From Growth to Good

a ten-year growth plan for Scotland

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Foreword by Gordon Brown

Scotland needs a plan.

We are stuck in a low-growth rut.

We need a decade of delivery to transform our economic model and give people hope of a less divided, more prosperous society, turning Scotland into a post-poverty nation.

This report today sets out our ideas on how to do so.

The need for radical change is stark; consider our recent performance.

Since 2019, growth in the EU has been less than half that of the US, at 40%.

Growth in the UK has been half that of the Euro area - at 55% - leaving us further behind.

But between 2014 and 2021, growth in Scotland has been half that of the UK, or just 48%.

While the US grew 3 times faster than the Euro area between 2019 and 2023, and four times faster than the UK – it grew 8 times faster than in Scotland over that time frame.

This is unsustainable. Without higher rates of growth, we risk a corrosive culture where people come to think of the world as a zero-sum game – where we fight to claim our share of a diminishing pie; where we reach the view that in order for us to win, somebody else must lose. It is a path we must not choose.

In this report, we set out a different, more positive vision.

It shows how, through collaboration and cooperation, we can deliver the economic growth and social gains we crave.

It demonstrates that it is by linking innovation, job creation, and poverty eradication together that Scotland can become a prosperous and fairer country and best move from the low ground - a sterile ten-year-old debate between unionism and nationalism – to the higher ground of a strong economy ending the scourge of poverty.

It shows how to build not a zero-sum society, but a win-win country.

At its heart, it sets out a vision for a new industrial sector strategy in Scotland – with a plan to radically reform the way we support innovation, research and development, skills, and investment that, together, can create a stronger economy.

It argues that the growth rates we saw in the early part of this century – of 2.5% - are achievable again.

It shows the prize of doing so: 300,000 new jobs – made up of 40,000 jobs each coming from new green energy; from advanced manufacturing and precision medicine; and from knowledge-intensive service jobs, such as the gaming sector in Dundee - plus a further 180,000 jobs that come from a boom in services and the supply chain that would follow.

In addition, the report shows how higher growth would help us get 100,000 people currently in poverty pay into higher paid work.

It also proposes how, by using the proceeds of growth to rebuild our social safety net, we could create a new Scottish Work Programme and reform our Skills Infrastructure to get 150,000 Scots currently either unemployed or inactive back into paid work.

This need not require extra government expenditure. It simply requires our governments to use existing resources more cost effectively, and more purposefully, by doing what has been missing in the last decade: greater cooperation in Scotland's interests between our many layers of government that delivers for all.

The prize is immense: our research shows we could transform Scotland's net financial position by around £6bn by the early 2030s, thanks to higher income tax receipts and reduced welfare costs.

This is ambitious but achievable – for Scotland has all the ingredients needed to create a high growth economy in the 21st century:

- three of the world's top 100 universities - and the highest per capita number of top 100 universities of any country in the world.

- With 50.4% of 25-61 year-olds holding post-secondary school qualifications, we have the highest educated population in Europe, according to Eurostat data (20% higher than the UK average of 44.7%).

- Scotland is an attractive location; Edinburgh finds that 53% of its students intend to stay in the city, thus leading the UK in the number of scientists, technicians, engineers, and mathematicians per head.

- Two of the UK's top five innovation clusters outside England's South East were the Edinburgh and Lothian region (ranked first) and Glasgow region (ranked third).

- The second most favoured area in the UK for FDI behind London.

What we need now is a recipe. Across the world, from America to Singapore, from Korea to Northern Europe, countries are entering a new era of industrial policy, showing what kind of turnarounds are possible.

We need to exploit Scotland's new and expanding centres of innovation and to create the clusters that bring together pathbreaking scientific advance and commercial enterprise.

It is time to think of Glasgow – once the home of shipbuilding – as home of precision medicine; to think of Dundee – once the home of jam and journalism – as the home of the video games sector; to think of Aberdeen – once the oil and gas capital of the UK – as the renewables home of the future.

There us much that divides us in Scotland – but I hope we can all agree that it's only by working together on the challenges and opportunities we face that we can rebuild and modernise our economy.

We should do that for the coming decade – and focus on a plan. Scotland will be a stronger economy for the cooperation we enter into together and will be able to face the future with greater resilience than ever before.

Think of what we can achieve when we come together.

We can avoid a descent into a zero-sum society, which declares that for us to win, others must lose.

We can build instead a culture of win-win where, through collaboration, cooperation and solidarity with one another, we can construct a society from which all of us gain.

A decade of delivery is possible – and with this report, we urge our political leaders to seize that opportunity.

Executive summary: Taking the economic opportunity to end poverty in Scotland

A quarter century after devolution, Scotland's economy is struggling. Healthy life expectancy is now lower than it was in 2009, educational rankings are slipping, and economic growth has lagged the rest of the UK for a decade. There's little sign of this changing without a radical break, as the decline of North Sea extractive industries, an ageing population, and a move towards less productive sectors in employment all make Scotland's growth challenge harder to achieve.

It is not just the economy that is struggling, but our approach to governing ourselves. An over-reliance on "one-size-fits-all" solutions fails to respond to the distinctive challenges facing Scotland's different metropolitan areas (of metropolitan Aberdeen, Dundee, Edinburgh and Glasgow), rural communities, and our industrial towns and regions. A lack of national focus on priority sectors has led to subsidies and policy support being spread thinly, missing any transformative potential. And business has increasingly lost faith with the Scottish Government, while the public has grown frustrated at a lack of cooperation between local government, devolved government, and the UK Government.

Scots understand this and have become frustrated with the drift in policy after a decade of debate around our constitutional future.[1] We show that Scots do have a distinctive set of policy preferences about the type of economy they want to build, and how they want the proceeds of growth to be used. Getting the level of poverty down is the top goal of Scots when thinking about the economy, followed by providing opportunity to those prepared to work for it, and better public services. In other words, Scots want an economy more modelled on social democratic principles than neoliberal ideology; one that is more Scandinavian than American.

The innovation revolution to come will reshape Scotland – for better or for worse.

But Scotland can do better. Across the world, nations are entering a new period of experimentation with modern industrial policy. Other nations and regions – for example, in northern Europe or the eastern United States – have shown that turnarounds are possible. And Scotland has genuinely global assets to build on, with the best shot in Britain outside of South East England in building an innovation-led economy.

We argue that the best way forward for Scotland is a concerted push for growth, focusing on a smaller number of better opportunities. To illustrate this, by raising growth back up to 2.5% - levels seen in the recent past - by 2028/29 over a decade we could:

· Create 300,000 new jobs, made up of 120,000 in new 'frontier' growth clusters, and 180,000 in linked jobs in the service sector and supply chain;

· Move 150,000 people out of inactivity and into the labour market;

· Lift 100,000 people off Universal Credit and into better paid work; and

· Radically change Scotland's net fiscal position - potentially by around £6bn by the early 2030s- thanks to higher tax receipts and reduced welfare costs.

The growth revolution to restore Scotland's place in the world.

To get there, Scotland needs a new growth strategy. There is no single lever we can pull, but our belief is that a whole suite of interventions – taken together and properly coordinated – can move the Scottish economy up a gear. We propose twenty-six distinct recommendations, based around four pillars:

1. **Better jobs, built around Scotland's clusters:** setting out an Industrial Strategy for Scotland based around a handful of 'big bets' in sectors of exporting strength. For each sector, there should be a dedicated 'Growth Zone', supported by a Catapult translational research centre and funded by a new Scottish Development Fund.

2. **Betters work, better skills and better pay for working people:** transforming Scotland's skills system through new "S-Level" technical qualifications, supported by colleges with university partnerships as US-style Community Colleges; and new leadership responsive to the needs of Scotland's different communities, with directly elected Provosts leading Scottish Combined Authorities and leading a renaissance of transport system, skills, and industrial clusters in their areas.

3. **Better careers and support to work for all those who want it:** launching a Scottish Work Programme and Scottish Careers Service based around new "S-Levels", while devolving the Job Centre Plus network – to offer dedicated programmes to support younger people entering the labour market; those struggling with poor mental health; those who would like to work but face expensive childcare costs; and those who face early retirement due to ill health.

4. **Better use of the proceeds of growth to meet Scotland's moral missions:** as well as automatically lifting hundreds of thousands of working adults and children out of poverty through a return to growth, we call for a fundamental review of Universal Credit and the Child Tax Credit system.

The anti-poverty revolution with the aim of making Scotland Britain's first poverty-free nation.

The recommendations in this report call for swift action. We need to move quickly, to: reset our skills system; invest in new sites and machinery to begin creating jobs within a parliament; and get leaders in place with the ability and incentive to deliver for Scotland. That will require goodwill and ambition from local, national, and UK-level political leaders.

But the size of the prize is enormous. If we can get our economy growing as fast as it ought to, then within just a few years we can radically reduce child poverty in Scotland. Within a decade, we want to achieve a goal around which all Scots can unite: to make Scotland Britain's first poverty-free nation. In a generation, we can break entrenched inequalities and build the social democratic Scotland the public demands.

Introduction: Time to make Britain's first poverty-free nation

Next year's twenty-fifth anniversary of the restoration of the Scottish Parliament will be a moment to measure how far the country has come since the late 1990s – but also to consider how far we still have to go.

Many of the same injustices and inequalities that scarred Scotland a quarter of a century ago remain with us today. In some areas, we have seen stagnation of progress – or worse.

Nearly one in four children in Scotland today grows up in poverty.[2] Drug-related deaths have quadrupled per head since 2001.[3] Scots living in North Lanarkshire or North Ayrshire will enjoy twenty-four fewer healthy years of life than those growing up in the Orkney Islands.[4]

The gap in (non-oil) GDP per head between Scotland and the UK as a whole has grown from around £1300 a year in 2013 to around £3000 a year today.[5] The growth in net migration seen since the early 2000s has stalled[6] – even as it increases in the rest of the UK.

In his opening speech to the Parliament 25 years ago, Donald Dewar, Scotland's first First Minister, declared: "We look forward to the time when this moment will be seen as a turning point." The truth is that for the more than a million Scots still suffering from poverty, low pay, and a lack of opportunity, that moment has still not arrived.

But as we begin a new chapter of the parliament's history next year, there is hope.

Scotland is emerging from a decade of constitutional division following the 2014 independence referendum; a decade which saw the country turn away from the issues of daily concern to people.

As this report sets out, Scots are united around the ideals and values we share, and the kind of social democratic nation we want to build.

Scotland has enviable resources, world-leading intellectual capital, firm economic foundations and, as a nation of the UK, the ability to play a leading role on the global stage.

Everything is in place to generate the economic vitality and prosperity to support a safety net that stops anyone falling into poverty.

In this report, we seek to show how that could be achieved.

On the economy, our diagnosis is clear: we believe government in Scotland is doing too many things on too small a scale in too many unconnected silos. Our prescription is for the Scottish and UK Governments to come together to agree a new industrial strategy for Scotland, backing our key growth sectors and places to drive up productivity and growth for all.

And we show how this strategy can be used not to make the rich richer but to unite Scotland around a new national goal – to become Britain's first poverty-free nation.

That is the ambition we believe all of Scotland can get behind and which, with focus and collaboration, is within our grasp.

The report begins by examining what kind of economic model Scots want to build; and, assessing Scotland's economic strengths and weaknesses, lays out the urgent need for growth.

It then sets out specific recommendations on how to deliver change – fast.

The need for new thinking on Scotland's economy

For a generation, Scotland's economic growth has just about managed to keep pace with its competitors. But the old Scottish growth model needs to change.

Scotland faces distinctive challenges, as North Sea oil and gas fields reach their peak, then the end of their productive lives. Scotland has distinctive preferences for how it wants to generate and share the wealth of its nation. And Scotland has distinctive opportunities, with a highly skilled population and emerging strengths at the frontier of the world's economy.

The economic status quo is holding back Scotland from being the country it could be for its people. We need a plan and a compact to get to a better future.

