

Council of Economic Advisers
Conference Call, 21st June 2017
15:00 – 16:00 [UK Time]

Participants

Crawford Beveridge – Chair
Sir Jim Mirrlees
Amanda McMillan
Sara Carter
Marianna Mazzucato
Jim McColl
Gary Gillespie – Chief Economist, Scottish Government

Also attending:

Uzma Khan, OCEA, Scottish Government
Kevin Brady, OCEA, Scottish Government
Angela Nolte, OCEA, Scottish Government
Annabel Arbuthnot, OCEA, Scottish Government

Apologies: Joseph Stiglitz, Sir Anton Muscatelli, Frances Ruane and Sir Harry Burns.

Update on Developments

- Gary Gillespie updated members on developments since the March conference call including recent calls with Anton Muscatelli and Joseph Stiglitz.
- Gary Gillespie also met with members of the Scottish Land Revenue Group on 10th April to discuss land value tax and its links to inclusive growth. A background paper by the Group had been shared with Council members for interest. Members agreed that it was an interesting topic but advised that the Council's fiscal matters workstream should continue to focus on the additional rate of income tax.
- Members were provided with updates on developments on economic data, particularly around business investment and labour productivity; on the Scottish Futures Trust and their funding mechanisms. These followed actions from the January and March meetings. Members were also advised of the recent publication of the Chief Economist's State of the Economy report, and received an update on on-going analysis of the impact of the EU Referendum on the Scottish economy.
- Following March's call, Members considered further evidence on procurement expenditure in Scotland. Members requested additional information on what actions the Government and its partners are taking to increase opportunities for and encourage local businesses to become involved in public sector supply chains. In particular, Members requested more information around the value of procurement being awarded to Scottish firms and staying in Scotland. Members also noted there was greater scope for more detailed analysis of SMEs in Scotland in general.
- Members received an update on general developments on the UK Government's Industrial Strategy Consultation. Members also discussed promotional / development banks, following the Council's response to the UK Industrial

Strategy Consultation, which had been submitted on the Council's behalf to the UK Government in April.

- In the discussion, Members emphasised their view of the importance and need for business development banks in both Scotland and the wider UK. Enthusiasm from other parts of the UK was highlighted, and Members also highlighted that the focus of such an institution should not be dedicated to SME finance. Members were also keen to continue work on this topic.
- Members were provided with updates on developments with the Scottish Growth Scheme, and on progress with the Enterprise and Skills Review.

Inclusive Growth Conference

- Gary Gillespie updated members on plans for the inclusive growth conference being hosted by the Scottish Government in October. These included developments around the programme, themes, and the proposed speakers and audience.
- In the discussion, Members sought clarification around the areas of progress on inclusive growth in Scotland that could be showcased during the conference. Potential areas for coverage included diagnostic approaches, the Business Pledge and Fair Work, Childcare, and Regional Partnerships and Local Economic Development.
- Members also emphasised the need for a compelling story on inclusive growth for the private sector.

Fiscal Matters – taking forward the workstream

- Members were updated on the emerging findings of on-going research being undertaken on the evidence base to support analysis of revenue risks arising from differential rates of the Additional Rate (AR) of income tax in Scotland and the UK.
- The emerging analysis presented focused on the characteristics of current Additional Rate taxpayers in Scotland, initial thinking around the trends and incentives driving tax motivated incorporations in Scotland, proposals for refreshing the academic literature review in partnership with researchers from the University of Edinburgh with a specific focus on tax induced cross border migration, and discussion of emerging thinking on potential avenues for mitigating revenue risk. This followed on from previous discussions in the Council meeting in January, and the subsequent conference call in March.
- The proposed approach for presenting the Council's advice was discussed. Members indicated that they would be content with an approach where Scottish Government analysts updated their previous analysis, with the Council offering views in light of developments in the evidence base.
- Members complemented the analysis that had been undertaken by officials to date, particularly for its thoroughness. Members noted that the analysis provided subsequent to January's meeting had added weight to the Council's initial reactions and reflections on this topic.
- Members were especially interested in the analysis around incorporations and were keen that this was progressed, and also supported the proposed analysis into regional tax competition owing to the limited Scottish data.

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- Members noted that the extent of the behavioural response would depend on the sectors in which additional rate taxpayers work and the ease with which they could relocate to the rest of the UK.
- Members noted they are content that officials continue with the analysis and present a paper to the Council at the next conference call for their comment.

Future Council Work – Growth/ Economy/ Brexit

- Members noted that going forward they are content for their remit to cover broader industrial policy and issues related to support of economic growth. This follows on from the Council paper produced on development banks.
- Members are also content for their remit to focus less heavily on inclusive growth after the inclusive growth conference in October.

Actions

- Officials will review the information provided on procurement expenditure in Scotland and provide further analysis on what support is available for Scottish SME's getting local contracts.
- Officials will report to the Council on emission related incentives for businesses. This is in regards to industrial strategy work.
- Progress around development / promotional banks will be picked up in the Council's next full meeting later in the year.
- Officials will review and develop the proposition around business and Inclusive Growth and put together a summary of what this looks like currently, and what gaps there are in this area.
- Officials will take forward the analysis on the revenue risks, and mitigation actions, of changing the additional rate of income tax. Officials will prepare a paper presenting the analysis for Council comment at the next conference call.
- Officials will canvass members for potential dates of the next call proposed to be held in late August or early September, and a full Council meeting potentially to be held in November. On the latter, officials would explore the possibility of part of the meeting being held at Clyde Gateway.

**CEA Secretariat
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July 2017**