

# A Jobs Plan for an Independent Scotland

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## Ministerial Foreword

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Independence is a once in a lifetime chance to shift the balance of opportunity in Scotland's favour.

It will equip our country with the powers required to create the best possible conditions for secure, stable and rewarding employment for everyone who lives here.

With the limited powers of devolution Scotland's economic performance has improved.

But far too many Scots have to leave each year to get a job or further their career.

Of course many people will always want to work elsewhere – and those opportunities will continue with independence.

But under Westminster the UK has become one of the most unequal countries in the developed world.

It is widely agreed that too many jobs are concentrated in London and the South-East of England.

So we need the powers of independence to give businesses in Scotland a competitive edge and the incentives to create more and better jobs here in Scotland.

Future Scottish governments in an independent Scotland will be able to access the full range of powers to pursue what they believe is the most appropriate economic and jobs policy.

And for the first time ever all future independent Scottish governments will have the powers needed for an economic policy that puts job creation in Scotland first.

The current Scottish Government believes full employment in an independent Scotland is a realistic goal, and is committed to creating the economic conditions that would increase employment in a way that provides opportunities for all who are willing and able to work.

This will only come about through a Team Scotland approach where we come together as a country and use all our talents to implement an agreed long-term jobs plan.

The best chance of success will come with the direct involvement of business, unions, government, and other partners.

And we will need the normal powers of an independent country.

Few, if any, countries in the world, have the economic potential of Scotland.

We have:

- A talented workforce: with world-leading universities, a modern college sector and a successful modern apprenticeship system;
- Unrivalled natural and energy resources: in 2012 we produced nearly six times our oil demand and we have huge renewable energy potential;
- An international reputation for producing quality goods and services; and
- Successful sectors such as food and drink; creative industries, life sciences and modern manufacturing.

This report sets out a long-term ten-point jobs plan for a 21<sup>st</sup> century independent Scotland.

It sets out how with control of economic and tax policy we would be able to design a policy framework to take advantage of Scotland's great strengths and create more and better job opportunities.

The overall goal is sustainable full employment.

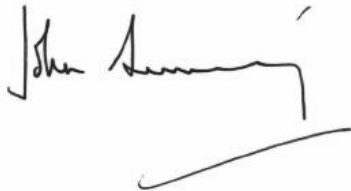
The Scottish Government has previously set out how improvements in productivity, employment and population could lead to additional tax revenues of £5 billion a year by 2029-30 without any increase in tax rates.

This jobs plan will contribute to that increase.

The plan involves:

- Creating an education and training environment to equip our young people to fulfil their potential, with a target of 30,000 Modern Apprenticeship starts per year by 2020;
- Controlling the tax system to provide incentives for companies to base their operations and headquarters in Scotland and create jobs. A three per cent cut in the headline corporation tax rate, in part to resist the gravitational pull of London, could boost employment by 27,000 jobs;
- Using employment policy to bring together employers and unions to boost workforce participation, skills and productivity, in place of the UK Government's confrontational approach. Boosting productivity by just 1 per cent could increase employment in Scotland by 21,000 jobs over the long term;
- Tailoring policy to boost key job-creating sectors in which Scotland has an international comparative advantage, such as renewable energy;
- Reindustrialising Scotland with a focus on strengthening manufacturing, promoting innovation and encouraging international trade and development;
- Boosting infrastructure and transport by establishing a rule which sets a minimum level for public sector capital spending as a percentage of GDP;
- Establishing a Scottish Business Development Bank as part of a strategy to improve access to finance for growth companies;
- Using a new overseas network of 70-90 embassies dedicated to boosting Scottish international exports. In the long-run a 50 per cent increase in exports could increase employment by over 100,000;
- Increasing opportunities for parents of young families to participate in the labour market by expanding childcare; and
- Tailoring immigration policy to retain talented overseas students who want to contribute to the Scottish economy.

These will not fall into our lap. The gains of independence will only happen if we work hard and use policy wisely. But no-one else is better placed to take decisions about the Scottish economy than the people who live, work and run businesses here.

A handwritten signature in black ink, appearing to read 'John Swinney', with a long horizontal flourish underneath.

**JOHN SWINNEY MSP**

Cabinet Secretary for Finance, Employment and Sustainable Growth

## Chapter 1: Overview

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Scotland has strong economic foundations.

The country has substantial natural resources, a highly-skilled workforce, a long-standing reputation for innovation, an internationally-recognisable brand, with products and companies competing at the highest level in international markets.

The Scottish economy has seen almost two years of sustained strengthening, with growth of 1.0% in Q1 2014 moving output beyond its pre-recession peak. Growth over the last year has been relatively broad-based, with both the service and production sectors moving above pre-recession levels.

Over the year to the quarter March-May 2014, Scottish employment grew by 76,000 to reach a record high of 2,587,000, with female employment levels also reaching an all-time high. Meanwhile, Scotland's economic activity rate has risen to a new record, a sign of people moving into the labour market for work.

However, many other comparable independent countries perform better, not only economically, but also across a broad range of indicators including equality and well-being.

The aim of the Scottish Government is to do better than simply return to pre-recession levels of economic performance.

Building a labour market that is resilient, adaptable and responsive to change will take time but doing so will be key to ensuring that Scotland continues to compete internationally and is able to deliver long-term prosperity.

It is also vital that the right balance of growth is supported. The type of growth that reduces inequalities and allows everyone – not just those close to the labour market – to realise their potential; that reduces disparities between different parts of Scotland; that is sustainable and resilient; and which focusses on maximising returns from work.

The Scottish Government believes one of the greatest advantages of independence will be to equip future Scottish administrations with the policy levers to create more job

opportunities and greater equality. *Building Security and Creating Opportunity* outlined the full range of policy levers available with independence<sup>1,2</sup>.