In the last decade, Scotland has made too little progress in becoming, healthier, happier or cleaner:

o Even pre-pandemic, healthy life expectancy was declining (by two years, 2015-17 and 2019-21).[7] Healthy life expectancy is lower now than it was in 2009-11, for both males and females.

o Scotland's global educational ranking is in decline, with maths and science results especially falling to records lows in international league tables.[8]

o The proportion of Scots living in persistent poverty has stayed the same - and increased amongst children, after housing costs - despite the introduction of the Scottish Child Payment.[9]

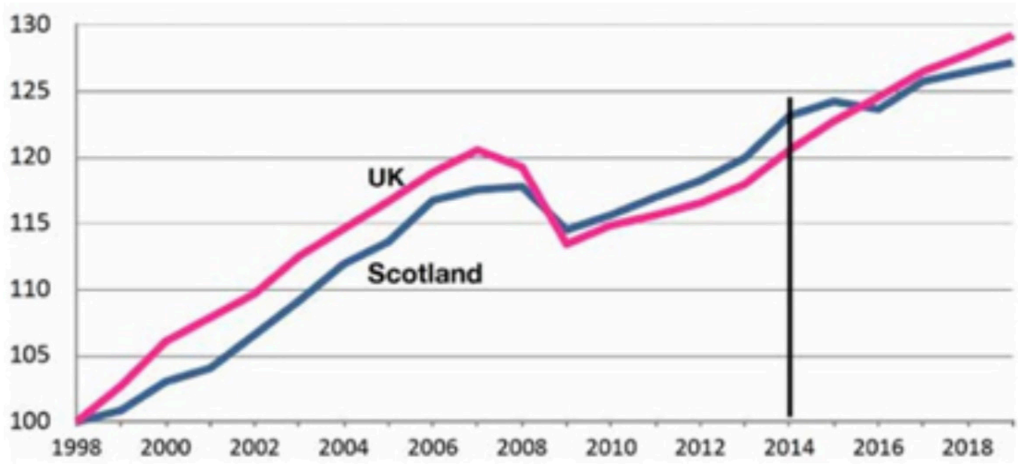
o Carbon emissions have not meaningfully declined in the last 5 years (for which we have figures).[10]

Public opinion polling suggests a widespread belief that a decade of constitutional division has left Scotland 'stuck in a rut' (53% agreed, with just 10% disagreeing).[11]

Scotland's flatlining economy is no longer producing the prosperity needed to allow Scotland's governments to drive progressive change.

Scotland is living through a period of prolonged economic stagnation. Between the result of the independence referendum in 2014 and the outbreak of the Covid-19 pandemic in early 2020, Scottish GDP per head grew at less than half the rate of the UK – 0.65% compared to 1.4% (see Figure 1: **GDP per person, Scotland and the UK, 1998-2019**)

Figure 1: GDP per person, Scotland and the UK, 1998-2019.



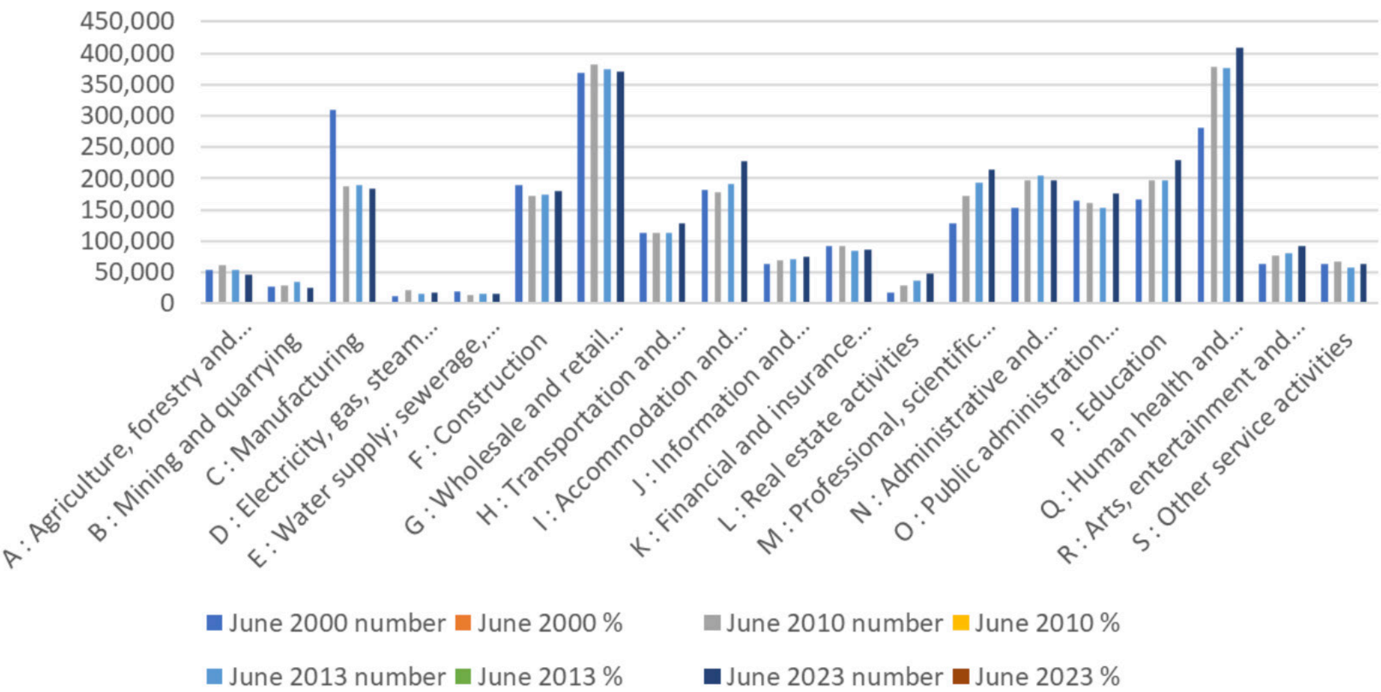
Source: Scottish Government National Quarterly Statistics, May 2022

Even adjusting for the effect of the North Sea oil and gas industries (where revenues have surged since the start of the Russia-Ukraine conflict following decline in the 2010s), economic growth has materially lagged the rest of the UK. Scotland may even currently be in a shallow recession, with data for the second quarter of 2023 estimating a 0.3% fall in GDP quarter-on-quarter.[12]

There are clear structural reasons behind this trend: a move towards lower productivity sectors across the economy; and the beginning of the decline of the North Sea oil and gas sector.

Fewer Scots are employed in sectors associated with high productivity and growth, such as professional, scientific and technical services, and more in lower productivity sectors such as health and social work. This has changed little over time – as Figure 2 sets out below – with the only substantive shifts in the past decade being away from manufacturing and wholesaling and towards education, hospitality, and healthcare. Scotland ranks 16th out of 38 countries in terms of its productivity.[13]

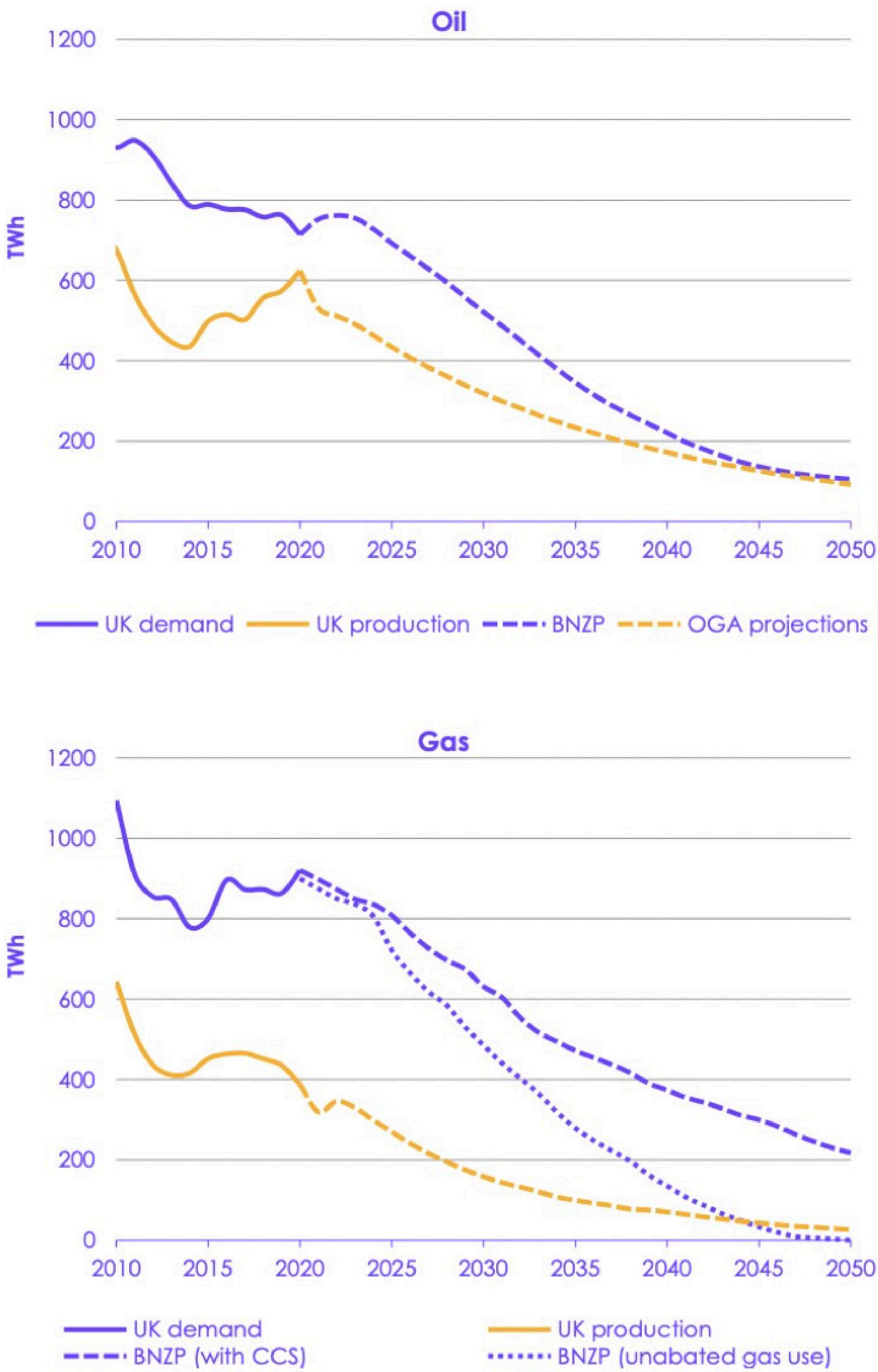
Figure 2: Shifts in Scotland's sectoral employment share over time.



Source: Nomis

As Figure 3 sets out below, oil gas production is expected to decline at a consistent rate over the next three decades – a trajectory that will not substantially change even if additional exploration and extraction licences are granted.

Figure 3: Projects for UK oil and gas output to 2050.



Source: Carbon Brief[14]

And Scotland's recent record as an entrepreneurial hotspot is poor: business investment, the number of businesses per head of population, and our business birth rate are at or near the bottom of the UK league table.[15] In 2020, Scotland represented 6.2% of the UK's total private sector business base, far below its relative UK population (16+) share of 8.4%.[16]

Taken together, these factors explain why an hour worked in Scotland today generates the same value as it did in 2015.[17] Real wages paid to Scots have declined from above the UK average to in-line; while mean household disposable income has remained consistently lower in Scotland.[18]

As a result, the Scottish Government budget is facing real terms austerity, as it can no longer afford inflation in public sector costs and pay. This comes despite higher taxes for those earning above £35,000 than in Scotland compared to England; a Scottish taxpayer earning £50,000 in 2023-24 will pay £1,552.48 more than someone earning the same salary in other parts of the UK.[19]

The signs of relative decline and a hollowing out of our great towns and cities is apparent everywhere.

