.
- The Chief Economist agreed to provide further detail relating to these areas and in subsequent meetings.

Scotland's Economic Strategy

The Deputy First Minister (DFM) provided an overview of Scotland's Economic Strategy (SES), which was published earlier in the morning. The Council had attended the launch of the Strategy and had seen earlier iterations of the document as it was being developed.

The DFM set out the Government's vision for what they aimed to achieve by approaching the economy in a more holistic approach, recognising the twin pillars of improving competitiveness and reducing inequality as integral features of their approach. He set out the key policy areas identified in the document and how this framework would drive their approach and prioritisation of the economy. In particular, the focus on inclusive growth, innovation, investment and internationalisation as being strategic priorities for the Government in brigading policy and the inter-dependence of these priorities.

During the subsequent discussion, Members discussed the different components of inequality and how it impacted on different aspects of life in Scotland. The Council highlighted the need to identify what issues the SES was trying to address, such as the inequality of opportunity or inequality in outcomes. The need to focus on the key barriers faced by different sections of society was also emphasised.

Regarding the policy announcements, the Council recognised continuing difficulties for business to access finance, alongside weak demand for finance from many SMEs. The Council highlighted the Scottish Business Development Bank (SBDB) as a positive policy being taken forward by the Scottish Government and discussed the space in which the Development Bank would operate. It was noted that the Scottish Investment Bank (SIB) already lends to small businesses and that the SBDB would be looking to build on the work of the SIB. It was suggested that the recent rise in debt funds may provide a useful example of an innovative approach to funding the SBDB.

The Council also discussed the potential impacts of using procurement to tackle inequality in Scotland, in particular regional aspects. However, it was recognised that there are restrictions due to European Union laws. It was noted that Community Benefit Clauses provided a good example of what could be done through procurement policy.

The current adoption of the Living Wage was also considered. It was noted that demand for the scheme run by the Poverty Alliance was very high but that caution should be taken as some companies that have signed up may already have been paying the Living Wage. During this discussion, the Council noted the potential productivity and efficiency improvements that could arise from paying workers more.

Following the discussion, the Council agreed to develop work on inclusive growth and innovation.

In addition, the Council considered and welcomed the opportunity to establish working groups to examine specific areas in greater detail. It was agreed that two sub-groups would be established with particular focus on innovation and inclusive growth.

**Office of the Chief Economic Adviser
May 2015**