**Table 1: Policy Levers Available With Independence**

<b>Taxation</b>	<b>Public Spending</b>
<ul style="list-style-type: none"> <li>• Corporation Tax</li> <li>• Income tax</li> <li>• National Insurance</li> <li>• Oil and Gas Taxation</li> <li>• Capital Gains Tax</li> <li>• Value Added Tax (VAT)</li> <li>• Tax Credits and Allowances</li> <li>• Excise Duty</li> <li>• Air Passenger Duty</li> </ul>	<ul style="list-style-type: none"> <li>• Welfare</li> <li>• Infrastructure</li> <li>• Borrowing</li> <li>• Procurement</li> <li>• Education and Skills</li> <li>• Economic Development</li> <li>• Transport</li> <li>• Health</li> <li>• Housing</li> </ul>
<b>Regulatory Levers</b>	<b>Institutions and Representation</b>
<ul style="list-style-type: none"> <li>• Competition</li> <li>• Consumer Protection</li> <li>• Industry Regulation</li> <li>• Employment Legislation and the Minimum Wage</li> <li>• Energy Markets and Regulation</li> <li>• Company Law and Insolvency</li> <li>• Intellectual Property</li> <li>• Environmental Regulation</li> <li>• Planning</li> </ul>	<ul style="list-style-type: none"> <li>• Governance and institutions</li> <li>• Social Capital</li> <li>• Administration</li> <li>• EU Representation</li> <li>• International Trade</li> <li>• Foreign Policy</li> <li>• Responsible Capitalism</li> </ul>

*Outlook for Scotland's Public Finances*<sup>3</sup> illustrates how by using the powers of independence to increase productivity by 0.3 percentage points per annum, boosting the working age population, and increasing the employment rate by just over 3 percentage points could generate additional tax revenues of £5 billion a year by 2029-30.

<sup>1</sup> Pages 45-55 of *Building Security and Creating Opportunity* considered the opportunities to use key levers in taxation, public spending, regulatory levers and institutions and representation.

<sup>2</sup> Independence would also increase the scope of some areas of devolved responsibility. For example, the Scottish Government currently has responsibility for procurement within devolved areas of spending. However, independence would result in future Scottish governments having responsibility for procurement across all areas of spending.

<sup>3</sup> <http://www.scotland.gov.uk/Resource/0045/00451336.pdf>



In *Scotland's Future*<sup>4</sup> and *Building Security and Creating Opportunity: Economic Policy Choices in an Independent Scotland*,<sup>5</sup> the Scottish Government published a plan for Scotland's economic future. These documents set out the range of economic opportunities and choices available with independence to boost jobs through improvements in productivity, labour market participation and the working age population.

*Reindustrialising Scotland for the 21<sup>st</sup> Century: A Sustainable Industrial Strategy for a Modern, Independent Nation*<sup>6</sup>, published in June 2014, built on these reports by setting out a clear plan for how the powers of independence could be used to create more and better jobs through reindustrialising Scotland's economy.

This paper draws on the range of analysis presented in these reports to highlight how the current Scottish Government would use the powers available with independence to create more, and better, job opportunities in Scotland.

This plan is built on the key themes of:

- Delivering a labour market that is resilient, adaptable and inclusive
- Reindustrialising Scotland and strengthening manufacturing
- Boosting innovation and productivity, and
- Increasing the contribution of international trade and investment

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<sup>4</sup> <http://82.113.138.107/00439021.pdf>

<sup>5</sup> <http://www.scotland.gov.uk/Resource/0043/00438277.pdf>

<sup>6</sup> <http://www.scotland.gov.uk/Resource/0045/00454447.pdf>

## Chapter 2: A Labour Market that is Resilient, Adaptable and Inclusive

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As set out in *Building Security and Creating Opportunity*<sup>7</sup> a strong, productive and engaged labour force is central to long-term economic success.

A labour market which is resilient, adaptable to changes in economic conditions, and able to respond quickly to new opportunities and challenges can be a major comparative advantage. It also ensures that the workforce is able to capture emerging employment opportunities.

While conditions have been challenging in recent years, Scotland's labour market has held up much better than initially feared following the global downturn and the number of people in employment is now at its highest level ever.

But youth unemployment remains high, the recession has led to increases in levels of underemployment and part-time working, and Scotland also lags behind other countries in the contribution that women make to the economy.

The aim of the Scottish Government is to do better than simply return to pre-recession levels of economic performance. The Scottish Government believes that full employment in an independent Scotland is a realistic goal.

Whilst the employment and unemployment rates associated with full employment can be expected to vary over the economic cycle, the Scottish Government is committed to creating the economic conditions that would increase employment in a way that provides opportunities for all who are willing and able to work.

At the centre of this is a vision for Scotland to be an innovative, high wage and high productivity economy, which competes in international markets and focuses on high value goods and services.

As part of this, labour market improvements must be through high quality and valued work that leads to sustainable employment which maximises all of Scotland's potential and helps

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<sup>7</sup> <http://www.scotland.gov.uk/Resource/0043/00438277.pdf>

to tackle a range of social issues from poverty and income inequality to health and life expectancy.

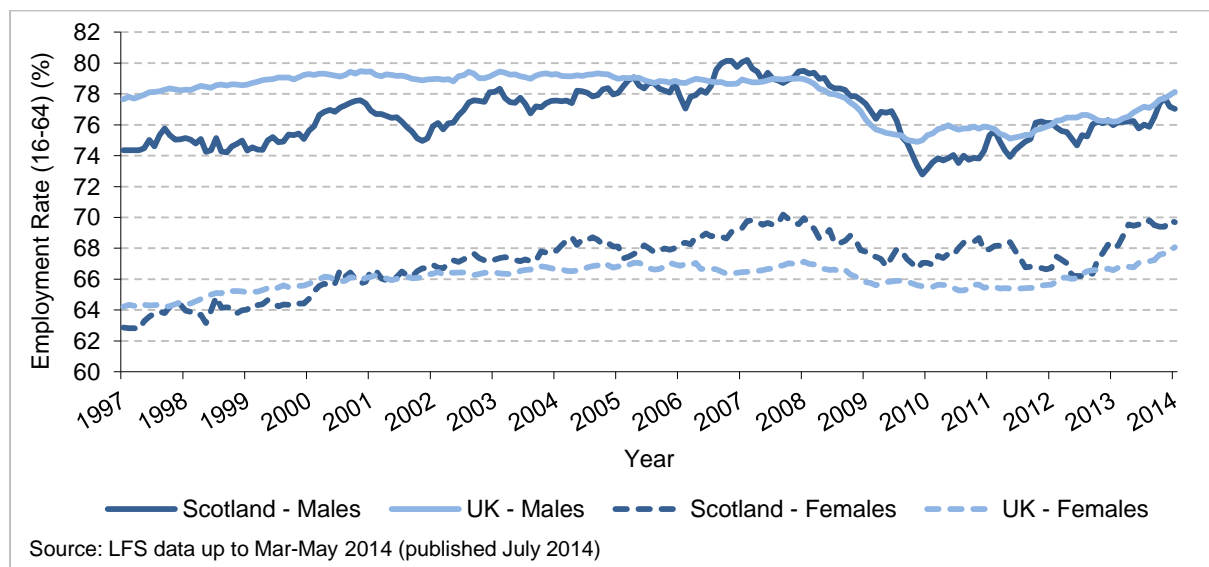
Whilst good progress has been made since devolution – including a narrowing of the gap in economic performance with the UK as a whole – the Scottish Government believes that independence would provide greater opportunity to build a new economic framework that better utilises Scotland’s unique strengths and which delivers a more outward focussed and resilient economy.