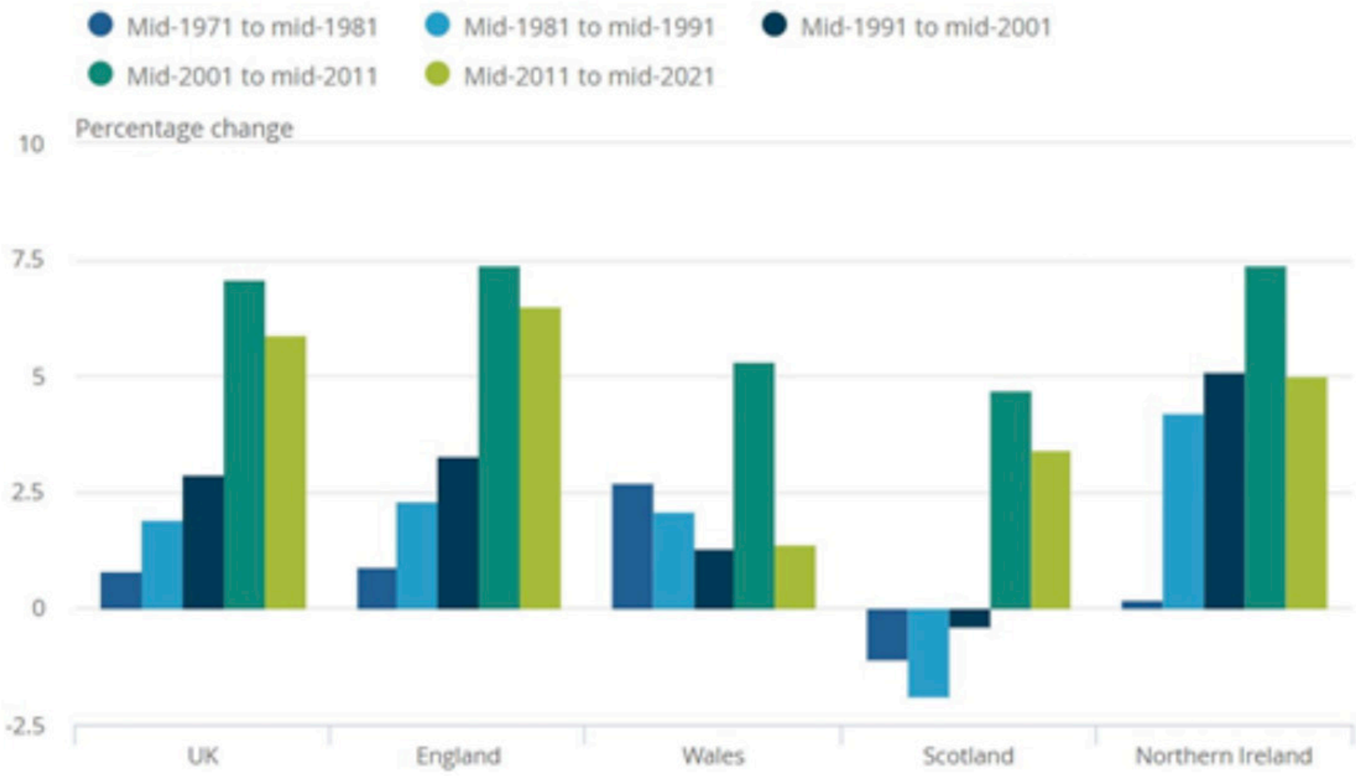
Productivity stagnation and sectoral shifts have knock-on effects in Scotland's real economy. Scotland ranks eighth out of 11 areas UK-wide for the highest shop vacancy rates: one in six shops in our high street lie vacant.[20]

We are building far fewer homes than we used to (even in the 2000s). In 2020-21, 14,798 new build houses were completed in Scotland, a decrease of 7,241 homes (33%) on the previous year.[21]

Too many of our young people leave education and become under-employed: a higher proportion of Scottish graduates are now in non-graduate jobs than any other part of the UK (>50% of recent graduates). The proportion of graduates in medium- and low-skilled employment in Scotland has more than doubled over 30 years, from 10% in 1992 to 23% in 2022.[22]

Our population is in relative decline, because we are not attracting enough immigrants or creating an environment where young people want to have children. Over the last fifty years, Scotland's population has had two decades of decline and three of lower growth than the rest of the UK.

Figure 4: Mid-year population change for the UK and its constituent countries, decennial intervals, mid-1971 to mid-2021



Source ONS

It shouldn't be this way – Scotland has so much more to offer.

Scotland has a host of advantages in the modern economy, from a strong skills base to world-class universities; natural and geographic advantages for a cleaner model of growth; successes in particular sectors, such as high-end food and drinks and cultural exports; and proximity to the markets of Western Europe and the US East Coast.

There are many places that have made themselves more prosperous from a similar position. As diverse a set of places as the Basque Country, Philadelphia, North West France or urban Sweden have turned themselves around over the past few decades. In each case what was needed was a plan and a compact: a long-term strategy for growth agreed on in broad brushstrokes by all political parties, with active state involvement; and a compact that the benefits of growth should be enjoyed widely.[23]

Regardless of who forms the next UK or Scottish Government, or whatever happens in the longer-term constitutionally, alternative steps can be taken to shore up jobs and public services in Scotland and reduce poverty.

As this report shows, Scotland wants to see growth for a purpose; not to create a society of 'winners' and 'losers' but to use the proceeds of a growing economy to eradicate destitution from our nation.

This report sets out the outline of an economic plan behind which we believe Scotland can unite, and how that could translate into a compact with its people to hand down a healthier, greener, more prosperous and poverty-free Scotland to future generations.

“The signs of relative decline and a hollowing out of our great towns and cities is apparent everywhere”

The Scottish Economic Dream: Pay, skills, and social justice

In a democratic society the shape of the economy – how we spend our time, where we put our collective resources, and how we distribute the proceeds – ought to reflect the priorities of the public.

With that in mind, we begin by presenting the findings of original research commissioned by Our Scottish Future, using polling data and focus groups, to help set out how Scots think about the economy they want to build.

Our findings are stark. There is a clear majority, regardless of views on Scotland's future constitutional status, in favour of a Scotland with low levels of poverty, high quality services, a clean, carbon neutral economy, and opportunity to all those prepared to work for it. People aspire more for day-to-day financial security than asset accumulation and put reducing poverty and homelessness at the top of their wish list for the Scottish economy.

The Scottish economy that politicians ought to build, then, is one based on good growth: modelled on social democratic principles of an active state shaping the economy, rather than purely neoliberal ideology of government 'getting out of the way' and letting the market do the rest.

Scots prefer an economy that prioritises anti-poverty measures and a broader base of personal security.

First, we find that people tend to think about the economy through three lenses: the personal; the local; and the national:

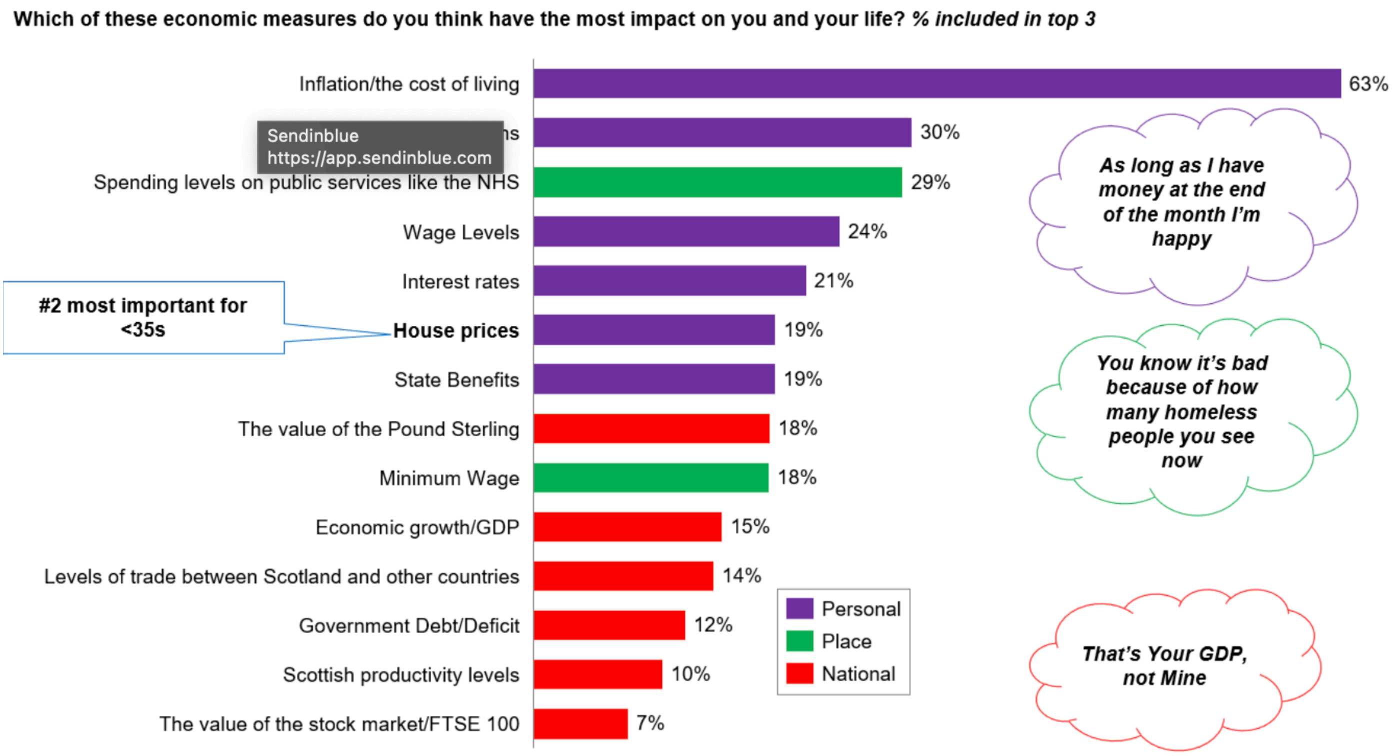
· The **personal economy** responds to the price of everyday goods or utilities like energy, as well as headline figures like house affordability, wages or pensions;

· The **local economy** is a measure of the quality of local public services, house prices, local unemployment and poverty and the quality of infrastructure; and

· The **national economy**, which becomes more abstract and understood in terms of productivity, GDP, the stock market and trade balances.

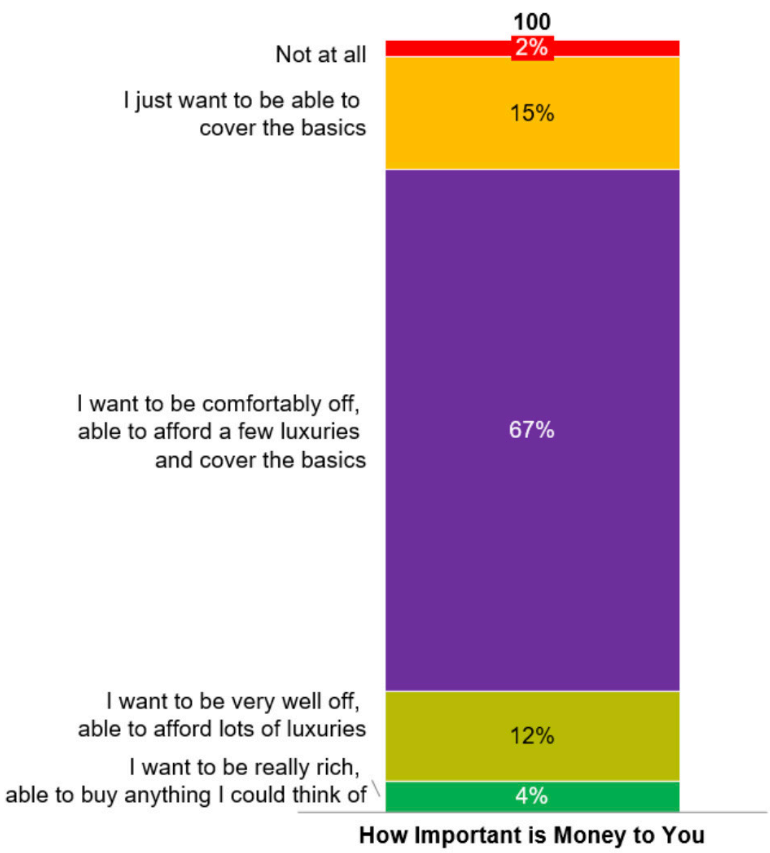
Our polling (see **Figure 5: Personal financial security measures top of Scots' concerns** Figure 5, below) shows conclusively that it is the first of these categories – personal financial security – which is the most important for Scots. The value of the stock market and the FTSE 100 – the focus of the business pages in newspapers – mean little to most people. It is personal day-to-day issues – inflation, pensions, house prices – which are most important to us.

Figure 5: Personal financial security measures top of Scots' concerns.



Source: Our Scottish Future polling

This is not just a reflection of the current cost-of-living crisis. When Scots are asked about the economic future they aspire to, we see that same desire for everyday comforts rather than wealth or austerity. As focus group members put it, most of us don't aspire to have money to burn: we simply want to know we can rely on the basics – a job that means that our families are financially secure, with a little left over for a few luxuries.

