

Minutes of the Sixth Meeting of the Council of Economic Advisers

Bute House, Edinburgh, 12th November 2014

The following Members of the Council were present:

First Minister Alex Salmond MSP
Crawford Beveridge (Chair)
Dr Kirsty Duncan
Professor Andrew Hughes Hallett
Jim McColl
Professor Sir James Mirrlees
Lady Susan Rice
Professor Louise Richardson
Professor Frances Ruane

Also present:

Dr Gary Gillespie, Chief Economist, Scottish Government
Dr Graeme Roy, Deputy Director, Office of the Chief Economic Adviser, Scottish Government
Mia Ayres, Deputy Private Secretary to the First Minister, Scottish Government
Kevin Brady, Economic Adviser, Office of the Chief Economic Adviser, Scottish Government

Present during the Economic Opportunities for Women item:

Dave Signorini, Head of Communities Analytical Services, Scottish Government
Rona Sweeney, Deputy Director for Employability and Skills, Scottish Government

Purpose

This note provides an overview of the key points arising during the sixth meeting of the Council of Economic Advisers. The Meeting was focussed on Recovery and Jobs, and Economic Levers, with the latter session including items on Enhancing Economic Opportunities for Women in the Scottish Economy, and the Smith Commission.

Welcome

The First Minister and the Chair of the Council of Economic Advisers welcomed attendees and outlined the programme for the day.

Before the business of the meeting began, the First Minister thanked all current and previous Members for the contributions they had made over a number of years as Council Members.

Apologies had been received from Professor Stiglitz, who was unable to attend the meeting.

The Chair of the Council and the Chief Economist highlighted the main developments since the meeting of 7th March:

- The second Annual Chair's Report had been published in May 2014. This provided a summary of the Council's work over the previous year, and the Chair thanked Members for their input into the Report prior to its publication.
- The Chair and Jim McColl attended the Commonwealth Games Business Conference in July 2014.
- The Chief Economist had met with Professor Stiglitz in New York in May 2014, and subsequently in Edinburgh in August 2014.

Although it was entirely separate to their membership of the Council, it was noted that Lady Susan Rice and Professor Hughes Hallett had been appointed to the Scottish Fiscal Commission, with Lady Rice being appointed as Chair. The SFC came into operation on a non-statutory basis during summer 2014 to scrutinise tax revenue forecasts underpinning the 2015-16 Draft Budget, and published its first report on 9 October 2014.

Session 1: Recovery and Jobs

Update on Developments in the Scottish Economy

The Chief Economist provided an update on recent economic developments. Points discussed during this update included:

- The global economic recovery remained strong, but growth and recovery were unevenly spread, with the UK and USA growing more strongly than the Eurozone.
- The Scottish economy had grown continuously for two years, with employment levels and GDP having passed their pre-recession peaks. However, employment rates and the full time share of employment were yet to recover to pre-recession peaks, while real wages remain significantly below pre-recession levels.
- A number of areas of opportunity were noted. Domestic demand remained solid, while the Scottish labour market continued to strengthen, particularly with regard to female employment and youth employment. Both household and business confidence was continuing to improve, and business surveys and independent forecasts indicated a positive outlook for the remainder of 2014 and into 2015.
- Several areas of uncertainty were highlighted. It was noted that there were mixed conditions in Scotland's main export markets, with the strong growth in the US economy sitting alongside difficult conditions in Eurozone economies. Productivity growth continued to disappoint, while there continued to be slow growth in real wages. Further potential headwinds from the impact of quantitative easing being unwound and diverging monetary policy in the US, UK, Europe, and Japan were noted, as was the on-going growth impact of fiscal consolidation in the UK.

Session 2: Economic Levers

Enhancing Economic Opportunities for Women in the Scottish Economy

The Council were joined by Dave Signorini, Head of Communities Analytical Services, and Rona Sweeney, Deputy Director for Employability and Skills, who provided an overview of issues related to economic opportunities for women in Scotland.

It was recognised that Scotland's female employment rate is above the UK overall and many other European countries. However, Scotland's female employment rate lags behind that of several countries (including Scandinavian countries), and is markedly below Scotland's male employment rate. It was also noted that, despite performing better than men academically, women are more likely to be in lower skilled, lower paid work than men, and are more likely to be in part-time employment. It was also highlighted that female entrepreneurship rates are lower than male rates.

Several barriers to economic opportunities were identified. These include: childcare (with childcare in the UK being the most expensive in the OECD); parental leave (which is focused on mothers, poorly remunerated, and poorly linked to public childcare provision); and limited use of 'employee-focused' flexible working. These reduce the gains to work for women and mitigate against labour market attachment. The persistent gender pay gap was identified as both a consequence and a driver of this situation.

The Council noted that the Scottish Government are undertaking a wide range of policy interventions in this area. These include: expanding childcare provision; implementing the recommendations of the Commission for Developing Scotland's Young Workforce; implementing the Women in Enterprise Action Framework; and supporting CareerWise, to encourage girls and young women to consider careers in Science, Technology, Engineering and Maths (STEM).

The Council also noted that powers to address several of the structural barriers to economic opportunity are currently the responsibility of the UK Government, including around employment law, equalities legislation, welfare and taxation. These were recognised as significant levers, which can influence areas like incentives and financial returns for second earners, and requirements for female representation on boards. This suggested that, although the Scottish Government would not have the levers to directly influence private sector behaviour in these areas, it could play an important leadership role through its practice in flexible working, equal pay, and public appointments.

The Council highlighted the importance of continued efforts to expand childcare provision, particularly given the cost differentials between the UK and other countries. STEM was recognised as a particular area of importance, particularly with regard to retention rates of women within these areas, and a continued focus on this area was strongly encouraged.

Trends in the gender pay gap were considered. It was noted that the pay gap has narrowed since the economic crisis, despite recent increases in female labour supply. However, it was unclear as to the extent to which this was a temporary phenomenon, attributable to restrained wage growth in the private sector, or a

permanent change. Expansion of the Living Wage among low paid occupations was identified as an area that may mitigate against increases in the gender pay gap, and identified as an area where the Scottish Government could provide leadership to employers.

The Smith Commission

The Council discussed a range of issues related to further devolution of powers to the Scottish Parliament, in light of the work of the Smith Commission. In their discussion, the Council considered and reflected on the principles that should inform further devolution of powers. The Council also commented on several issues that had been raised in the context of the debate on the Smith Commission.

As Chair of the Scottish Fiscal Commission, Lady Susan Rice participated in the discussion on the devolution proposals in an observer capacity only. Both Lady Rice and Professor Andrew Hughes Hallett did not participate in the discussion on the potential role an independent Fiscal Commission may have under further powers.

Council Members were content for their thoughts to be shared with the Smith Commission Secretariat in order to help inform their work. This has been published separately.