BRIEFING FOR THE FIRST MINISTER

MEETING WITH JOE STIGLITZ

05 April 2017

Key Message	Engagement with Professor Stiglitz offers a valuable opportunity to discuss inequality issues, especially regarding Inclusive Growth; and also to hear his views on Brexit and the EU.
What	Breakfast meeting between the First Minister and Professor Joseph Stiglitz, member of the Council of Economic Advisers
Why	• To discuss areas of importance to the First Minister with Professor Stiglitz, who sits on the Council of Economic Advisers.
Who	**Professor Joseph Stiglitz**
Where	The Lexington Hotel, New York
When	8:30 – 9:15, Wednesday 5th April 2017
Likely themes	• Inequality and Inclusive Growth • Constitution issues: Brexit and a second independence referendum • US Politics
Media	No media (private).
Supporting Official	Liz Lloyd, Chief of Staff to the First Minister.
Attached documents	**Annex A:** Outline Agenda for Discussion **Annex B:** Biography of Professor Stiglitz **Annex C:** Council of Economic Advisers overview **Annex D:** Scotland's Economic Performance **Annex E:** Scotland's Economic Strategy **Annex F:** Scotland's Approach to Inclusive Growth **Annex G:** Long term economic impacts of Brexit

Annex A

AGENDA

Purpose of Meeting

- An introductory meeting with Professor Joseph Stiglitz, a member of the Council of Economic Advisers, to discuss matters of importance to the First Minister.

Potential Issues for Discussion

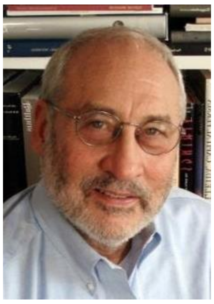
- Inequality/ Inclusive Growth
- Constitution – US politics/Brexit/Independence
- Potential future meeting again later this year in Scotland

Background

- This is an opportunity to meet Professor Stiglitz as the FM was unable to meet him last year when he was in Gleneagles, due to a London engagement. (First face to face meeting)
- Professor Stiglitz interacts regularly with Chief Economist and is a leading figure internationally with his work on Inequality and Wellbeing. He is a really important link for us in terms of Inclusive Growth. He also facilitated introductions to OECD. His engagement with the Council is also of high importance.
- Professor Stiglitz has been a member of the Council of Economic Advisers since 2011 and was integral to the work of the Fiscal Commission Working Group (FCWG) in designing a macroeconomic framework for an independent Scotland.
- On 30th August 2016, Professor Stiglitz, said the Scottish Government position on currency "may have been a mistake". He argued that Scotland should have its own currency, as a free-floating Scottish pound could help to stimulate the economy and lower the deficit. He also argued that Scotland should not join the Euro.
- Professor Stiglitz expects to be in Scotland later this summer – in August at the Edinburgh Books festival and later in October (depending on timing this may fit with Inclusive Growth conference). Professor Stiglitz is also advising on the Wellbeing 7 collaboration which we are holding a meeting on Scotland later this year.

Annex B

BIOGRAPHY OF PROFESSOR STIGLITZ



Professor Joseph Stiglitz is Professor of Economics at Columbia University. He won the Nobel Prize for Economics in 2001 and was a member of the US Council of Economic Advisers from 1993-95, before serving as Chair from 1995-97.

He was Chief Economist and Senior Vice-President of the World Bank from 1997-2000. In 2009 he was appointed by the President of the United Nations General Assembly as Chair of the Commission of Experts on Reform of the International Financial and Monetary System.

He has been a member of the First Minister's Council of Economic Advisers since being appointed by the previous First Minister in 2012. He was also a member of the Fiscal Commission Working Group during 2012-2014, a sub-group of the CEA that helped to shape the development of options for a fiscal and macroeconomic framework for an independent Scotland.

He has written widely on the subject of growing inequality and its implications for society. His most recent titles are The Euro: How a Common Currency Threatens the Future of Europe, Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity and The Great Divide: Unequal Societies and What We Can Do About Them. His view is that growing inequality has been a choice, caused by public policy responses to global forces such as technology and globalisation, that has unfairly benefitted the wealthiest in society.

Following the UK's vote to leave the EU, he has been critical of the EU's initial position that the UK would not be granted an immediate free trade agreement. Stiglitz argues that the benefits of trade and economic integration between the EU and UK are mutual, and that the EU leaders should look to ensure the closest ties possible.

Whilst he is generally supportive of the EU, Stiglitz has stated that the ratification of TTIP would call the benefits of EU membership into question.

Annex C

COUNCIL OF ECONOMIC ADVISERS - OVERVIEW

Background

- The Council's role is to be independent advisory group to the First Minister.
- Membership of the CEA draws upon a range of knowledge and expertise and consists of leading international and Scottish figures from the private sector and academia.
- The Council last met on 26th & 27th January 2017, and are next scheduled to meet in before the end of 2017.