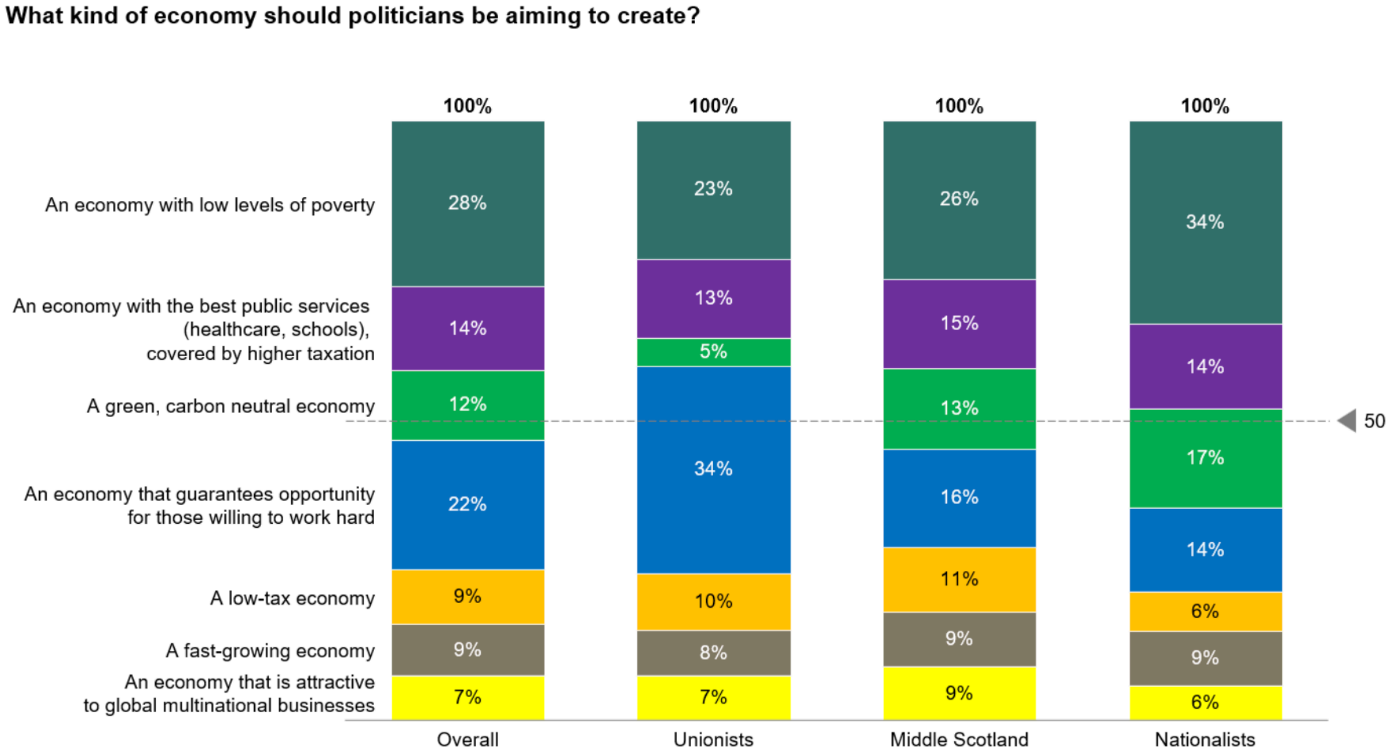


Source: Our Scottish Future polling

Perspectives on the ‘personal’ economy generalise to views on the local and national economy, too. When asked about the kind of economy politicians should be aiming to create, the most popular answer was “an economy with low levels of poverty”. By contrast, support for a “low tax economy” was supported by three times fewer people. Nor do Scots want governments to bend the knee to multinationals looking for a home.

The polling we conducted, supplemented by focus groups, shows a clear consensus across Scotland: we want people who work hard to be rewarded with opportunities; we want decent public services; and we want a nation that stops our neighbours from falling into deprivation.

Figure 7: Scots believe politicians should be building a low poverty economy.

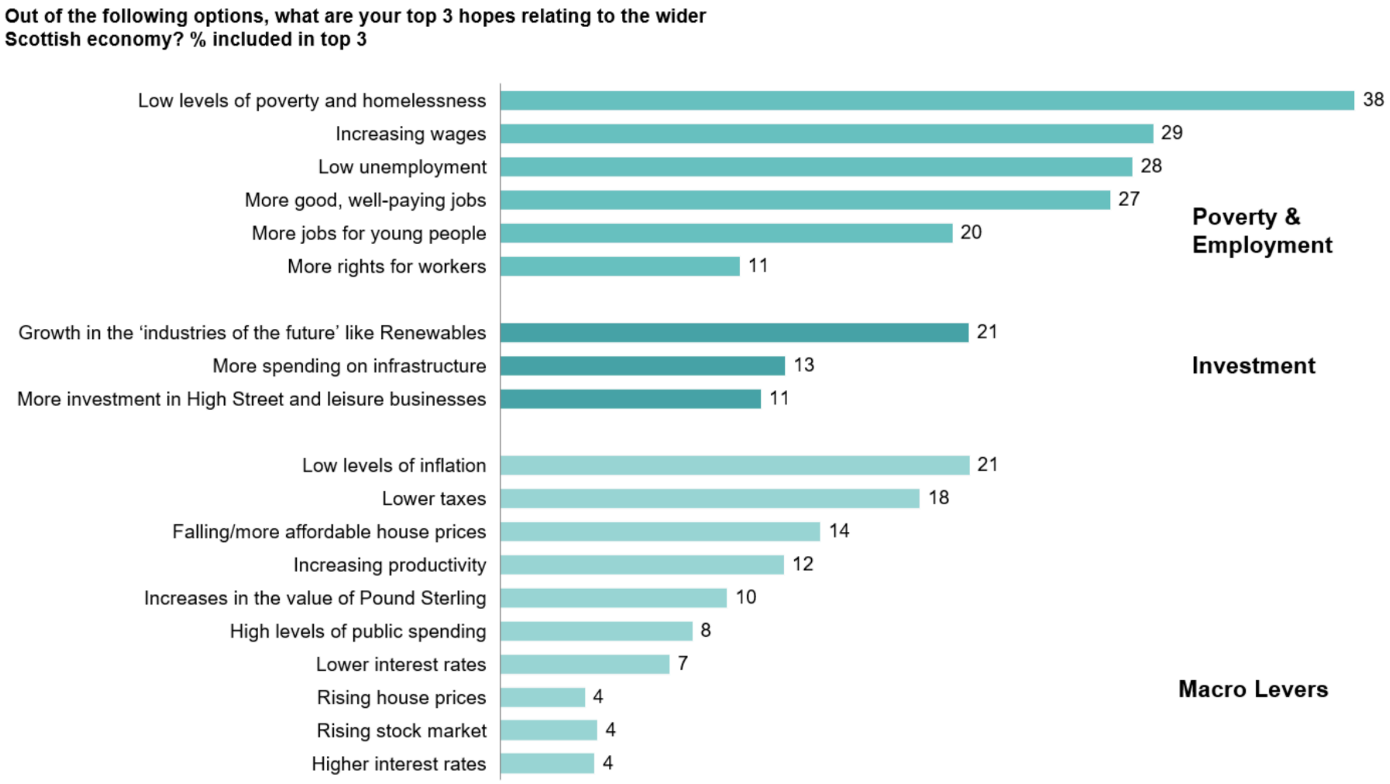


Source: Our Scottish Future polling

We find the same result when asking Scots about their hopes for the future. On a personal level, unsurprisingly, easily the most important hope to people was “your household bills coming down”.

When asked about the wider Scottish economy, the “top hopes” among Scots were those relating to basic economic comfort: low levels of poverty and homelessness, lower unemployment and increasing wages.

Figure 8: Anti-poverty measures command broader public support in Scotland than investment and macroeconomic stability.



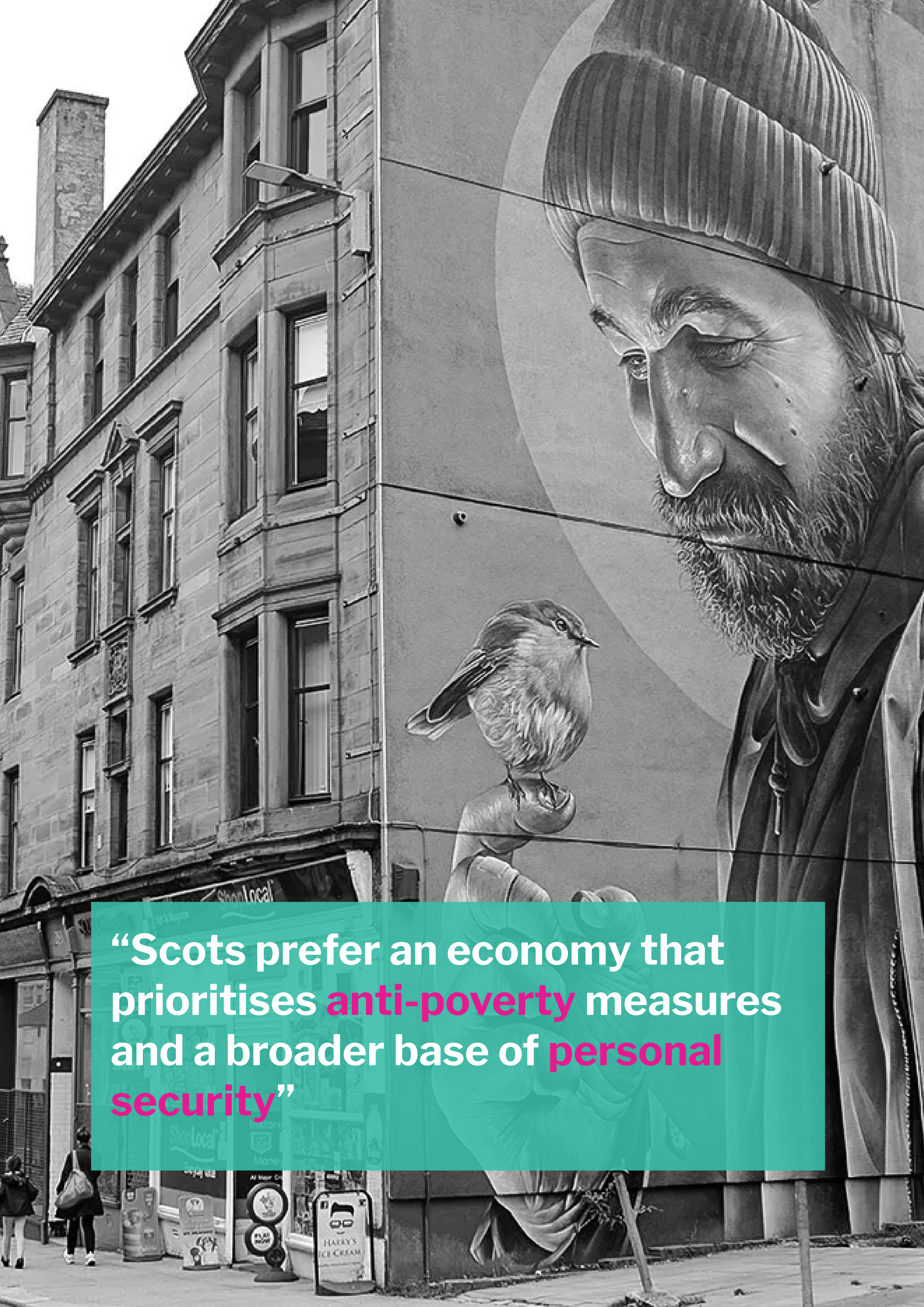
Source: Our Scottish Future polling

In a final question, we asked Scots to pick which type of foreign economic model they most supported. By far the most popular models were Scandinavian: Sweden and Norway were the top two most cited examples. The Scandinavian countries of Sweden, Denmark and Norway were eight points ahead of Australia, Canada and New Zealand.

A 'Good Growth' economy for Scotland.

To summarise: while Scots recognise that 'the economy' is important, their priority is not 'GDP growth' per se but the benefits that can arise from it: lower costs, higher wages, and stronger public services.

Our evidence on opinion around 'good growth' is that the Scottish public are not seeking growth for its own sake, or to lower taxes, but rather they want it to create opportunities for the many, reduce poverty for all, and cut carbon emissions – an economy more modelled on social democratic principles than neoliberal ideology - more Scandinavian than American.



“Scots prefer an economy that prioritises anti-poverty measures and a broader base of personal security”

The Opportunity: Scotland's role in the Fourth Industrial Revolution

The innovations of the next Industrial Revolution present Scotland with an unprecedented opportunity to secure a prosperous society for the next generation – and in the emerging clusters of innovation it has the seeds of future growth.