**Scotland boasts a highly skilled and dynamic workforce.**

In March-May 2014 Scotland’s employment rate was 73.3% - 0.2 percentage points above the UK. At the time of devolution it was 2.6 percentage points below the UK.

Scotland’s employment rate is above the OECD average<sup>8</sup>. Although a gap exists with the top performing countries, particularly in areas such as female participation.

**Figure 2.1: Employment Rate by Gender (16-64), Scotland, UK, 1997-2014 (Seasonally Adjusted)**



<sup>8</sup> See analysis in chapters 2 and 7 of *Building Security and Creating Opportunity*.

The current Scottish Government would use the powers available under independence to promote participation in the labour market by delivering more efficient employability, welfare and skills programmes and transforming child care.

**Like many other countries Scotland's labour market faces a number of challenges.**

The recession has led to a rise in unemployment, a rise in part-time employment, a fall in youth employment and an increase in under-employment.

Moreover, as part of the UK, the characteristics and composition of the labour market have changed in recent years with negative consequences for job security, the rewards to work and the equality of opportunity.

Sustainable – and well-paid – jobs are key to tackling poverty and inequality. However, around 250,000 working age adults in Scotland are estimated to be in 'in-work poverty'.<sup>9</sup>

Independence would provide greater opportunities to create more sustainable and higher quality employment opportunities and where policy – supported by a strong social partnership approach – attached greater value to positive labour market outcomes.

The UK has some of the least strict employment protection regulation amongst developed countries in the OECD.

Whilst this can allow greater labour market flexibility, it can be argued that an approach that limits worker rights regarding notice period, severance pay and unfair dismissal is not the best approach to improve economic well-being. Other countries have greater success with a more inclusive and social partnership approach to employment regulation<sup>10</sup>.

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<sup>9</sup> *Poverty and Income Inequality in Scotland: 2012/13*, July 2014, <http://www.scotland.gov.uk/Resource/0045/00454875.pdf>

<sup>10</sup> For more information see pages 145-148 of *Building Security and Creating Opportunity*.

## Box 2.1: Benefits of Greater Female Labour Market Participation

There are a range of factors that influence the rate of female participation in the labour market. Childcare policy in particular could be an important element of the wider equality and welfare policy package that could improve this participation, by reducing barriers to participation in the labour market faced by parents of young families.

Scotland and the UK both lag behind some OECD countries in terms of female participation rates. The analysis below highlights the potential economic benefits, if Scotland were to improve its female activity rate further.

Analysis published in November 2013<sup>11</sup> highlighted that increasing the female participation rate by 2.0 percentage points would increase Scotland's rate to 73.9%<sup>12</sup>, which would bring Scotland's performance on the measure broadly in line with countries such as Finland and the Netherlands in 2012.<sup>13</sup>

This would constitute around 35,000 more people participating in the labour market and translate into a 1 percentage point rise in the overall (male and female average) economic activity rate.

The increase would be even greater if Scotland matched Norway or Sweden's rates of female participation.

**Table 2.1: Potential changes in female economic activity rates and levels**

	Female Activity Rate	PP Change in Female Activity Rate	Level Change in Female Activity	% Change in Total Activity Level
2 p.p. increase	73.9%	2.0	35,000	1.3%
Match Norway	75.8%	3.9	68,000	2.6%
Match Sweden	77.9%	6.0	104,000	4.0%

Source: Annual Population Survey, OECD

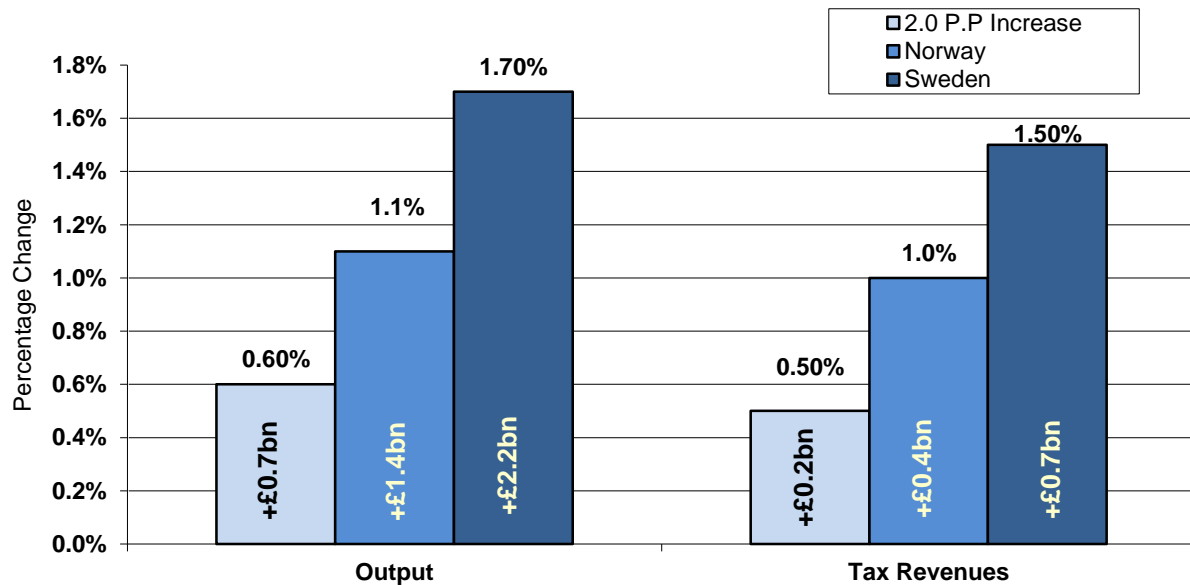
<sup>11</sup> <http://www.scotland.gov.uk/Resource/0043/00439259.pdf>

<sup>12</sup> The figures for Scotland are based on Annual Population Survey for Jan-Dec 2012 which is more stable than the rolling 3-month average from the Labour Force Survey.

<sup>13</sup> OECD country female participation rates are taken from the OECD database and refer to year 2012 and to the age group 15-64, whilst the rate for Scotland is for 16-64.

