

Building Prosperity

Building a competitive Scottish economy

Introduction

With Labour the economies of both the UK, since 1997, and the Scotland, since 1999, have flourished.

The platform of economic stability introduced and maintained by Gordon Brown has allowed for:

- more jobs
- fewer unemployed
- consistent growth
- rising living standards

While Labour at Westminster has supplied this essential stability and UK wide growth, Labour in Scotland, through the new devolved Parliament, has supplied the imagination and business friendly policies that have allowed Scotland to enter a new era in its economic performance.

Working together over the last decade, Labour in Westminster and in Holyrood have transformed the Scottish economic scene:

- reversed the mass unemployment experienced under the Tory years
- reversed the age old trend of net out-migration to one of net in-migration
- cut child poverty by 34 per cent and on target to abolishing it completely by 2020
- achieved economic growth for the last three years above the long term average
- encouraged the flourishing of Scotland's financial services sector

Bold and innovative policies have led to this revival in the UK and Scotland's fortunes:

- independence for the Bank of England in setting interest rates
- tackling youth and long-term unemployment through the New Deal and other initiatives

- introducing increased child support and a new minimum wage
- renewing Scotland's primary source of future knowledge, its schools
- bringing innovation and industry closer together by combining Enterprise and Lifelong Learning into one government Department
- assisting key new industries of the future to become established in Scotland, like in life sciences and renewables energy
- boosting the Scottish labour market through the Fresh Talent Initiative

So a combination of **stability** at the UK level and **innovation** at the Scottish level is leading us towards a new Scotland by delivering a thriving Scottish economy.

This is evident throughout Scotland, from Inverness in the North, to Aberdeen, Dundee and Edinburgh in the East, to a resurgent Glasgow in the West. Scotland is delivering just as Labour is delivering.

But Labour, acting both North and South of the border, knows that this is not enough. There are still big challenges to overcome, and opportunities to meet.

Scotland has come a long way in the last 10 years with Labour in government. It has seen the increasing global economy, and the fierce competition that comes with it, as a challenge and an opportunity and not as something we can withdraw from or opt out of. And the pace of change will quicken, not slacken, so we always need to be sharp and ambitious.

In the third term of the Scottish Parliament, Labour will be ambitious for the future. We will accelerate the pace of development and progress, because now is not the time to stop progress or change direction. We remain ambitious for the future, and recognise the challenges ahead:

- to upskill our people, and become the most highly skilled and educated labour market in Europe;
- to attract the brightest and the best people to live and work in Scotland;
- to retain the hard won economic stability that is the basic platform from which all other benefits flow, and;
- to spread the benefits of economic prosperity more widely, specifically to abolish the 'NEET' (young people not in education, employment or training) problem that sees too many young lives written off early.

Scotland has a history of economic and intellectual dynamism. But at times in the twentieth century it lost its way, lost its economic confidence. Under Labour that confidence has been restored and the economy is once again beginning to lead instead of lag on the international stage:

- in life sciences
- in creative industries
- in financial services
- in energy services, both traditional and new, and;
- in the tourism and food & drink sectors.

In short, the combination that has already worked well for Scotland - **stability from the UK alongside dynamism from within Scotland** – is the right one to deliver rising prosperity for all Scots in the years to come.

This briefing paper will highlight:

- The strong performance of the UK economy
- That the Scottish economy is picking up the pace
- Evidence on how the SNP try to distort the performance of the Scottish economy and why their economic myths are wrong
- How Scotland's positive performance is increasingly being acknowledged by political and economic commentators
- The Way Forward to continuing the improvement in Scotland's economy

A stable, dynamic and successful UK economy

Despite contending with global imbalances, exchange rate uncertainties and high commodity prices, the UK economy has gone from strength to strength under Labour. There can be little doubt that Scotland benefits from the stability and security of being part of a bigger nation state, particularly when the UK economy is one of the most stable, dynamic and successful economies in the world.