The Fourth Industrial Revolution will transform Scotland's economy and society.

A fourth Industrial Revolution is already under way – a transformation in the nature of the world economy, driven by three great technological advancements in artificial intelligence, energy and genetics:

o The development of Chat-GPT represents only the tip of the iceberg of how innovation around both the core models underpinning AI and their practical uses can transform the economy. Whilst governments think of regulation, the early impact that these models are having on industries from defence to transportation to the creative sectors is already being felt. Around 7% of existing UK jobs could face a high (over 70%) probability of automation over the next 5 years, rising to around 18% after 10 years and just under 30% after 20 years.[24]

o The lifetime cost of installing and generating renewable energy from wind or solar is now lower than carbon sources. The transition to clean energy can dramatically lower costs and de-risk all sectors of the economy – from home heating to advanced manufacturing, relying on a far more distributed infrastructure.[25]

o Breakthrough gene therapy and other global health advances will continue to lengthen people's potential healthy and total life expectancies, with the UK and US as market leaders.[26]

With change already underway, Scottish society and economy in the 2030s will look radically different to its society and economy of the 2010s. People will live, work, and contribute to society for longer and do so more productively, aided by AI and a lower cost of production.

As a smaller country – in a continent that is barely at the start line of a race with China and the US – Scotland will no more be able to stop the impact of these technologies as it will be able to make the wind blow hard enough to give it a higher share of Europe's renewable energy potential.

An optimistic case for the future – one that we lay out in this report - would see Scotland share in the development of these new technologies and share the productivity gains associated with them across all the population – as it did in the First and Second Industrial Revolutions between 1780 and 1914. A more pessimistic case would see Scotland becoming a 'technology taker' from foreign multinationals, with the productivity gains increasingly hoarded by a small highly globalised elite. (This has already been the story of the Third Industrial Revolution, driven by digital technologies, in most of the world.) Without disrupting the status quo, the latter future is more likely than the former.

Scotland can lead and share the next Industrial Revolution – if our leaders rise to the moment.

The choices made by Scotland's politicians over the next few years will determine whether we enjoy a broad-based industrial future, or whether Scotland is fated to a future of small, disconnected islands of the knowledge economy floating amid a sea of low productivity and poverty. To achieve its full potential, Scotland must set out an industrial strategy that will allow it best to benefit from these technologies – and to make itself an indispensable part of their global development.

First there is the choice to commit to playing a role at the forefront of the revolution, or to try to protect the economy of the past. Scotland leading the way will require a change from the status quo. Far too often, the SNP government in Scotland has cast itself in the role of a saviour of the economy: investing significant sums in protecting failing businesses in low innovation sectors, with no real plans to use them to drive change. The hundreds of millions this has cost was recently set out in detail by Audit Scotland[27].A new approach will require politicians to make harder choices and focus resources on those sectors of the economy that can create compounding impacts from employment - not just save jobs in the short term while tying up public money permanently.

Second, there is the choice to commit to sharing the benefits of productivity growth that new technologies can bring. For the last ten years, Conservative Governments in Westminster have cast themselves as liberators of the economy – cutting regulations and creating complicated tax incentives for corporations. This clearly has not worked – UK capital formation and investment today lags the OECD,[28] and the rentier economy has boomed.

Scotland's politicians should cast themselves as neither the liberator nor the saviour, but rather the prudent farmer: playing an active and nurturing role in driving investment into priority sectors; and participating in those markets to ensure that individuals and companies pay their fair share to society, and that public services benefit from innovation too.

Scotland can lead, if it leans into existing assets and strengths.

Compared to other small countries with high-growth, high-aspiration – such as the Netherlands, Singapore, or Denmark – Scotland lacks a large industrial base built up over generations (following the disruption of the late 20th century) or national champion multinationals who bestride the world stage. Instead, Scotland's economic strategy must focus on building on the areas of comparative advantage that it has today:

· **A research and innovation base:** In the QS world university rankings 2024, Scotland is host to three of the world's top 100 universities – equal to Canada and Switzerland. This gives Scotland the highest per capita number of top 100 universities of any country in the world.

· **Graduate talent:** Scotland has the highest educated population in Europe, according to Eurostat data, which shows that 50.4% of 25-61 year olds held post-secondary school qualifications. This is a more than 20% increase since 2000 and is greater than the UK average of 44.7%.[29] Glasgow and Edinburgh also have amongst the highest graduate retention rates in the UK. According to a report from Knight Frank and UCAS, Edinburgh has the UK's highest graduate retention rate outside of London, with 53% of students apparently intending to stay in the city after graduating.[30]

· **Success in attracting private capital:** In terms of foreign direct investment (FDI), Scotland is now established as the second most favoured area in the UK for FDI behind London. Projects increased by 14% in 2021, the fourth year of continuous growth. Scotland has won the highest share of UK projects over the past decade.[31]

· **A strong brand and native speakers of English:** According to the Nation Brand Index, Scotland's international reputation continues to rise (even if it lags the UK's reputation).[32] As a native English-speaking nation, Scotland has a competitive advantage in a world where English is increasingly the lingua franca.[33]

· **Opportunities for 'nimble government':** A devolved government with enough power and capability to 'get things done' quickly, without the bureaucracy or indeed conflict of a much larger state: Scotland has the devolved powers to enable fast and cheap deployment of capital. The Scottish Government enjoys a capital budget of almost £6bn a year, with no interest charges, and under the previous Fiscal Framework, could in addition borrow £450m per year within a £3bn cap, as well as receiving a Barnett-based share of UK Government borrowing. Going forward these amounts will now increase in line with inflation. Together, this should enable the Scottish Government to support additional investment across Scotland and set the basis for economic growth.

Taken together, these factors mean Scotland can play a role in the new global economy as a home of innovation: by focusing on helping start-ups and attracting multinational campuses in a small number of highly developed industry clusters. With the right support we could credibly offer cash (equity and debt finance), connectivity (within and outside the UK), speed (in setting up a business and accessing supply chains) and talent.

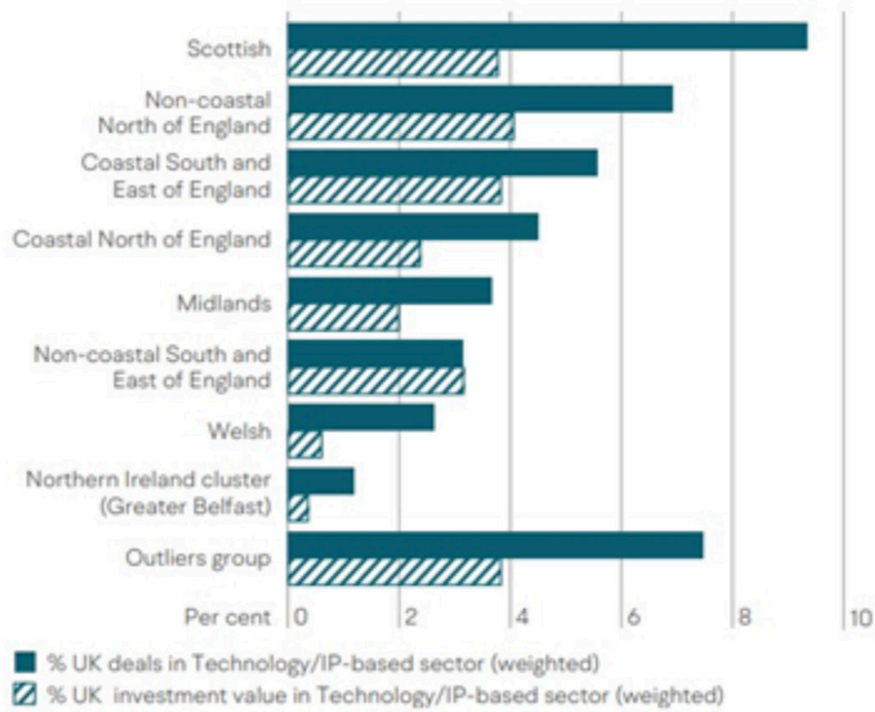
Lord Sainsbury has defined clusters as "complex, economically significant ecosystems in which people can meet, exchange ideas, develop innovations, and create businesses together. If we can harness Scotland's clusters, we can compete in what he has called a potential 'race to the top' in technology and good jobs.[34] We know that first-movers will be at a significant advantage in fostering these new industries; and Scotland today has some inherent advantages.

Where Scotland leads today: the Fourth Industrial Revolution at work across the country

Scotland today already has examples of how it is contributing and winning in all of these industries – both in financing the future and discovering it. When it comes to inventing new technologies and bringing them to the market, Scotland is second only to the Golden Triangle of London-Oxford-Cambridge in the UK. The British Business Bank has found that two of the UK's top five innovation clusters outside the England's South East were the Edinburgh and Lothian region (ranked first) and Glasgow region (ranked third).[35]

Figure 9: Scotland leads the UK, outside the Golden Triangle, for value and value of technology-related deals.

Cluster	Deals	Investment value (£billion)
Edinburgh-Fife-Mid & West Lothian	475	0.7
Greater Manchester	342	1.1
Greater Glasgow	257	0.4
Bristol & Bath	219	0.9
Newcastle upon Tyne-Gateshead-Sunderland-Tyneside	179	0.3



Source: British Business Bank, based on Beauhurst data

CASE STUDY:

PRECISION MEDICINE IN GLASGOW AND BEYOND

Precision medicine uses advances in genetics and data to target healthcare at individuals, rather than providing a one-size-fits-all approach. For example, people with liver disease can be screened and given the treatment and care suitable for their own unique circumstances.

One in five drugs approved in the US are in precision medicine, and Scotland is ideally placed to take advantage. Glasgow is home to the Precision Medicine Scotland Innovation Centre at the Queen Elizabeth hospital, while Dundee and Edinburgh are also seeing growth.

High productivity manufacturing, and associated technical professions, already employ around 60,000 people in metro-Glasgow, with perhaps 6,000 of those based in precision medicine-related roles.

With the global market expected to head past the £100bn barrier in 2025, spin out companies like BioClavis, which provides data and diagnostic tests for individual patient care, are taking advantage of the research know-how in the city to expand their facilities.

Other companies like Glasgow-based Reprocell Europe support the world’s big pharmaceutical firms as they develop new treatments. Meanwhile, in Dundee, spin-out firm Exscientia, which uses AI to reduce the time it takes to develop medicines, recently became one of Britain’s largest university exits when it went public on the Nasdaq with a £2.2bn valuation.

CASE STUDY:

SCOTTISH RENEWABLES AND ENERGY IN ABERDEEN AND THE EAST COAST

For forty years one of the oil capitals of Europe, Aberdeen and the north-east is transitioning fast to become a world leader in renewable energy and technology.

One example is the plan to position Aberdeen as the UK leader in the new hydrogen economy, with a megawatt stationary fuel cell powering its Event Complex, and one of Europe's largest fleet of hydrogen buses.

The Aberdeen Hydrogen Hub now proposes to deliver renewable production of hydrogen and a transport refuelling facility, with longer term plans aimed at delivering green hydrogen for rail, freight and marine power. Potential economic benefits have been measured at upwards of £700m GVA to Scotland's economy by 2030.

Other communities on the west coast stand to benefit from the growth of the green energy sector. The Offshore Renewable Energy Catapult site in Levenmouth, Fife, is a world-leading test site for wind - with the most advanced, open-access offshore wind turbine for R&D purposes. The Catapult is partnering with local communities and colleges to test domestic hydrogen technologies, bringing both manufacturing and retrofit construction opportunities for Scotland.

CASE STUDY:

VIDEO GAMES IN DUNDEE INTO AI.

The home of legendary games like Lemmings and Grand Theft Auto, Dundee has long been on the global map as one of the great innovative cities in the video games sector.

Today, Abertay University carries on that legacy, hosting the UK's only Centre for Excellence in Computer Gaming Education and the games cluster in the city goes from strength to strength.

That gaming revolution in Dundee has helped spur the city's thriving tech sector more generally, especially in fintech. Firms include Global companies like NCR which are located in the city while other fintech success stories include Embark, started in Dundee, to provide software platforms for fund managers, and which has now been bought by Lloyds Banking. Its biggest office remains in Tayside.

CASE STUDY:

EDINBURGH ASSET MANAGEMENT AND GLASGOW PROFESSIONAL SERVICES

Edinburgh's long-held reputation for reliable asset management and professional services can continue to be a mainstay of the Scottish economy, thanks to its combination of proven expertise and lower costs than London.