At the lower end, Scottish Government analysis highlights that an increase in female activity by 2 percentage points could boost the level of output by around 0.6% (£700 million) in the long-run, with tax revenues rising by 0.5% (£200 million). At the higher end, if the female activity rate reached Swedish levels, output could rise by 1.7% (£2.2 billion) and tax revenues by 1.5% (£700 million).

**Figure 2.2: Impact on the Scottish Economy of an increase in female labour market participation**



### Box 2.2: Developing Scotland's Young Workforce: Wood Commission report

The Scottish Government is embarking on a long term programme to develop the young workforce in Scotland, with the ambition of achieving a 40% reduction in youth unemployment by 2020. In doing so, the Scottish Government will implement the recommendations contained in Sir Ian Wood's Commission's report *Education for All!*<sup>14</sup> published in June 2014. The report's proposals to develop a world class system of vocational education and training exactly match the Scottish Government's aims and ambitions for the economy and employment in Scotland.

This Scottish Government's Developing the Young Workforce programme involves fundamental transformation of the way in which young people, employers, schools and

<sup>14</sup><http://www.scotland.gov.uk/Topics/Education/edandtrainingforyoungple/commissiondevelopingscotlandandyoungworkforce/finalreport>

colleges work together to ensure that all of Scotland's young women and men have the choices and opportunities to fulfil their potential. As part of this, the Scottish Government will:

- Provide more support for employers to take on young employees;
- Facilitate closer links between employers, and schools and colleges; and
- Introduce measures to improve the gender balance in training.

The Scottish Government has, since 2007, invested heavily in developing the skills and qualifications of Scotland's workforce through vocational education and training. For example, the successful Modern Apprenticeship (MA) programme provided 1,249 apprenticeship starts in the manufacturing sector in 2012/13<sup>15</sup>. This provision varies year-on-year, in response to the demands of firms. The Scottish Government wants to strengthen the contribution Modern Apprenticeships make to growth of the economy, to single enterprises and to individuals and in April this year announced a year on year increase which will result in 30,000 MA starts per year by 2020.

The Scottish Government has also set aside £12 million to fund early implementation of the Commission's recommendations in agreement with partners including local government.

With independence it will be vital that this investment is aligned with the priorities outlined in future government's industrial strategies.

**The Scottish Government has set out how the powers available under independence could be prioritised to deliver better labour market outcomes through:**

- **A more joined-up framework** to align supply side policies – tax, welfare and skills – with demand policies and more efficient institutions to support more – high value – employment opportunities and to deliver full employment;
- **Improved child care provision.** By providing access to both sides of the balance sheet – and critically the opportunity to re-invest higher revenues from improved economic activity back into expanding childcare provision – independence provides the opportunity to instigate a truly transformational change to childcare policy in Scotland;

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<sup>15</sup> [http://www.skillsdevelopmentscotland.co.uk/media/790012/modern\\_apprenticeship\\_programme\\_2012-13\\_-\\_breakdown\\_by\\_framework.pdf](http://www.skillsdevelopmentscotland.co.uk/media/790012/modern_apprenticeship_programme_2012-13_-_breakdown_by_framework.pdf) Based on the following MA frameworks: Chemical Manufacturing and Petroleum Industries, Food Manufacture, Furniture Manufacture and Process Manufacturing. However, other MA frameworks may also contain manufacturing-related MAs.

- Increased **employer involvement in vocational education and training**;
- **Supporting employment opportunities in key sectors** such as manufacturing;
- A **strengthened social partnership approach** which linked government, the third sector, unions, employer associations and employers;
- **Full tax powers to incentivise a range of actions** such as employer demand (e.g. via employers national insurance reliefs), investment in training and development, and improved participation;
- **Integrating skills and employability** by bringing together job matching, employability training and career guidance, currently being delivered separately in Scotland by the Department for Work and Pensions and Skills Development Scotland;
- A **more integrated approach to welfare and public services** such as health, housing and social care;
- An **Employment Rights Authority** to bring together employment-related matters in one body;
- A **distinctive approach to tackle under-representation** and achieve a more balanced workforce; and,
- A **process to increasing the minimum wage that reflects the circumstances of the Scottish economy**, the business environment and the priorities of the people of Scotland.



## Chapter 3: Reindustrialising Scotland and Strengthening Manufacturing

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Scotland has a proud history in manufacturing.

But in recent years its importance has declined and Scotland now lags behind many comparable countries in terms of its contribution to the economy.

In June 2014 the Scottish Government published *Reindustrialising Scotland for the 21<sup>st</sup> Century: A Sustainable Industrial Strategy for a Modern, Independent Nation*<sup>16</sup>. This set out how the powers of independence could be used to reindustrialise the Scottish economy in order to build a more resilient economy and create better job opportunities.

Key to this is a strengthened role for manufacturing.

Supporting manufacturing has the potential to increase innovation, tackle geographic inequalities, support trade, and create high-value jobs. For example<sup>17</sup>:

- Average annual earnings, for full-time employees, in manufacturing (£27,098) are above the Scottish median average (£26,483) in 2013;
- Boosting manufacturing can lead to local jobs spill-overs, helping to develop clusters of companies and supply chains. Indeed manufacturing provides the greatest contribution of inputs to the output of Scottish economy as a whole; and
- Manufacturing accounts for 12% of Scottish (onshore) output but 65% of business R&D spending.

**Many other countries have pursued more balanced growth than the UK and maintained a stronger manufacturing employment base.**