Membership

- The Council is chaired by Crawford Beveridge, and membership comprises:
  - Sir Harry Burns
  - Professor Sara Carter
  - Professor Mariana Mazzucato
  - Amanda McMillan
  - Professor Anton Muscatelli
  - Professor Joseph Stiglitz
  - Professor Sir James Mirrlees
  - Jim McColl
  - Professor Frances Ruane

Remit of The CEA

- The Council's remit has been to advise the Scottish Government on the two central themes of Scotland's Economic Strategy: boosting competitiveness and tackling inequality in Scotland.
- Since its refresh, the Council has taken forward work on inclusive growth, innovation, and measuring economic success and more recently on fiscal matter; specifically on the possibility of changing the Additional Rate of income tax.

Annex D

SCOTLAND'S ECONOMIC PERFORMANCE

Issues: PricewaterhouseCoopers published their latest UK Economic Outlook on 23 March. Their economic growth forecast for Scotland has been revised up for 2017 to 1.3% (0.9% previously) with growth of 1.1% forecast for 2018.

Scotland's economy continued to grow in the 3 months following the EU Referendum.

- Scotland's economy grew by 0.2% in the third quarter of 2016 (UK 0.6%) and 0.7% over the year (UK 2.2%).
- Scotland's GDP per head is now 2.2% above its pre-recession level, compared to the UK which is only 1.5% above its pre-recession level.
- Even without oil, GDP per head in Scotland is higher than the UK average excluding London.

Scotland's labour market remains resilient: unemployment rate fell over the past year.

- There are now 44,000 more people in employment than before the recession (Mar-May 2008).
- Over the latest quarter, unemployment in Scotland fell by 16,000
- Most recent internationally comparable data (Q4 2016) shows Scotland's unemployment rate 4.9%) was lower than G7 average (5.4%), OECD average (6.2%) and the EU average (8.3%).
- Scotland's youth unemployment has halved over the past year. Scotland now has the 2nd lowest youth unemployment rate in the EU behind Germany.

Recent data provides encouraging signs for the Scottish economy.

- The ScotlandIS Scottish Technology Industry Survey for 2017 (28 March) found that 82% of businesses expect sales to increase in 2017 and 78% have a very optimistic or optimistic view for the year ahead.
- Oil exploration firm, Hurricane Energy, announced a significant undeveloped discovery of up to 1 billion barrels of recoverable oil within the Greater Lancaster Area west of Shetland from which it hopes to begin production in 2019. (27 March)
- The Bank of Scotland PMI for February (13 March) signals that Scotland's private sector output increased for its third consecutive month and at its quickest rate since July 2015.
- Latest HMRC data (9 March) showed that food and drink exports from Scotland rose 8% in 2016 to a record £5.5bn (however, total goods exports were broadly stable over the year).

Scotland's economic fundamentals remain strong.

- **Employment** – Employment has risen by 171,000 since the recession trough (Feb-Apr 2010).
- **Productivity** – Productivity (output per hour worked) has grown 9.4% since 2007 compared to growth of 0.1% in the UK as a whole.
- **Registered Businesses** – The number of registered businesses in Scotland has grown by 15% since 2007 to an all-time record level of 173, 995 in 2016.
- **Research & Development** – Business R&D rose by 41% in real terms between 2007 and 2015 to £871 million.

- **Exports** – The value of Scotland's international exports has increased by 41% between 2007 and 2015 (from £20.4 billion to £28.7 billion).

Real risk to Scotland's economy comes from a hard Brexit.

- The EU is the largest single market for Scotland's international exports, with exports worth £12.3 billion in 2015 – an increase of £520 million on the previous year.
- Fraser of Allander have warned that under a WTO scenario (hard Brexit), GDP in Scotland could be over £8 billion lower than would otherwise be the case, employment 80,000 lower, real wages £2,000 lower, and exports over 11% lower.

Scottish Government is taking actions to support businesses and grow the economy.

- We'll be providing support to businesses with high growth potential through our £500 million **Scottish Growth Scheme.**
- Committed to expanding the **Small Business Bonus Scheme** in 2017 to remove the rates burden entirely from 100,000 premises.
- We're increasing the supply of **affordable housing** in Scotland. Having exceeded our target to deliver over 30,000 affordable homes in the last Parliament, we are now committed to delivering at least 50,000 affordable homes by the end of this Parliament.
- We're improving **Scotland's transport connectivity**, through strategic investments in our transport infrastructure, including investments in the Queensferry Crossing, the M8 M73 M74 Motorway Improvements Project, the Aberdeen Western Peripheral Route, and continuation of the Edinburgh-Glasgow Rail Improvement Programme.
- We're investing to improve **Scotland's Digital Connectivity** and in 2016/17 will invest £90 million in Scotland's digital infrastructure to help towards our 2017 target to ensure 95% of premises in Scotland have access to next generation broadband.