With the vast renewable investments beginning in Scotland, the capital can become a hub for the financing of the green transition, spurred by global success stories such as Baillie Gifford which currently has over £220bn assets under management, managed by nearly 2000 staff.

Glasgow – now one of three global hubs for Barclays – and home to giants such as JP Morgan, Morgan Stanley and BNP Paribas, is also leading innovation in areas including back-office functions, fraud prevention and tech support.

CASE STUDY:

AGRI-FOODS AND WHISKY IN THE RURAL ECONOMY

Between them, agri-food and scotch whisky are huge earners for Scotland's rural heartlands. The biggest food export, salmon, was the UK's biggest food export earner, hitting more than £500m in 2022. Scottish farmers supply a food and drink sector which generates over £15 bn to the Scottish economy.

The giant Scotch whisky sector, meanwhile, now amounts to nearly 80% of all Scottish food and drink exports, providing £5.5bn GVA a year to the UK economy. There are currently 148 Scotch whisky distilleries across the country.

Supported by world leading researchers at the James Hutton Institute, agri-businesses are branding Scotland as a sustainable producer of food – such as the "Ethical Dairy" in south-west Scotland which, uniquely, keeps calves with their mothers. At the other end of the country, the Harris distillery in the Western Isles has sought to tackle depopulation on the islands by employing 50 staff producing gin and whisky.

If we rise to the moment, Scotland's position as a world leader for the 21st century is secured.

If we can overcome the barriers to growth in these existing lead industries (in access to capital, skills, and regulatory barriers) and establish them as world-leaders, the potential prize is a reshaping of Scotland's economy:

- Jobs and opportunity could flourish in every part of Scotland, including the underperforming urban areas;
- Public services could benefit from more funding and modernise more quickly – eg. moving to digital models to drive productivity;
- The NHS will get access to newer drugs and therapies more cheaply, all delivered more efficiently as a result of investment in AI (as with vaccines before);
- The high street and consumer economy will benefit from increased disposable incomes and new business models (as food delivery, taxi services, or fashion have already done);
- The cost-of-living can come down as we use new green technologies and automation to reduce costs;
- Scotland's place in the world will be assured through the influence our market and culture have in shaping others (as was the case in manufacturing in the 1960s or energy in the 1980s).

The challenge: Scotland's failing economic status quo

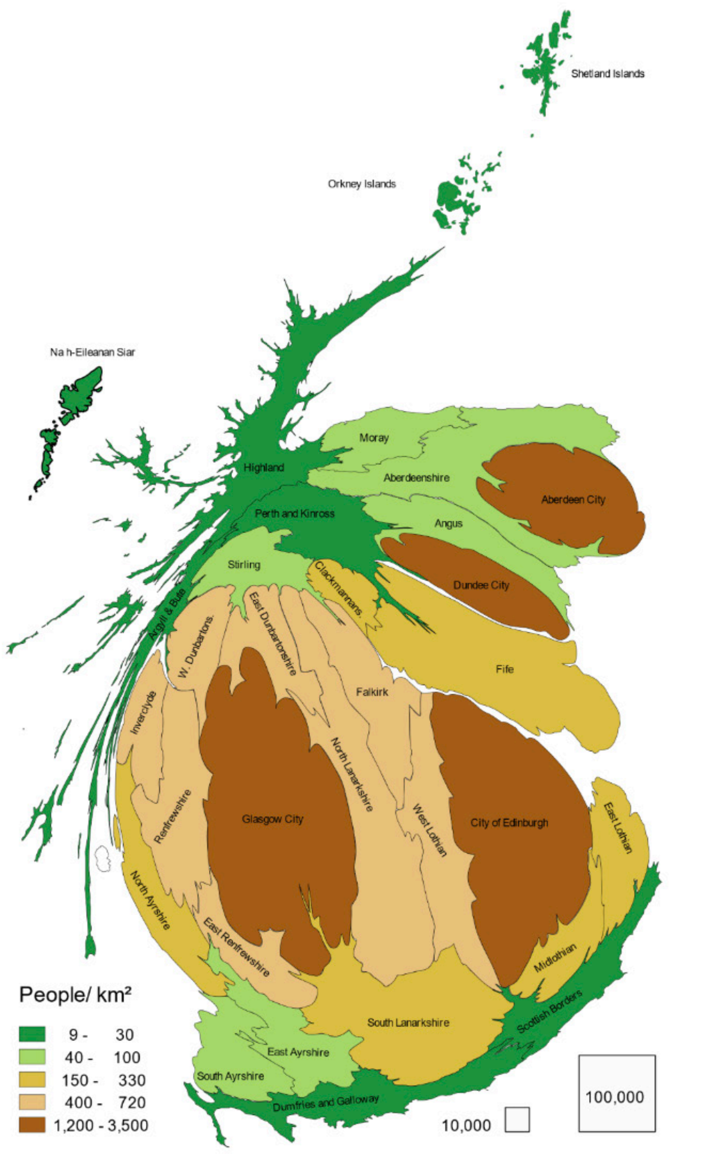
Although Scotland has all the ingredients it needs to be able to play a leading role in the economic and societal revolutions of the next decade – leading the UK and Europe – we believe Scotland's current policies are not delivering as well as they could.

Across each of the underlying drivers of growth, the evidence suggests Scotland could be doing more and better. But simply adding more ingredients isn't enough either: maximising Scottish growth depends on mixing those ingredients together in the right way, and directing them towards commonly agreed goals, sectors, or "missions".

There is no single Scottish economy: challenges and opportunities vary by region.

Scotland's population is roughly split three ways between the metropolitan areas, other urban areas in the central belt, and rural Scotland. The challenges and opportunities faced by these different communities vary, so no one-size-fits-all policy for Scotland can deliver

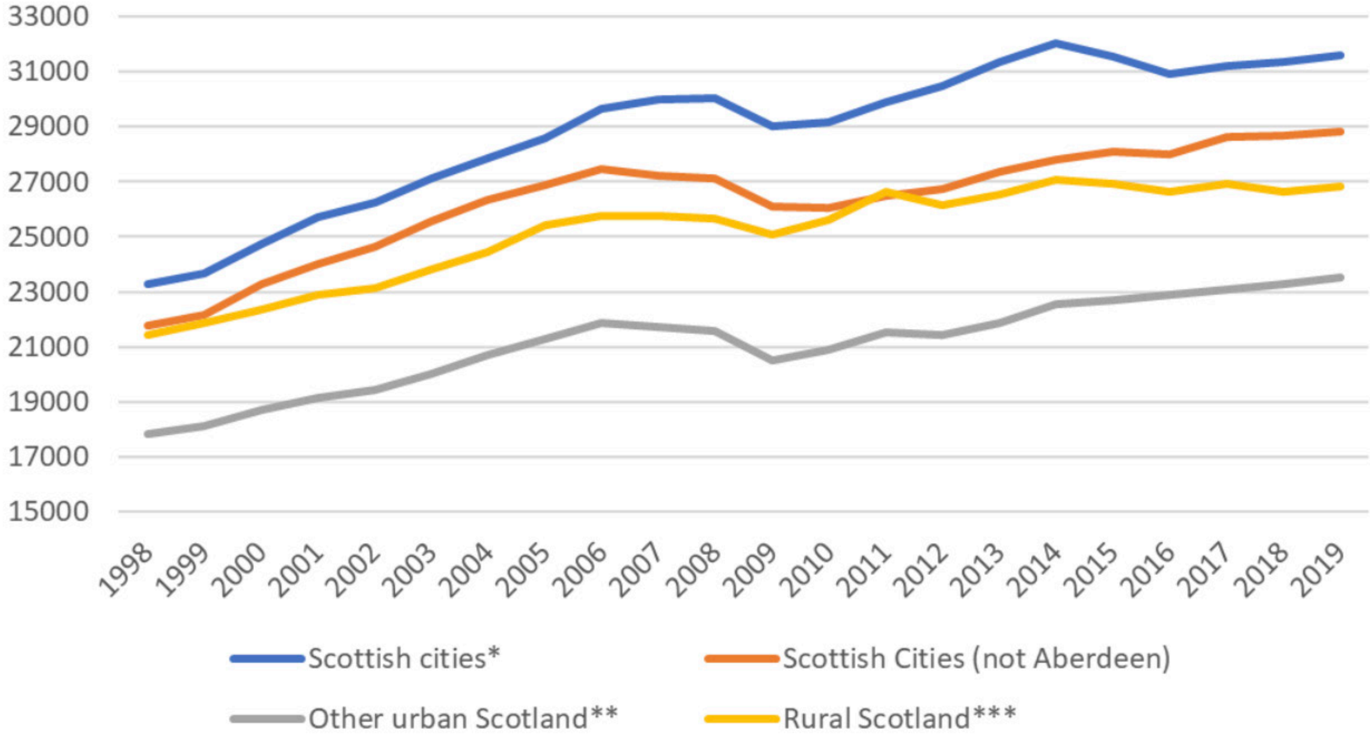
Figure 10: Population cartogram of Scotland



2016 data from ONS

This is set against a widespread perception of centralisation within post-devolution Scotland – tangibly in cases such as the merger of regional police forces into Police Scotland in 2013; and indirectly in the case of conditions on local government or agency spending imposed by Holyrood.[36]

Figure 11: Real (average) productivity per person over time, by area type.



Source: ONS[37]

Scotland's economic geography is a microcosm of the UK's:

· Metro-Glasgow and the towns of Scotland's central belt look a lot like the urban English North. Both experienced exceptionally high rates of deindustrialisation (in terms of employment share) in the 1980s; both lost their high-employment, high-productivity business base as a result; and both have seen significant improvements in urban regeneration – turning old industrial sites into new commercial units; modernising housing stocks – and improving the skills base. They face a shared challenge: how to bring in firms, or scale up indigenous businesses, to take advantage of relative low costs and an underemployed graduate population.

· Dundee and Edinburgh look like the small but successful university cities of the greater South East. Their economies have a much larger share of knowledge-intensive activity, in both u niversities and the private sector. Market signals tell us that there is room to grow, but doing so means ensuring housing is affordable, easing congestion in transport networks, and making sure infrastructure is delivered.

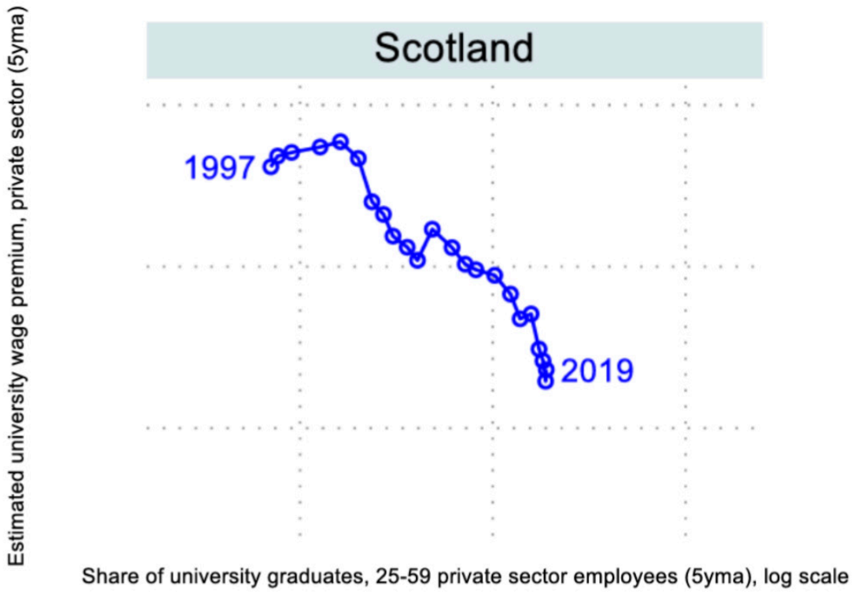
· Aberdeen's economy is similarly complex and high value-added, but depends on resource extraction. Aberdeen's challenge is to avoid the fate of other places in the 1980s in the face of structural change: to take the advantages of relative wealth and high skills to pivot to a more sustainable growth model.

· Rural Scotland, like rural England, is unusual in that it is often more prosperous than nearby urban areas. This is not a pattern we see in other rich countries, such as the US or France.[38] This is in part of a product of historic wealth but also reflects the success of the tourism and food and drink processing industries in Scotland.