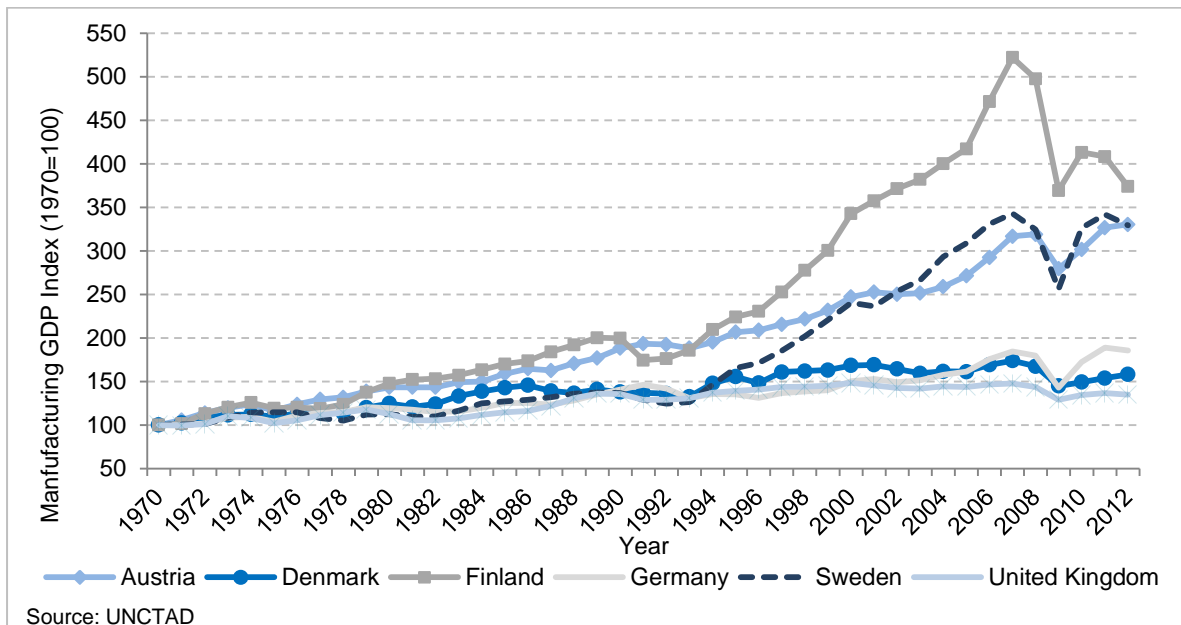
Whilst manufacturing – as a *share* of GDP – has declined in recent decades across the OECD, the decline has been that much faster in the UK.

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<sup>16</sup> <http://www.scotland.gov.uk/Publications/2014/06/5184>

<sup>17</sup> For further details see chapter 4 of *Reindustrialising Scotland for the 21<sup>st</sup> Century*.

**Figure 3.1: Growth in manufacturing GDP, constant prices, 1970 to 2012**



Between 1970 and 2012, UK manufacturing grew by 35% in real terms – compared to growth of 274% in Finland and around 230% in both Sweden and Austria.

This is one reason why the contribution of investment and net trade – the difference between the amount that an economy exports and imports – to growth has been lower in the UK compared to many of its competitors<sup>18</sup>.

As a result, household consumption accounts for a relatively large share of UK output compared to competitors.

In the decade prior to the financial crisis – 1997 to 2007 – household consumption accounted for over 70% of economic growth in the UK.

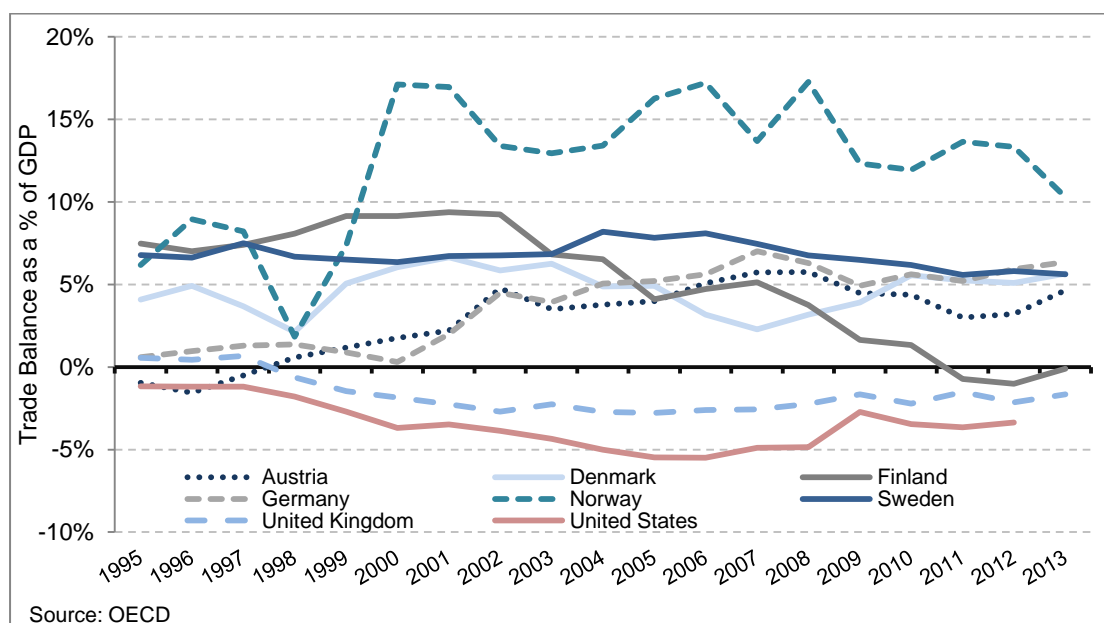
In contrast, household consumption contributed less than 50% of the growth in countries such as Finland, Sweden and Germany. In these countries investment and trade made larger contributions, relative to the UK, to overall growth.

**Moreover, countries of a similar size to Scotland have delivered better outcomes across a range of economic indicators alongside stronger manufacturing sectors.**

<sup>18</sup> For further details see chapter 2 of *Reindustrialising Scotland for the 21<sup>st</sup> Century*.

This approach has had a knock-on effect - the UK has run a trade deficit in every year since 1998.

**Figure 3.2: Trade Balance as a Percentage of GDP, 1995 to 2013**



There is evidence to suggest an important correlation between manufacturing and a range of indicators including R&D expenditure, export performance, and the contribution of investment to the economy (Table 3.1).

**Table 3.1: International Comparisons Across a Range of Indicators (2012)<sup>19</sup>**

	Manufacturing output (% GVA)	Investment as (% GDP)	Trade Balance (% GDP)	Business Expenditure on R&D (BERD) (% GDP)	% Change in manufacturing GVA 1990-2012 (2005 prices)
Austria	18.2	22.7	3.2	2.0	75.4
Denmark	10.7	17.4	5.1	2.0	14.6
Finland	15.4	19.8	-1.0	2.4	87.3
Germany	23.8	17.3	6.3	2.0	31.7
Sweden	15.7	18.9	5.6	2.3	140.9
United Kingdom	10.0	14.7	-1.6	1.1	-0.7

Sources: UNCTAD, IMF, and OECD

<sup>19</sup> 2012 is the latest year in which data is available for all indicators.