- The UK continues to experience its longest unbroken expansion: currently 58 quarters. Since 1997 the economy has grown by almost 30 per cent and is around £250 billion bigger. This the longest period of sustained growth in our history.
- In the past 9 years, inflation rates have averaged less than half their rates between 1979 and 1997. And low inflation has gone hand in hand with low interest rates – on average half the rate that they were in the 18 years before 1997.
- In 1996 UK Gross Domestic Product (GDP) per capita was bottom of the G7; it is now second in the G7.
- More people are in work than ever before across the UK, with employment hitting a record high at over 29 million people – that's 2.6 million more people in work than in 1997.
- Mortgage rates have been at their lowest since the 1950s and mortgage costs have been slashed.
- Business investment has risen by over 50 per cent since 1997, one and a half times stronger than in the previous nine years.

External experts agree that the UK's macroeconomic performance has been excellent. In recent reports:

The OECD describes the UK as a **“paragon of stability”** and as a **“goldilocks”** economy (October 2005)

The IMF emphasised, **“Macroeconomic stability remains remarkable” being “supported by sound policies implemented by strong institutions and underpinned by monetary, fiscal, financial and structural policy frameworks that have increasingly instilled confidence in the authorities’ conduct of macroeconomic policies.”** (March 2006) And last month the IMF noted that **“Macroeconomic performance remains impressive.”**

The IMF also highlighted that **“..a flexible and dynamic labour market is one of the UK economy’s key strengths.”**

And in February 2007 the Economist was prompted to say of The State of Britain – **“You’ve never had it so good”** – and that it is **“enjoying a period of extraordinary prosperity”** with **“social gains as well as economic ones”**.

Scotland the good – our improving economy

Scotland has come a long way in the last quarter century. From the era of record unemployment and personal despair that marred the 1980's Scotland has managed to transform its old economy into an emerging new economy. Since 1997 that transformation has been accelerated by core government policy decisions.

Thanks to our strong and stable economic partnership with the rest of the UK, in the period since devolution and Labour leading the new Scottish Parliament, Scotland has experienced:

- The highest share of working age people in employment since records began (in 1992) and above the UK share since 2003.
 - The best employment rate of the UK home nations – and amongst the very best in the whole of Europe.
 - Unemployment at around its lowest ever recorded level and rate, and below the UK rate for the first time since 1992.
 - Economic growth in Scotland in every year since Labour have been back in power and above the long term average for the last 3 years.
 - In the 5 years since 2000, Scotland's Standard of Living has grown slightly above the rate of the UK as a whole.
 - Growth in gross weekly earnings has been higher than the UK average in 3 of the last 4 years.
 - Overall net in-migration in recent years is reversing over half a century of net out-migration. For the last two years in-migrants from the rest of the UK have exceeded out-migrants, in every age group.
- In 2004 Scotland ranked first in the UK in terms of research and development spending undertaken by the higher education sector as a percentage of GDP, and is one of the top four international (OECD) performers by this measure.
 - Between 1995 and 2000 income from tourism barely changed, between 2000 and 2005 it grew by over 20 per cent in real terms.
 - Output from the financial services has risen by almost 90 per cent, in real terms, since 1998.

The reality of Scotland's economy – good and getting better

Employment

- Highest share of working age people in employment since records began (in 1992)
- Scotland's employment rate (76.1 per cent) around or above the UK rate since 2003, among the highest in the EU 25 and better than every G7 country.
- This is in contrast to our position in 1997 when Scotland's employment rate was 2.5 per cent lower than the UK
- There are 216,000 more people in work since devolution and over 250,000 more since 1997.

Unemployment

- Scotland has a low unemployment rate by international standards, significantly below the euro-zone rate and the OECD rate.
- Unemployment in Scotland is currently around its lowest ever recorded level and rate.
- The Scottish unemployment rate is below the UK rate, in contrast with 1997 when it was significantly higher.
- The number of Scots on the dole has halved since the Tories left office
- Long term unemployment in Scotland is down from a high of almost 40,000 in 1994 to around 4,000 since 2003.
- Youth unemployment in Scotland is down from a high of over 30,000 in 1993 to under 4,000 since 2001.

Standard of Living

- In the five years since 2000, Scotland's Standard of Living (as measured by Gross Value Added per head) has grown slightly above the rate of the UK as a whole.
- The most recent data shows that in 2005 Scotland's Standard of Living grew faster than the UK as a whole.
- Scotland's Standard of Living is the highest in the UK outside of the expensive South and East of England.
- At county level, North East Scotland comes out third best in the UK.
- At unitary authority level, the City of Edinburgh is second best in the whole of the UK, after Inner London West
- Growth in gross weekly earnings has been higher in Scotland than the UK rate in three of the last four years
- Scotland and Wales had the highest growth in average gross weekly earnings between 2002-2006.
- The average house price in Scotland is lower than in any other UK region, except the North of England. So as well as good growth Scotland remains relatively affordable.