Scotland has outstanding universities and a strong skills base but can't convert that to growth.

Like other parts of the UK, but unlike other advanced countries, the wage premium a graduate can command in Scotland has fallen over time – an indicator that Scotland faces a lack of demand for high skills from business rather than a lack of supply.[39] The lack of a pipeline of graduate jobs means that 48% for recent graduates (those who graduated within the last five years) and 42% for all graduates are in a job which do not require this level of training. This is above the UK average (36%) and higher than any other nation and region across the UK.[40]

Figure 12: Scotland's university wage premium has fallen as supply has expanded - indicating demand has not kept up.



Source: Stansbury, Turner and Balls 2023[41]

Scotland is not capitalising on its proximity to the UK's world-leading growth equity market.

Despite a well-developed asset management and financial services industry, Scotland only attracts 3% of UK overseas investors' finance and has almost no local investment firms based here.[42] Hence – despite strong relatively strong overall inward investment, driven by mature industries like oil and gas – early stage, high potential Scottish firms can't always access the finance they need to grow quickly.

The establishment of the Scottish National Investment Bank (SNIB) – whilst essential for long-term growth – has been hamstrung from having wider impact as a result of its mandate not to invest alongside (and therefore crowd in) far larger pools of private capital. This marks the SNIB out relative to international peers, such as California's CalPERS or France's Bpifrance.

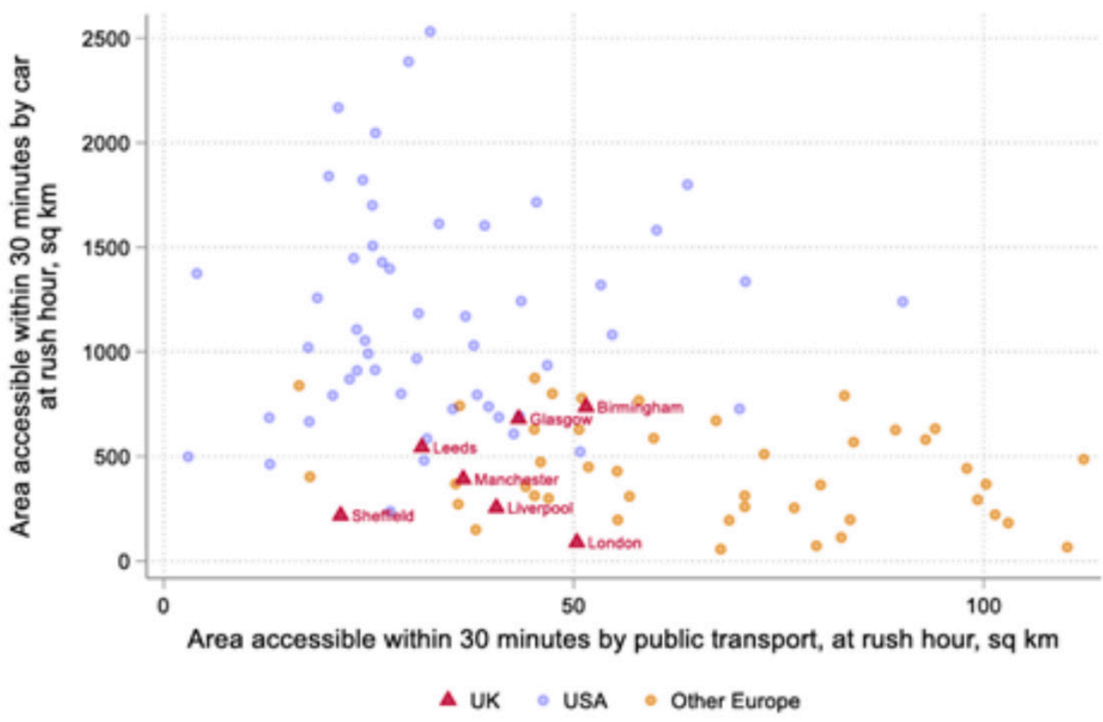
The SNIB recently failed to spend its £200 million annual budget allocated for business lending by around a third. The institution has a target to lend £2 billion to businesses over ten years, of which only £258 million was committed by October 2022. Ross Brown, professor of entrepreneurship at the University of St Andrews, said there had been a "clear failure to make SNIB visible" and cited "difficulties in interpreting what they should be doing."[43]

Decades of underinvestment or uncertainty over transport have left Scotland's roads congested, keeping people from getting to jobs in their region.

Metropolitan Edinburgh is the most congested part of the UK, with Edinburgh commuters on average losing 58 hours a year to congestion.[44] This costs Scotland's economy £177mn per year; costs individual drivers an average of £764 per year; and adds 41% travel time to each peak time journey.[45]

Urban Scotland, in common with other UK cities, has seen relatively low levels of investment in infrastructure for decades. There has been no major road infrastructure project in metro Glasgow since the extension of the M74, and an airport rail link has been promised for almost twenty years. As a result, the Scotland's cities are neither well connected by road for private drivers, nor by public transport systems. The cancellation of UK-wide projects (such as High Speed 2) also keeps Scotland further removed from markets in North East Europe.

Figure 13: Area accessible by road and public transport, UK, US and Western European cities.



Reproduced from Stansbury, Turner and Balls (2023)[46]

A recent Centre for Cities report finds that – while Glasgow's public transport system is better than most – bringing Glasgow in line with a typical West European city in terms of the density of public transport networks could increase the size of Glasgow's economy by £7bn (a boost of nearly 30% to Glasgow's value-added).[47]

Sclerotic and uncertain planning processes and political chop-and-change reduce dynamism.

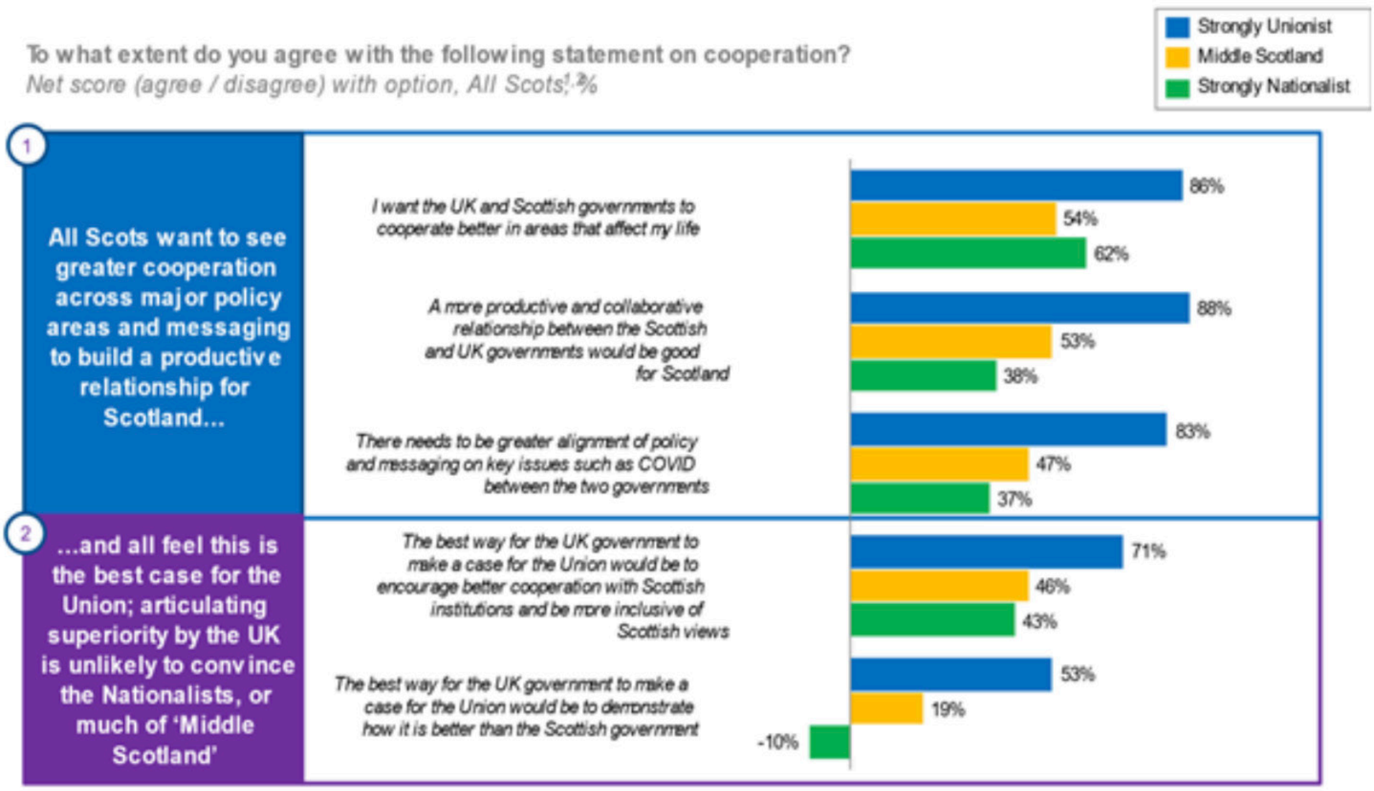
The time taken to start a business or build a lab is longer in Scotland than elsewhere in the UK. Scotland falls behind most OECD countries in indicators of entrepreneurial dynamism, with a total rate of early-stage entrepreneurial activity of 7.3% in 2019, compared with 10.5% in England, and 12.4% in Ireland. In total, Scotland would need another 60,000 businesses to match the equivalent rate for England.[48]

Nor are there enough houses in places people want to live, constraining the Edinburgh economy in particular. Edinburgh City Council has recently declared a 'housing emergency'. Its City Plan 2030 has been criticised for delivering fewer affordable homes than the council itself identifies are required. Independent analysis has already evidenced that the plan is likely to significantly under-deliver the amount of homes required, with further research showing that it would result in the displacement of around four hundred businesses which translates into the loss of 3,600 jobs with a cumulative loss to Edinburgh's economy over ten years of c£2.6bn.[49]

Scottish Government punches far below its weight with business and doesn't do enough to partner with the UK.

Edinburgh and Whitehall share responsibility for the economy, with powers over tax, welfare and enterprise all divided between the two. Even strong nationalist supporters say by a clear majority that they want the UK and Scottish Governments to cooperate better in areas that affect their lives.

Figure 14: Scots want co-operation, not confrontation, between UK and Scottish institutions.



Source: Our Scottish Future polling

Limited progress has been made in delivering this cooperative approach in the last decade, most notably over the creation of Growth Deals across Scotland's regions.

However, cooperation between London and Edinburgh remains a Curate's Egg, with the potential for joint working too often missed. Instead, Scotland's economic strategy, far from being integrated, is delivered on parallel lines by two separate administrations often at odds. The UK Government's Levelling Up Fund and Shared Prosperity Fund, for example, bypass the Scottish Government entirely. Similarly, the Scottish Government's recent National Strategy for Economic Transformation ignored the UK Government completely. A successful Scottish industrial strategy can only function properly if both governments are working together on a shared plan.

Fraser of Allander Institute research earlier this year found that 80% of the Scottish business community believe that the Scottish Government does not understand their needs.

Moreover, only 8% of businesses agreed or strongly agreed that the Scottish Government engages effectively with their sector.[50]

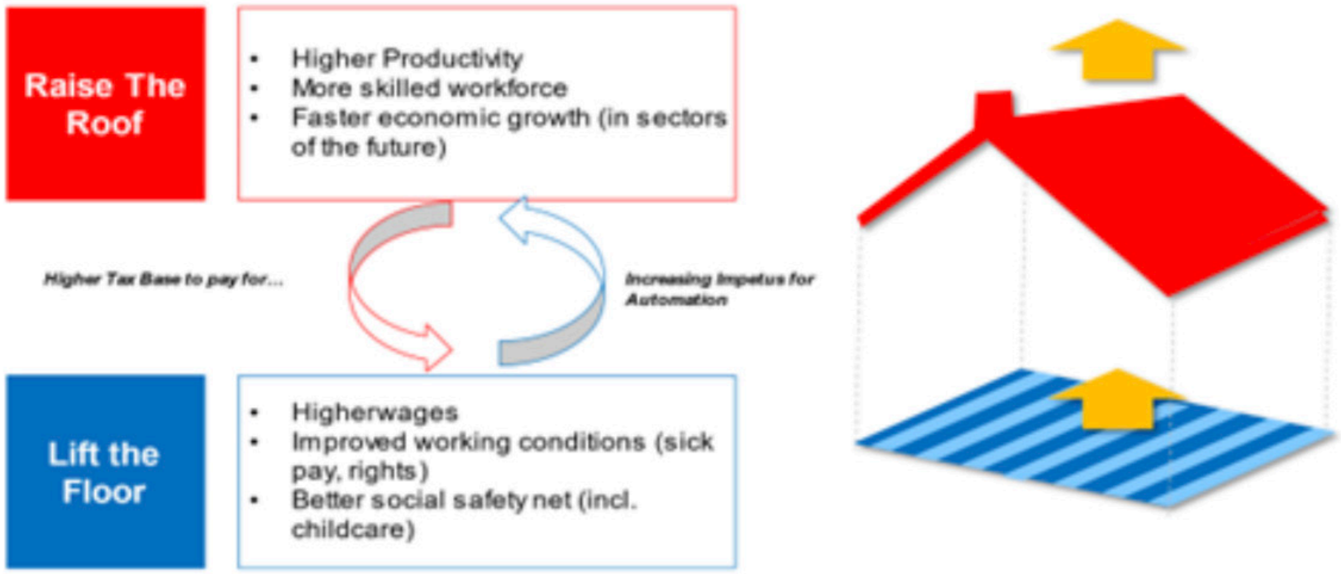
Scandi-style services need a Celtic Tiger-style economy.

