



Independence in the Modern World. Wealthier, Happier, Fairer: Why not Scotland?

BUILDING A NEW
SCOTLAND



Summary

Overview

This paper sets out a detailed analysis of the UK's performance across a range of economic and social indicators relative to that of ten European countries: Austria, Belgium, Denmark, Finland, Iceland, Ireland, the Netherlands, Norway, Sweden and Switzerland.

It shows that the UK is already performing poorly and there is a broad consensus that Brexit will lead to a further deterioration in the UK's relative economic performance. Improving the economy will therefore become even harder if Scotland stays tied to the under-performing UK model.

What do these other countries have that Scotland does not? They have significantly more economic policy autonomy and a much greater ability to tailor policies to their own specific circumstances. The evidence points to independence broadening the policy options available to address areas of relative under-performance and to make the most of Scotland's potential.

The paper discusses how other countries use the full powers of independence, and, in doing so, describes the additional options that would become available to an independent Scotland.

The full powers of independence won't guarantee success - but will increase Scotland's potential and put the levers of change in the hands of the Scottish people and the governments they vote for.

The paper:

- Provides detailed evidence to show that a comparator group of ten European countries out-performs the UK on a range of measures.
- Provides further evidence confirming the success – sustained over the long-term – of independent European nations of Scotland's size relative to the UK (and other nations).



- Discusses the policies, mechanisms and institutions underpinning the success of the comparator group and how these might influence an independent Scotland's approach to economic and social development. The evidence suggests that the full powers of independence are necessary for Scotland to fulfil its potential.
- Provides the context for forthcoming papers in the prospectus series by highlighting the opportunities that could be created by independence.
- Highlights some specific policies pursued with success by these nations that could be chosen by governments in an independent Scotland.

Evidence and Context

The paper presents 10 key facts:

1. The comparator countries are **wealthier** – some significantly wealthier – than the UK
2. The comparator countries have maintained **the wealth gap with the UK** over time
3. **Income inequality is lower** in the comparator countries
4. **Poverty rates are lower** in the comparator countries
5. There are **fewer children living in poverty** in all the comparator countries – and pensioner poverty is lower in all apart from Switzerland
6. The comparator countries have **higher social mobility**
7. Most of the comparator countries have a **smaller gender pay gap**
8. The comparator countries have **higher productivity** – often significantly higher – than the UK
9. Gross **expenditure on research and development is higher** in most of the comparator countries
10. **Business investment is higher** in all the comparator countries for which we have data, in most years

It then discusses the current economic context, presenting arguments to show that:

- The status quo no longer offers stability and continuity
- Relative to its European peers, the UK model is increasingly outmoded
- The comparator countries of Scotland's size have consistently out-performed the UK across a range of economic and social indicators and
- Scotland is well-positioned to learn from the experience of other nations and use the powers accruing through independence to improve economic, social and environmental outcomes significantly

Scotland's strengths: in many regards Scotland possesses similar – or greater – natural resource endowments and intrinsic advantages to the comparator nations. Indeed, Scotland has a range of assets, specialisms and capabilities that stand it in good stead to maximise the opportunities of independence quickly. In addition to our vast natural and renewable energy resources, these include (but are not limited to):

- A strong and globally recognised track record of invention, innovation and learning
- Strong business sectors and a welcoming business environment
- Natural heritage and capital providing exceptional opportunities for tourism and underpinning a unique and recognised brand, and
- World class universities

Further evidence is presented across four main areas:

i) Macroeconomic outcomes: the comparator countries perform well against the UK on a range of macroeconomic indicators such as GDP per head, employment rates and debt and deficit as a percentage of GDP. They have benefitted from effective monetary and fiscal management by credible institutions which has created the stability on which these countries have built and sustained economic dynamism and social solidarity.

ii) Economic dynamism: the comparator countries have higher productivity and business investment, invest more in research and development and register more patents per million of population. The comparator countries also tend to perform strongly across the various global surveys of innovation and competitiveness e.g. the World Economic Forum's Global Competitiveness Report.

iii) Social solidarity and quality of life: the comparator countries perform particularly strongly across a range of measures – they have lower rates of poverty and income inequality and higher rates of social mobility. The better social outcomes achieved in the comparator countries are reflected in the more established surveys and indices of happiness and wellbeing such as the United Nations Human Development Index and the OECD's Better Life Index on which all the comparator group score higher than the UK.

iv) The labour market: again, the comparator countries perform well across a range of measures. Most have higher average wages; all have lower prevalence of low pay; all have a lower proportion of income accruing to the top 1%; most have a narrower gender pay gap and fewer people at risk of in-work poverty.

Note that not all the comparator countries out-perform the UK on every indicator listed in this section. But the best-performing comparator countries perform better than the UK across many. And what really distinguishes these nations is their ability – sustained over the long term – to marry economic dynamism with deep social solidarity.

Discussion

The paper then:

Assesses common factors contributing to the relative success of the comparator nations. It notes that all national models differ to some extent and focuses on some common characteristics shared across most of comparator nations. These include:

- More universalistic social security regimes, including more generous out of work benefits
- More effective labour market policies including significantly higher investment in training/reskilling
- High quality business locations
- Effective social partnership - cooperative relationships between business, labour and government in pursuit of shared objectives, and
- More progressive forms of ownership and governance e.g. higher prevalence of cooperatives and mutual

Discusses factors helping to explain the UK's relative poor outcomes:

- Short-termism/corporate governance – the UK has a distinct approach with negative outcomes in terms of productivity, investment and inequality
- Inconsistent industrial policy – characterised by a lack of commitment, weak institutions and multiple co-ordination failures
- Deregulation – facilitating 'low road' approaches to competitiveness through cost minimisation and work intensification rather than 'high road' approaches based on patient investment and greater focus on skills formation/utilisation
- Labour market inequality - a relatively high proportion of both low wage workers and very high earners
- De-institutionalisation - the UK also has few of the deliberative and co-ordinating institutions common in Europe's co-ordinated market economies

Highlights some specific approaches/initiatives that are characteristic of the comparator country models – the paper discusses:

- Sweden's Job Security Councils – a social partner led initiative to assist workers at risk of redundancy retrain for new opportunities
- The Danish Disruption Council – a joint endeavour between Government, business, unions and academia to ensure the Danish model evolves to meet the technological challenges of the 21st century
- Danish Industrial Foundations – Denmark has high prevalence of this distinct form of ownership associated with a range of positive outcomes

Conclusions

- An independent Scotland could not be transformed to match the success of the comparator countries overnight.
- However, what is clear from the evidence presented in this paper is that dependency on decision-making by UK Governments has led to outcomes that fail to match Scotland's potential, and with the damage of Brexit, will in fact mean Scotland finding it ever harder to achieve that potential both in the short and long terms.
- No two national models are the same. A key lesson from the experiences of the countries considered above is that models evolve to reflect national circumstances, specific challenges, cultures, traditions and institutional legacies.
- Countries of a similar size are achieving better outcomes than Scotland is able to achieve as part of the UK. These countries serve as working examples of the possibilities for and options available to an independent Scotland.
- The evidence also suggests that the full powers of independence are necessary to build a successful model in which deep social solidarity and economic dynamism become mutually-reinforcing.
- There will of course be a range of views about precisely how and whether progress in Scotland with those full powers can be achieved. Independence by itself will not guarantee improved performance: that will be determined by the quality of decision-making. The *Building a new Scotland* series will set out the Scottish Government's proposals and we look forward to a national debate about how as an independent country we can create a wealthier, happier and fairer Scotland.

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