Annex E

SCOTLAND'S ECONOMIC STRATEGY

Top Line: *Scotland's Economic Strategy* sets out an over-arching framework for how we aim to achieve a more productive, cohesive and fairer Scotland.

1. Our approach is based on two key pillars; <u>increasing competitiveness</u> and <u>tackling inequality</u>.

Under these, there are four priority areas that we focus on to deliver Scotland's Economic Strategy:

- **Investing** in our people and our infrastructure in a sustainable way;
- Fostering a culture of **innovation** and research and development;
- **Promoting inclusive growth** and creating opportunity through a fair and inclusive jobs market and regional cohesion; and,
- Promoting Scotland on the **international** stage to boost our trade and investment, influence and networks.

2. There is growing evidence that delivering sustainable growth and addressing long-standing inequalities are reinforcing – and not competing – objectives.

- OECD: Rising income inequality in the UK reduced GDP per capita growth by 9 percentage points between 1990 and 2010.
- **The Scottish Government estimated the cost of our inequality has been a total loss to the UK economy of £100 billion – around £1,600 for every person in the country.**

3. We have taken significant steps to boost Scotland's long term <u>competitiveness</u>.

- A £500 million **Scottish Growth Scheme** to provide investment guarantees, and some loans, for eligible businesses over three years
- We plan to invest more than **£1 billion in our universities** in 2017-18**.**
- During 2017/18, we plan to invest **£112 million in digital and mobile infrastructure**
- Developing a plan for establishing a **National Manufacturing Institute for Scotland** that will act as a hub for innovation.

4. A number of SG actions contribute to <u>tackling inequality</u>, including important investments in health, education, skills and childcare.

- Establishing Curriculum for Excellence to raise ambition and attainment in our schools, and
- <u>Expanding the level of funded childcare</u> from 475 to 600 hours per year and committing to 1140 hours by the end of the next Parliament.

- Supporting Fair Work. Continuing to lead by example in advancing greater gender equality and ensuring all staff covered by our pay policy receive the Living Wage. We are also funding the Poverty Alliance to promote take up of the Living Wage Accreditation Scheme across the wider economy.
- Providing 30,000 new Modern Apprenticeships every year by 2020.

Annex F

INCLUSIVE GROWTH

Top Lines:

- Inclusive Growth is a core priority of Scotland's Economic Strategy, which sets out the mutually supportive pillars **<u>increasing competitiveness</u> and <u>tackling inequality</u>.**
- **<u>The UK vote to leave Europe in the UK has added impetus to our focus on inclusive growth</u>**. We know that people on low incomes were more likely to vote to leave, and are also likely to be hit hardest by negative fallout from Brexit.
- Regardless of the outcome of Brexit, we will retain our focus on creating a more inclusive form of growth.

1. International evidence increasingly shows that higher levels of inequality can have a negative effect on economic performance, and on economic and social resilience.
    - **The Scottish Government estimates the cost of our inequality has been a total loss to the UK economy of £100 billion – around £1,600 for every person in the country.**
    - Making growth more inclusive is important for improving both Scotland's economic competitiveness, reducing wider inequalities, and improving opportunities for all.
2. **Scotland's performs well in several measures of inclusion**.
    - **Scotland's income inequality is lower than the UK's**: 2012/13 data shows that Scotland would rank 19th in the OECD in terms of the Palma ratio, while the UK ranks 29th.
    - **Scotland out performs the UK on female and youth employment unemployment and labour market participation rates.**
3. **The recent UK vote to leave the EU has highlighted the importance of inclusive growth:**
    - **A recent report from the Inclusive Growth Commission of the Royal Society of the Arts pointed out that the referendum "has revealed the extent of voter dissatisfaction with our current economic model".** The Resolution Foundation found that people on low incomes were more likely to vote to leave. When you allow for student numbers, so too were areas with low employment rates.
    - **The Resolution Foundation estimate that lower growth post-Brexit and the UK Governments policy changes will hit low income households hardest. By 2020,** a lone parent working part time on the national living wage will be up to £2,640 a year worse off, and a couple with three children on low wages could be up to £3,650 a year worse off.
4. **We are working with partners to drive this agenda across a range of areas,** including:

- Investments in **early years** and expanding the free **childcare** provision;
- Improving educational attainment, through the **Scottish Attainment Challenge**;
- Implementing the recommendations of the **Commission on Widening Access to Higher Education**;
- Initiatives to improve the quality of workplaces in Scotland, such as the **Business Pledge** and the **Fair Work Convention**;
- Building the approach into planning and regeneration, through the National Planning Framework and in city deals and local authorities activities;
- **Improving population health**, including preventative measures as well as improving access to mental health services and support for people with health conditions, and their carers, to stay in work; and,
- Carrying out an **Enterprise and Skills Review** to ensure that public agencies are delivering the support that young people, universities, colleges and businesses need.