**Reindustrialising Scotland for the 21<sup>st</sup> Century set out how with independence future Scottish governments could increase the number of manufacturing jobs through:**

- **Establishing a modern and efficient tax system** and carefully targeting tax measures to support industry – for example, the use of **more effective capital allowances to encourage investment which in turn will support new jobs**;
- Using **tax powers** to boost competitiveness – for example, Scottish Government analysis highlights that a 3 percentage point cut in corporation tax could boost employment by around 27,000 jobs in the long-term (see box 3.1);
- Providing leadership through setting **an ambitious long-term target to increase manufacturing output in real terms**;
- Strengthening interventions to support manufacturing SMEs secure access to finance, such as establishing a **Scottish Business Development Bank**;
- **Supporting investment** by committing to a rule, consistent with fiscal rules for managing the public finances, which established a minimum level for public sector capital spending as a percentage of GDP;
- **Fully aligning skills and employability support** with the priorities for reindustrialisation;
- Supporting greater levels of re-manufacturing to support sustainable growth and the **move towards a circular economy**; and
- Working with key partners to **strengthen an economy-wide partnership approach**.

### **Box 3.1: Impact of changes in Corporation Tax**

As an example of the type of policy choices that an independent Scotland could make, the Scottish Government has cited using a modest cut in corporation tax to help counterbalance the economic pull of London and the South East.

The Scottish Government has argued that the use of a targeted tax incentive will not only give Scottish companies a competitive advantage (and mitigate any natural geographical disadvantage they may face) but will also help attract international investment.

As an illustration, in 2011, the Scottish Government modelled the potential impact of a

reduction in corporation tax broadly equivalent to a cut in the headline rate of 3 percentage points.<sup>20</sup> The results showed this has the potential to increase output by around 1.4% and boost employment by approximately 27,000 jobs.

Clearly this is just one policy an independent Scotland could choose and a range of options are possible. For example, accompanying supply side or employment policies could be set to complement such a change.

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<sup>20</sup> <http://www.scotland.gov.uk/Resource/0038/00388940.pdf>

## Chapter 4: Boosting Innovation and Productivity

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Innovation is a fundamental driver of productivity and therefore growth, jobs and prosperity.

Scottish Government analysis estimates that boosting labour productivity by just 1% could raise employment in Scotland by over 21,000 over the long term (see Box 4.1).

Economies that are innovative are more resilient and adaptable to change – allowing them to create new employment opportunities in emerging sectors.

In an increasingly competitive global economy, innovation is key to success in international markets and in creating jobs. It is also especially vital for a developed economy such as Scotland which is less able to compete on cost alone with emerging economies.

The evidence suggests that successful knowledge building stems from an important partnership between the private and public sector. Government policy, through the tax system, patents and the competitiveness of markets, creates the conditions for private sector innovation to flourish and create new job opportunities.

Innovation is at the heart of the *Government Economic Strategy*<sup>21</sup>, and through *Scotland Can Do*<sup>22</sup> the Scottish Government has set out a framework for supporting innovation and entrepreneurship in Scotland.

### Box 4.1: Impact of Boosting Scotland's Productivity Performance

Productivity is the dominant determinant of economic growth. It encapsulates how effectively goods and services can be produced from a given set of resources. More productive economies produce greater output for a given set of resources.

Productivity is driven by a number of factors, including innovation, education & skills, capital & infrastructure investment and competition.

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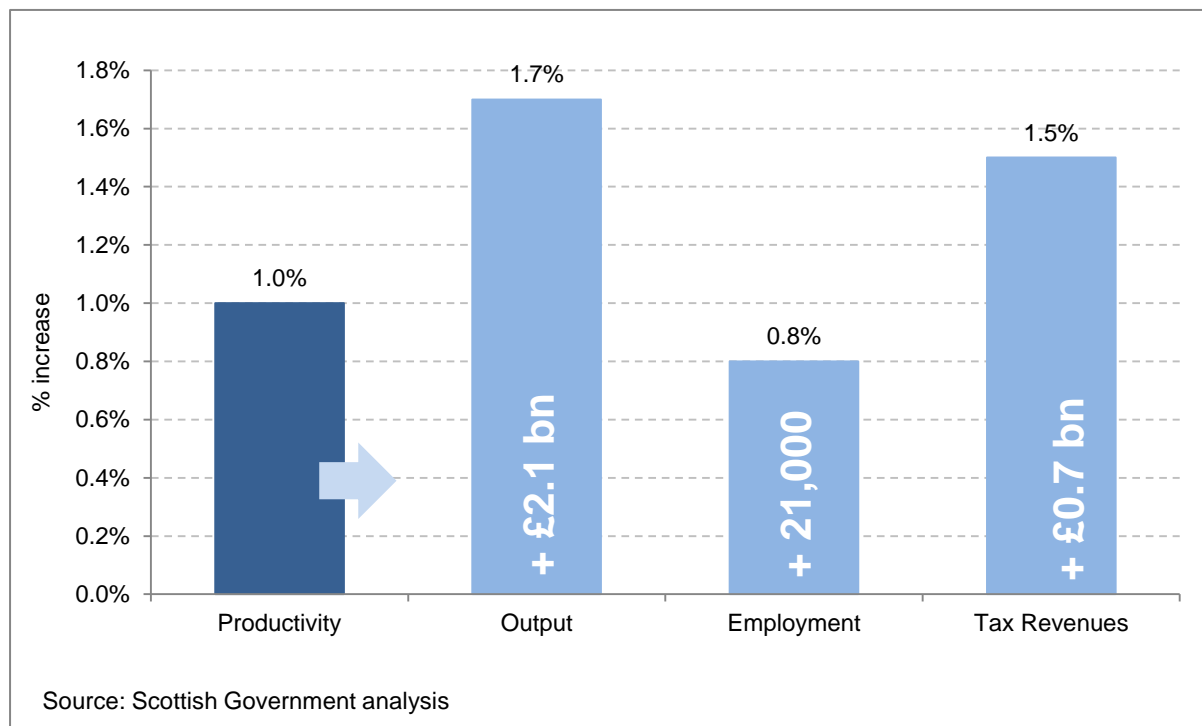
<sup>21</sup> <http://www.scotland.gov.uk/Resource/Doc/357756/0120893.pdf>

<sup>22</sup> *Scotland CAN DO*, Scottish Government, <http://www.scotland.gov.uk/Resource/0043/00438045.pdf>

Even relatively small changes in productivity levels can have significant impacts.

Scottish Government analysis estimates that boosting labour productivity in Scotland by just 1% could increase output by approximately 1.7% (£2.1 billion) and raise employment by over 21,000 over the long-term (around 20 years). The competitiveness effects and boosts to the tax base could increase tax revenues by around 1.5% which can be recycled back into the economy through increased government spending.