Growth

- Scotland has enjoyed growth in every year since Labour 1997, despite various economic and financial crises around the world

- Productivity growth in Scotland has been above the UK rate in each of the last three years.
- 'Scottish Business Insider' estimates that profits at Scotland's 500 biggest companies rose by 27 per cent in 2006, and turnover by almost 23 per cent.
- Latest data shows that research and development expenditure grew by 16 per cent in real terms in 2005 and by 29 per cent in real terms since 1999. This is evidence of long needed catch up on UK investment levels.
- This latest data also shows that Scotland performs very well in terms of research and development undertaken by the higher education sector and in 2004 ranked first in the UK in terms of spending as a percentage of GDP and as one of the top four international (OECD) performers.
- UK remains the top destination in the world for inward investment and Scotland's own figures reflect this positive position – a recent IBM survey shows Scotland received 20 per cent of all jobs from inward investment in 2005, the top performing area of UK.

Population and Migration

- Scotland's population is projected to rise rather than fall over the next decade
- There has been net inward migration in recent years after decades of large net outward migration. Bucking a trend which goes as far back as the mid-nineteenth century.
- For the last two years in-migrants from the rest of the UK exceeded out-migrants, in every age group.

Innovation

- The latest survey data for 2002-2004 found that 56 per cent of Scottish firms were 'innovation active', up 12 per cent since the last survey of 1998-2000
- The same survey found that, at 65 per cent, Scotland, jointly with Eastern England, was leading all other UK regions in terms of firms introducing new products to the market.
- Scottish Higher Education Institution's generated more revenues from intellectual property than any other UK region, bar the West Midlands.
- Scottish Higher Education Institution's outperformed the UK average in terms of patents, both filed and granted, as well as in terms of spin-offs and their commercial longevity.

Life Sciences

- Scotland is truly world class in stem cell research and regenerative medicine. The Scottish life science industry is one of the fastest growing industries in Europe.
- The Scottish Centre for Regenerative Medicine is likely to be equalled only by one in Kobe, Japan. It will house 220 academic researchers, confirming Scotland's position as one of the leading countries in the rapidly expanding field of stem cell research.
- Scotland is already home to 15 per cent of the UK's life science companies, adding up to nearly 600 organisations and 30,000 employees.

Tourism

- Between 1995 and 2000 income from tourism barely moved, between 2000 and 2005 it grew by over 20 per cent in real terms.
- The latest data shows a 14 per cent increase in the number of visitors in the first 9 months of 2006 than in the previous year, 16 per cent in the case of visitors North America.
- Airline routes to and from Scotland have expanded considerably since devolution, with the launch of over 30 European and long haul services and with some 32 new routes reported to be planned in the next 12 months.

Financial Services

- Employment in Scotland's banking sector has increased by well over 50 per cent since 1998
- Output from the financial services has risen by almost 90 per cent, in real terms, since 1998 and is growing faster than the European and UK financial sectors.
- In terms of employment the Scottish sector is growing much faster than the City of London.
- While Edinburgh remains the centre of Scotland's financial sector Glasgow is now firmly on the financial services map. In 2005 Glasgow is estimated to have had over 26,000 people working in the financial services sector. Over the past year Glasgow's International Financial Services District has newly attracted or increased in size the representation by First Data, ACE Instruments, Barclays, JP Morgan and Morgan Stanley.

Skills

- Government projections based on the Leitch Report, predict that, based on current trends Scotland will perform relatively well at the upper end of the skills distribution both internationally and in comparison with the UK, with the proportion of people in Scotland with tertiary qualifications being considerably higher than the UK and in line with the USA.
- The Leitch report confirmed that Scotland was in the top quarter of the training league table among OECD countries.
- Well over a third of Scotland's workforce are either further or higher education graduates.
- There are now 34,000 modern apprentices.
- Over half of Scotland's young people now enter either full time further or higher education.