5. **Taking a place-based approach to inclusive growth is important to ensuring that equality is advanced across all parts of Scotland.**
   - Ensuring that there are more economic opportunities across Scotland's cities, towns, regions and rural areas, guarantying sustainable communities.
   - Working in collaboration with North Ayrshire Council, the Scottish Government has begun work to understand opportunities for unlocking inclusive growth from a bottom-up, local perspective, recognising the importance of regions and localities in driving inclusive growth.
6. **Scotland's approach is gaining international attention.**
   - **Professor Joseph Stiglitz:** *"Tackling inequality is the foremost challenge that many governments face. Scotland's Economic Strategy leads the way in identifying the challenges and provides a strong vision for change."*
   - **OECD:** *"Scotland is a real inclusive growth incubator." [Romina Boarini, Senior Economist OECD, 2015]*

Annex G

LONG TERM ECONOMIC IMPLICATIONS OF BREXIT

Issue: Single Market membership is vital for Scotland's economy, in terms of trade, investment and skilled migration. There is a clear consensus that leaving the European Union will damage the UK economy.

SG paper summarises the impact that leaving the EU could have on Scotland based on recent studies. Indicates Scottish GDP could be up to £11.2bn lower by 2030 compared to forecast GDP in the absence of Brexit.

The Fraser of Allander Institute confirms the risks Brexit poses to Scotland's economy.

1. Single Market has opened Scotland to a market of over 500 million people. Membership is vital for trade

- Scotland exported £12.3 billion to EU in 2015 – 43% of total international exports.
- Scotland secured more FDI projects than any part of the UK outside of London in 2015. FDI has created 40,000 jobs in Scotland since 2006. **EY Attractiveness Survey finds that 79% of investors list access to the EU single market as an important element of the UK's attractiveness for investment.**
- There are over 1,000 EU owned companies in Scotland employing over 127,000 people.
- Around 181,000 EU citizens live in Scotland, bringing new skills and expertise.

2. We seek the benefits of the Single Market for Scotland in addition to – not instead of – trade across the UK

- Neighbouring countries with close cultural links trade with each other. This will continue to be true of Scottish trade with UK. For example 75% of Canada's exports go to the USA. 63% of Scotland's exports go to RUK
- **Scotland's trade with RUK is a two way process. Companies in RUK sold £50 billion of goods and services to Scotland in 2015. This implies Scotland would be RUK's second largest export market after the USA.**
- And during her speech on Brexit, while talking about global trade, the Prime Minister herself said: <u>*"We want to buy your goods, sell you ours, trade with you as freely as possible, and work with one another to make sure we are all safer, more secure and more prosperous."*</u>

3. Fraser of Allander warns that Brexit could reduce Scotland's economic performance.

- The Fraser of Allander modelling of the WTO scenario suggests that after 10 years:

– GDP expected to be over 5% (£8bn in 2015-16 terms) lower than would otherwise be the case and real wages are expected to be 7% lower, equivalent to a reduction of around £2,000 per year;
– The number of people employed is 3% lower (around 80,000 jobs).

4. Brexit could hinder long term economic performance

An open economy trading with the world provides opportunities to introduce new technology, management techniques and innovations. This in turn boosts productivity and prosperity. Brexit will reduce these opportunities.

- **Lower Exports** - Any relationship with the EU short of full membership risks introducing tariffs and other trade barriers which would harm Scottish exports.
- **Lower FDI** - the EU single market as an important element of the UK's attractiveness for investment.
- **Reduced Migration –** Reducing free movement of people into Scotland will increase skill shortages and exacerbate demographic pressures
- **Weaker Public Finances** – Lower economic growth will reduce receipts and in turn funding for public services

5. Projected impact on Scottish GDP

Range of institutions estimate the impact that Brexit could have on UK. Applying to Scotland implies that by 2030:

- EEA membership could reduce Scottish GDP by £1.8bn - £11.2bn (£300 to £2,100 per capita)
- Bilateral agreement could reduce Scottish GDP by £1.7bn - £8.8bn (£300 to £1,600 per capita)
- WTO trading relationship could reduce Scottish GDP by £3.7bn - £11.2bn (£700 to £2,100 per capita)

  <u>All results relative to what output forecast to be if Brexit didn't happen</u>