**Figure 4.1: Long Term Impact of a 1% Increase in Productivity**



**Although Scotland has a strong history of innovation and performs well in a number of areas, overall Scotland’s innovation levels (and those in the UK) lag behind key competitors.**

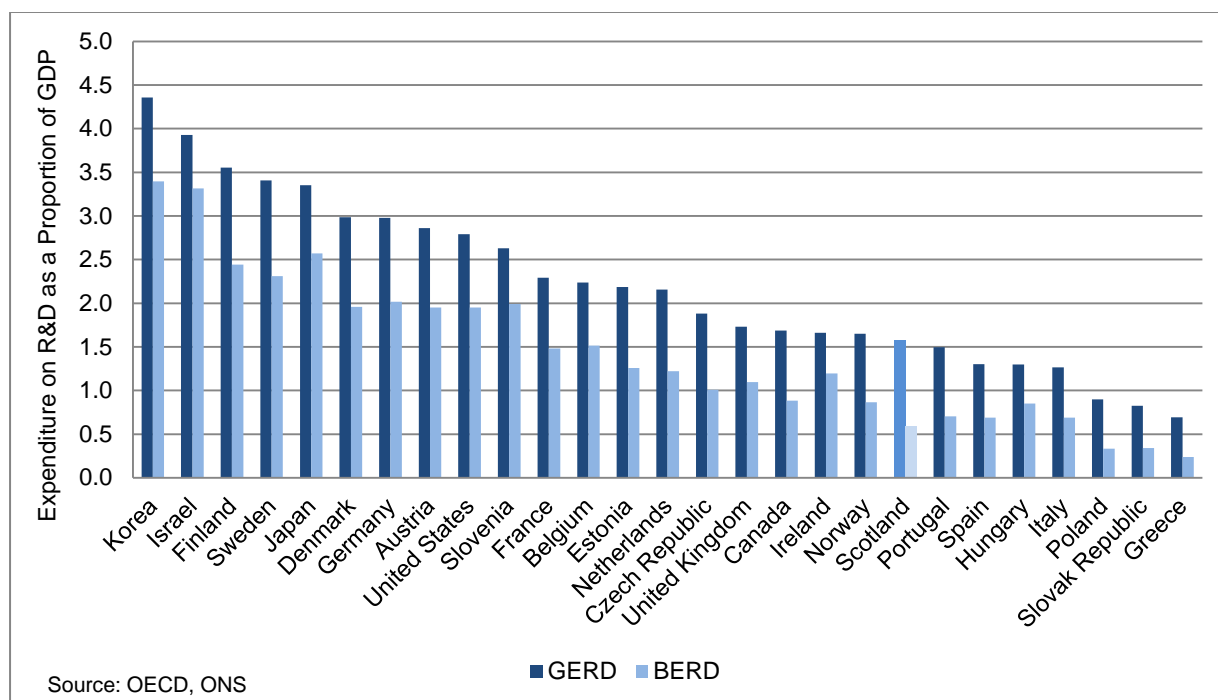
In 2012, Scotland’s higher education R&D expenditure (as % of GDP) was the 4<sup>th</sup> highest in the OECD.

Scotland also has more top universities than any other country in the world for its size and has key strengths in areas such as life sciences.

However, whilst Scottish business R&D spending grew by over 15% between 2007 and 2012 (compared to 3.3% decline in the UK), it remains just 0.6% of GDP in Scotland.

Businesses in Denmark and Finland spend nearly 4 times as much on R&D than those in Scotland.

**Figure 4.2: Gross Expenditure (GERD) and Business Expenditure on R&D (BERD), 2012 (or most recent year<sup>23</sup>)**



**In contrast to most OECD countries, total R&D spending (as a % of GDP) has declined in the UK since the early 1980s:**

UK R&D spending fell from 2.4% of GDP in 1981 to 1.7% in 2012.

In 1981, the UK had the joint highest (with Germany) levels of R&D spending (as % of GDP). By 2012, the top performing countries spent more than double the level in the UK.

<sup>23</sup> Switzerland excluded from the chart, as most recent GERD data is for 2008.



**Reindustrialising *Scotland for the 21<sup>st</sup> Century*<sup>24</sup> highlighted how future independent Scottish governments could better support innovation and create new job opportunities through:**

- Establishing a **Scottish Innovation Agency** to drive innovation growth and provide a fully aligned innovation eco-system. Innovation agency approaches have been successful in other countries such as Finland;
- **Careful and targeted use of tax & financial incentives** to support innovation – for example, through tax credits for R&D expenditure, or through incentives to encourage firms to recruit scientific and technological expertise;
- Establishing a **Scottish Business Development Bank** to improve access to finance, including for innovative companies;
- Ensuring a legal framework which **protects and supports intellectual property rights**;
- **Investing in the world class research** of Scotland's Universities and Research Institutes; and
- **Setting incentives to attract the best researchers from across the world** to Scotland and being welcoming and open to international talent committed to working in Scotland.

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<sup>24</sup> <http://www.scotland.gov.uk/Resource/0045/00454447.pdf>

## Chapter 5: Trade and Investment

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Scotland is part of an increasingly connected, open and competitive world where there are significant opportunities for Scottish companies to thrive and to attract international investment and jobs to Scotland.

In 2012 Scotland's international exports of goods and services (excluding oil and gas) were £26 billion.

Openness to international markets is vital for long-term job prospects.

As businesses become increasingly international their productivity increases as they learn new ideas, adopt new technologies, seek new opportunities, become more outward looking and grow in confidence and ambition.

Increasing export activity and encouraging higher levels of international investment has the potential to create more high value employment.

The greatest challenge and opportunity from trade will come from new and emerging economies. While their rapid growth has eroded competitiveness in certain areas, particularly sectors that rely upon cost, it also offers real potential in other areas such as knowledge intensive sectors.

*Building Security and Creating Opportunity*<sup>25</sup> highlighted the benefits from boosting international trade. In the long-run, achieving a 50% increase in exports could increase output by 4.6% (around £5.6 billion) and employment by around 112,000 (see Box 5.1).

### Box 5.1: Analysis of the Impact on Boosting Exports

The potential benefits to the Scottish economy from boosting exports are considerable.