The SNP talk Scotland down

Perhaps Scotland's economic self-confidence would be higher if it wasn't continually being rubbished in order to score cheap political points.

The SNP peddle a peculiar brand of nationalism that instead of being positive and saying 'Look how good we are' insists on being negative and saying "Look how awful we are". It is a rather perverted mind-set that involves being proud of your country but at the same time willing, at the drop of a hat, to show it in as bad a light as is possible.

And the truth is that for too long they have negatively influenced the debate and outlook on the Scottish economy.

It is time to stand up for the Scottish economy, for what it has achieved, for what it is achieving and for what it can achieve in the future if the building blocks so carefully put in place can be built upon further rather than torn down.

First of all we need to deal with some of the SNP's negative myths.

SNP Myth 1

The SNP claim Scotland's economy has for decades been out performed by the rest of the UK and other countries

"Scotland, as part of the Britain, is slipping down world wealth and quality of life tables."

"We have less money in our pockets, lower wages and higher interest rates"

Alex Salmond, SNP press release 13 November 2006

"in the Union, Scotland's competitiveness has eroded, resulting in years of lower growth (and) population decline"

Jim Mather, Sunday Times, 4 February 2007

Scottish Facts

Gross Domestic Product per person is the internationally accepted standard used for measuring the 'standard of living' and for Scotland this has been rising at a very similar rate to the UK's in recent decades and above the UK rate post 2000.

If the decades long, slower growth claimed by the SNP was reflected in average incomes then Scotland would have a much lower living standard than the UK, whereas in fact it is only a few percentage points lower (at around 96 per cent it is the highest in the UK outside of the expensive South and East of England) and above that of the OECD and EU15.

Scotland is one of the richest countries in the world. Based on the OECD's definitions it would fit comfortably into the category of 'high-middle income group' along with the UK, Japan, Sweden and Australia.

[Note on Ireland: Ireland has caught up with the UK and Scotland but not leapfrogged it. In Ireland's case GDP per head is inflated by its large foreign sector which repatriates profits. Once this is adjusted for (as recommended by the OECD and most Irish commentators e.g. the Economic and Social Research Institute), then Scotland and Ireland's standard of living is very similar. This is amply demonstrated by the OECD on page 35 of their 2006 Factbook)]

SNP Myth 2

The SNP claim Scotland's population is haemorrhaging as Scotland exports its best young people.

"We are haemorrhaging people and wealth"
Jim Mather, Newsnight, December 2005

Scottish Fact

For the first time in many decades, going back as far as the mid-Nineteenth Century, Scotland has been experiencing net inward migration in recent years. Its population is slowly rising. As with every other country it is the young who tend to migrate, this is no different in Scotland where immigration and emigration are both dominated by young people. But for the last two years in-migrants from the rest of the UK exceeded out-migrants, in every age group.

Scottish researchers looking at Scottish migration to the south-east of England have found that;

“the vast majority of Scots coming back to Scotland are people in their late 20’s and early 30’s.” “The trend seems to be a positive trajectory, going from a net loss in migration to a net gain.” “People don’t move back to Scotland for the fresh air, they only come back if economic conditions permit them to do so.” “Scots are finding these opportunities and English people are also coming north.”

The Scotsman, 2 January 2007

SNP Myth 3

The SNP claim Scotland’s business competitiveness is poor

“in the Union, Scotland’s competitiveness has eroded, resulting in years of lower growth (and) population decline”

Jim Mather, Sunday Times, 4 February 2007

“Scotland is ranked 12th amongst the EU15 + Scotland.”

‘Let Scotland Flourish’, SNP policy document, page 7.

Both quotes above stake their claim of poor competitiveness solely on one measure, the IMD Scoreboard.

Scottish Fact

Competitiveness indices like the Economic

Freedom of the World Index has the UK equal sixth, and second in Europe, and the Heritage Foundation/Wall Street Journals Index of Economic Freedom shows the UK fifth in the world and third in Europe. As Scotland has a very similar competitive environment to that of the UK it will share in these high rankings. The Financial Times FDI Magazine rated Scotland the European region of the Future 2004/05.

The SNP’s beloved IMD Scoreboard has Denmark and Finland in the top two positions and yet the SNP does not propose mimicking them.

SNP Myth 4

The SNP claim a growing Scottish deficit, (as shown in GERS) belies any claims that the Scottish economy is doing well

“Either the (GERS) figures are correct, which would mean that after almost 10 years of economic mismanagement of Scotland by London Labour we are in a poor economic position....Or, these statistics are misleading and inaccurate.”

Stewart Hosie, SNP Treasury Spokesman, 11 December 2006

Scottish Fact

The GERS statistics are not misleading or inaccurate. The existence of a fiscal transfer or Union Dividend is simply part of resource, risk and revenue sharing that provide the economic rationale for a unitary state.

In the 1980s Scotland was in technical “surplus” but suffered mass unemployment and a recession. Scotland receives a greater than population share of expenditure, for legitimate geographic and social reasons.

A growing UK economy (of which Scotland is part) along with government policy has contributed to rapid increases in government expenditure. As, such the Union Dividend has grown in recent years.

“To see ourselves”

More and more commentators are beginning to see through the SNP's carefully constructed partial picture of the Scottish economy. The SNP's unrelenting emphasis of the negative cannot obscure the everyday reality of a wealthy country with an improving economy.

“In Edinburgh and Glasgow it is easy to see that devolution has put a spring in people's step. Glasgow has become Britain's third most popular tourist destination.... and is building up a base of financial firms.”

The Economist, 3 February 2007

“the particularly pleasing news from this week's GDP figures is that this latter trend of a better performing Scottish economy is continuing.”

Peter Jones, The Scotsman 26 January 2007

“Scotland is doing a lot better than is generally supposed. We have been telling ourselves for so long we're a dismal failure as a nation we're in danger of actually believing it. Scotland already has one of the highest rates of GDP per head in the world.”

Iain MacWhirter, Sunday Herald 28 January 2007

“Scotland has been doing well as part of the union, even if many Scots refuse to acknowledge it.” ... “Scotland's performance has, in many respects, been good.”

David Smith, The Sunday Times chief economist, 28 January 2007

“the significant medium term trends show an economy undergoing significant change in how it does business. It is leaving behind the traditional dependence on major employers, notably heavy industries and manufacturing, and becoming flexible in its approach to business and employment.”

Douglas Fraser, The Herald 12 December 2006

“The long-established tendency to look for a downside in the Scottish economy has diverted attention from the fact that it has been ambling along nicely with the highest degree of stability in the whole OECD”.

Andrew McLaughlin, RBS's Chief Economist, The Scotsman, 9 October 2006

Building a competitive Scottish economy

Labour believes there is a real benefit to partnership and collaboration. Continuing being a part of this stable UK economy is the strongest foundation from which Scotland can address the great global challenges ahead. Instead of retreat into isolationism, Labour will progress forward through partnership.

Globalisation can provide a world of opportunity but it challenges us to change too. We must not be complacent and hope that we get to keep our high skill jobs. The new economies will compete for those jobs too.

The world we live in is rapidly changing. International trends are so powerful, they have the potential to change our way of life, the way we work and the way we learn.

And the pace of technological change is ever quickening. When the television was launched, it was 20 years before there were a million viewers, while it took mobile phones just 3 years. Labour's job is to help prepare Scots for the enormity of future challenges.

More than at any time in the past our young Scots need to be prepared for that world and the competition it will bring.

In this new world, education is the most important tool we have. Scotland is a land of beauty and great natural resources; but our greatest resource is our people. Our mission is to unlock that natural resource, to realise the potential of our people, and the potential for our nation.

Once Scotland's education system gave us a cultural advantage, now it gives us a competitive advantage.

Investment in education is the purest form of investment. It is the investment that drives all else. That is why Labour's third term in the Scottish Parliament will be defined by the next

bold steps that will improve the education of Scots.

We want young Scots to learn well at school and to learn how to learn throughout their lives. We want to raise attainment and achievement at every level and ensure schools give young people the range of experiences that will equip them for the world they will occupy.

Labour is ambitious for Scotland. It recognises its strengths and applauds them. It acknowledges remaining weaknesses and tries to strengthen them. It supports Scotland's industry and seeks to sustain the momentum of economic progress witnessed since devolution. We are on a journey of celebration and hope where others prefer to see only despair.

Labour is positive about Scotland because there is a lot to be positive about.