The Scottish Government has a target of boosting the value of international exports by 50% over the period 2010 to 2017. Achieving this target (equivalent to a 31.6% increase in real

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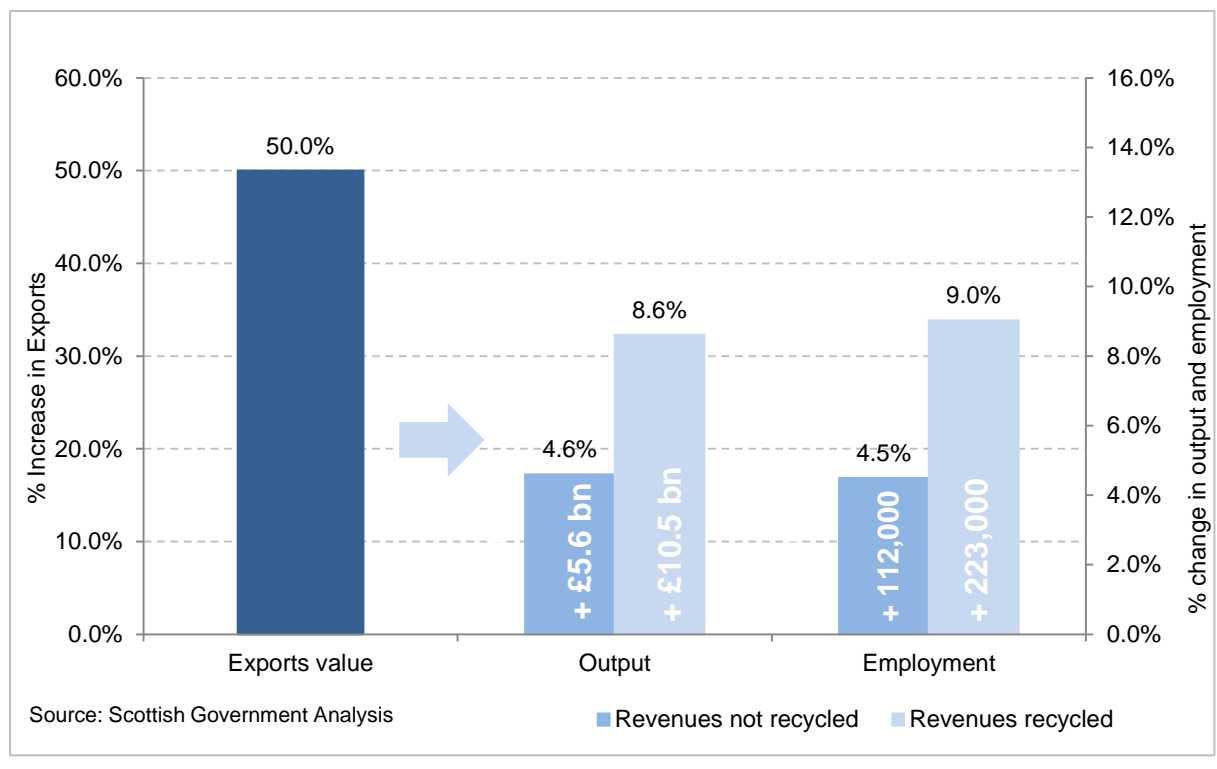
<sup>25</sup> <http://www.scotland.gov.uk/Resource/0043/00438277.pdf>

terms in 2010 prices) would boost Scottish output, increase employment, and generate significant additional tax revenues.

*Building Security and Creating Opportunity* highlighted the potentially significant impact of improving Scotland’s export performance. In the long-run, achieving a 50% increase in exports could increase output by 4.6% (around £5.6 billion) and employment by 4.5% (around 112,000)<sup>26</sup>.

The benefits to the Scottish economy from meeting the exports target could be amplified if the increases in government revenues associated with such a scenario were recycled back into the economy. This is not possible in the current framework where all the benefits flow to London.

**Figure 5.1: Impact on the Scottish Economy of a 50% Increase in Exports Value**



**There is a need to widen Scotland’s export base – both in terms of the number of companies exporting and the export markets being served – in order to create more job opportunities.**

<sup>26</sup> For more details on this analysis see Box 9.2 (pages 182-183) of *Building Security and Creating Opportunity*, Scottish Government, November 2013

The Food and Drink manufacturing sector accounted for £4.7 billion (17.9%) of all international exports in 2012 with whisky accounting for £3.9 billion (nearly 85%) of that. It is estimated that the food and drink sector employed almost 118,000 people in 2012.

Scottish exports are currently concentrated in 'traditional' export markets with the EU accounting for around 45% (£11.7 billion) and the USA 14% (£3.6 billion) of Scottish exports.

There are considerable opportunities for Scottish exports in emerging market such as the BRIC economies - Brazil, Russia, India and China – which currently only account for 5.5% of Scottish international exports. Increasing exports to these markets will provide new job opportunities in Scotland.

Large companies account for 57% of Scotland's international exports and just 100 companies account for around 60% of Scotland's international exports.

### **Scotland performs strongly in attracting international investment.**

International investment can play an important role in delivering growth and jobs, as well as providing an indication of the underlying competitive strength of the economy.

The Ernst and Young Scotland Attractiveness Survey found "*Scotland ranking in the top two regions outside London for FDI in each year since 2006*".<sup>27</sup> This strong performance has helped to create to 4,165 jobs during 2013.

Scotland attracted 82 projects in 2013, 8% more than in 2012 (76), continuing on a "*robust, upward trend*" of growth. The figure for 2013 was the highest number of projects since 1997.

***Reindustrialising Scotland for the 21<sup>st</sup> Century* highlighted how with independence, future Scottish governments could develop a new approach to trade and investment which would help support new jobs in exporting industries. This could be done through:**

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<sup>27</sup> [http://www.ey.com/Publication/vwLUAssets/EY\\_UK-Attractiveness-Survey-2014-Scotland-web/\\$FILE/1485655\\_Scotland\\_Attractiveness\\_Survey\\_2014\\_FINAL.pdf](http://www.ey.com/Publication/vwLUAssets/EY_UK-Attractiveness-Survey-2014-Scotland-web/$FILE/1485655_Scotland_Attractiveness_Survey_2014_FINAL.pdf)

- **Representing Scotland's economic interests and priorities** in the EU and bilateral government to government relations;
- **Creating a network of overseas offices**, building on SDI's existing network, to bring together political and commercial diplomacy and economic, trade and cultural activities to promote exports and attract investment;
- Using **Scotland's 'soft' power, reputation, and alliances** to attract investment and jobs and to support Scottish companies in overseas markets;
- **Extending the 'Team Scotland' approach** to create a fully integrated approach to trade and investment, foreign affairs, tax policy and international relations; and
- **Using tax powers** to attract international investment and jobs.



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