Over recent decades, Scotland has managed to construct aspects of a Scandinavian-style economy, but largely only thanks to the workings of the Barnett Formula. Public spending running at 20% per head higher than the UK average has helped construct a strong safety net – with Scots given a number of universal free services not seen elsewhere in Britain, higher benefits and more generous public pay settlements.

But with Scotland now ever more reliant on its own tax base (after implementation of the Scotland Act, 2016 that followed the Smith Commission), and with our ageing society placing ever greater burdens on public expenditure, the extra spending that Scotland receives in its block grant will not be sufficient to cover our costs – as is seen from the Scottish Government's £1bn spending gap.

The challenge we face is that rising to Scandinavian-style spending requires Scotland to have US-style growth rates. In short, to lift the floor – as we wish to do – we also must seek to raise the roof. Higher wages to meet today's inflation rates must be matched with higher worker productivity; improved workers' rights need to go hand in hand with higher skills; and a strong safety net can only be secured through a focussed, dynamic and entrepreneurial focus on growing Scottish business.

Figure 15: To 'lift the floor', as voters want, we will need to 'raise the roof' through growth.



A case study from which Scotland can learn here is Sweden. After a financial crisis in the mid-1990s, its political parties came together to forge a new national mission for growth, backing long-term measures to increase investment, reduce its deficit, and double down on Research and Development spending. Political buy-in was vital as it sustained the plans beyond each electoral cycle. The ensuing growth in the Swedish economy has enabled Sweden to support supply side reforms such as improving childcare, increasing spending on adult education and retraining for new growth sectors.

Figure 16: Following a significant 1990s recession, Sweden recast their social democratic model.

90s Swedish Economic Reforms

- In the 80s, Sweden deregulated its financial markets, allowing debt to build whilst devaluing the Krona to drive exports; in the 90s it crashed. By 1994, "public debt doubled, unemployment tripled, and the government budget deficit increased 10-fold…at more than 10%" (IPPR). The government responded with a package of reforms:
- **Raise the Roof:**
  - **Public Finances**: Close the deficit (53:47 spending cut:tax rises)
  - **Structural Reforms:** Join EU, central bank independence, longer electoral terms, pension reform
  - **Invest in Future:** Leasing scheme to give PCs to households; 27.3bn Krona (£2bn) "Green People's Home" agenda to create green jobs; investing in broadband; high R&D spend (up to 3.8% of GDP in 2001)
- **Lift the Floor:**
  - **'Social Bridges':** To help people retrain for new industries, including subsidised work and adult education
  - **Women's Freedom:** Better childcare and parental rights
  - **Education:** Protect education and childcare spend in austerity
- Critically, the government built a sense of **national mission** with the country, EU and other parties to embed these reforms

Source: "Wealth of the Nation" David Hume Institute, World Bank, OECD, "Saving the Swedish Model" IPPR

A time of crisis calls for a renewal of Scottish economic model.

This sense of a shared national mission is vital and is something we have lacked over the last decade. We have not wanted for plans; research by Our Scottish Future shows that more than one hundred economic papers and consultations have been issued since 2013. What we have lacked is a sense of direction: a shared national vision of the kind of economy we seek, one supported across the constitutional divide, by both our governments, which we can agree for a minimum 10-year long time-span.

Scotland needs to give investors and businesses a clear message about the choices we are making, and then demonstrate these will be stuck to for the medium and long term.

Creating this economy will require both ‘raising the roof’ of the frontier economy – investing in growth in the tradeable industries of the future like renewable energy and life sciences – as well as ‘lifting the floor’ of the foundation economy – intentionally driving up wages and improving working conditions for workers at all levels of the Scottish economy.

Our contention is that these two things need to be done at the same time – we cannot wait for the fruits of growth in the frontier economy to ‘trickle down’ to the foundations. A generation of Scots see that the growth of the past has not been shared adequately by the working people who have created it – and they want that to change.

This is a country which has all the ingredients necessary for sustainable high growth – we just lack a recipe. There is, in short, room for huge optimism in Scotland. This is not a country lacking in ideas, expertise, intellectual property, and talent. It’s a nation which simply has lacked a successful and sustained strategy to turn human capital and raw materials into a long-term plan for action.

The prize: From Growth to Good

If Scotland could capitalise on its nascent innovation clusters, it could move towards a growth model based on more, better-paying jobs. This would bring twin advantages: increasing tax revenues through a stronger business base and higher incomes and reducing the costs of underemployment, including Universal Credit bills and the wasted opportunities of unemployment.

Getting there would not be cost free or inevitable, but we believe Scotland is better placed to fund up-front investment than other parts of the UK – provided it makes better use of its large existing economic development budget and devolved powers.

Four scenarios for growth: towards higher, better employment and lower welfare bills.

In the modelling that follows, we take as our baseline the official forecasts of the Scottish Fiscal Commission. They forecast a long-run growth rate for the Scottish economy of 1.4%, achieved by 2028/29.

This baseline of 1.4% is a historically low rate of growth, comparable to rates seen in Scotland between 2014 and 2020 – reflecting the effects of policy uncertainty in the wake of referenda on independence and EU membership, the structural effects of the move from North Sea oil and gas, relatively low population growth, and a wider OECD trend towards lower growth (grouped under the umbrella theory of 'secular stagnation').

We contrast this baseline with three other illustrative, higher growth scenarios:

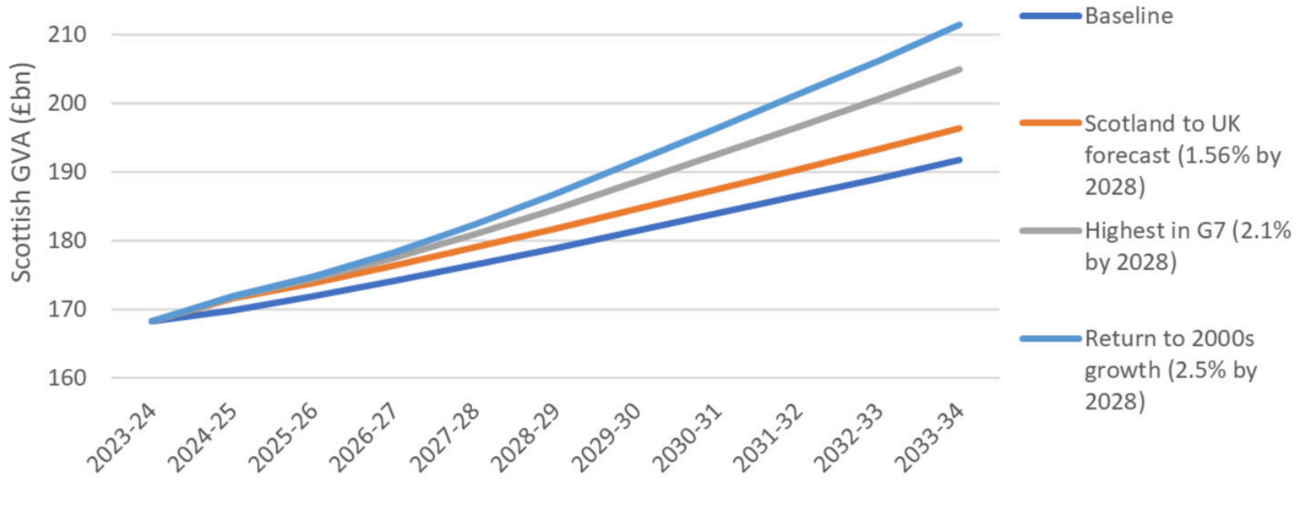
1. **Scenario 1:** 1.56% by 2028/9, bringing Scotland's rate of growth in-line with the UK-wide growth forecast.

2. **Scenario 2:** 2.1% by 2028/9, bringing Scotland in line with the (IMF-forecast) fastest growing economy in the G7 (the USA).

3. **Scenario 3:** 2.5% by 2028/29, bringing Scotland back up to the growth rate it saw from 1997-2007.

In Figure 17 below, we set out the impact for Scottish Gross Value Added over the next decade in these different scenarios. In all four models, we forecast a gradual ramping up of growth by 2028/29, which then remains steady for the following five years (in line with Scottish Fiscal Commission projects for the next five years).

Figure 17: Ten-year projections for Scottish GVA across our four scenarios.

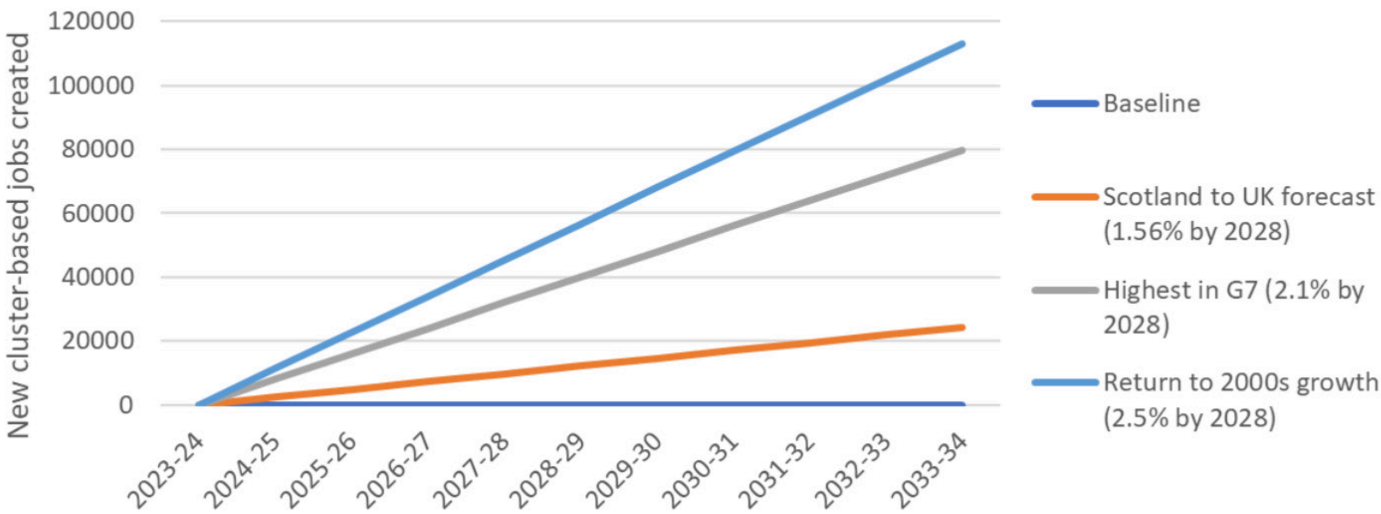


As a result of the compounding effects of growth over time, this opens up a near £20bn (or 10%) gap in projections of Scottish GDP over a decade.

To boost the size of Scotland's overall economy as implied in scenarios one to three, we need to increase the number of people working, the value of their work (by making them more productive), or both.

Growth could come primarily from new export-orientated industrial clusters and their supply chains (such as the renewable energy, precision medicine, or digital engineering), as we discuss in the next chapter. [51] As Figure 18 shows, a hundred thousand jobs across these clusters over a decade, or roughly three and a half per cent of Scottish workers, would be consistent with restoring historic levels of growth.

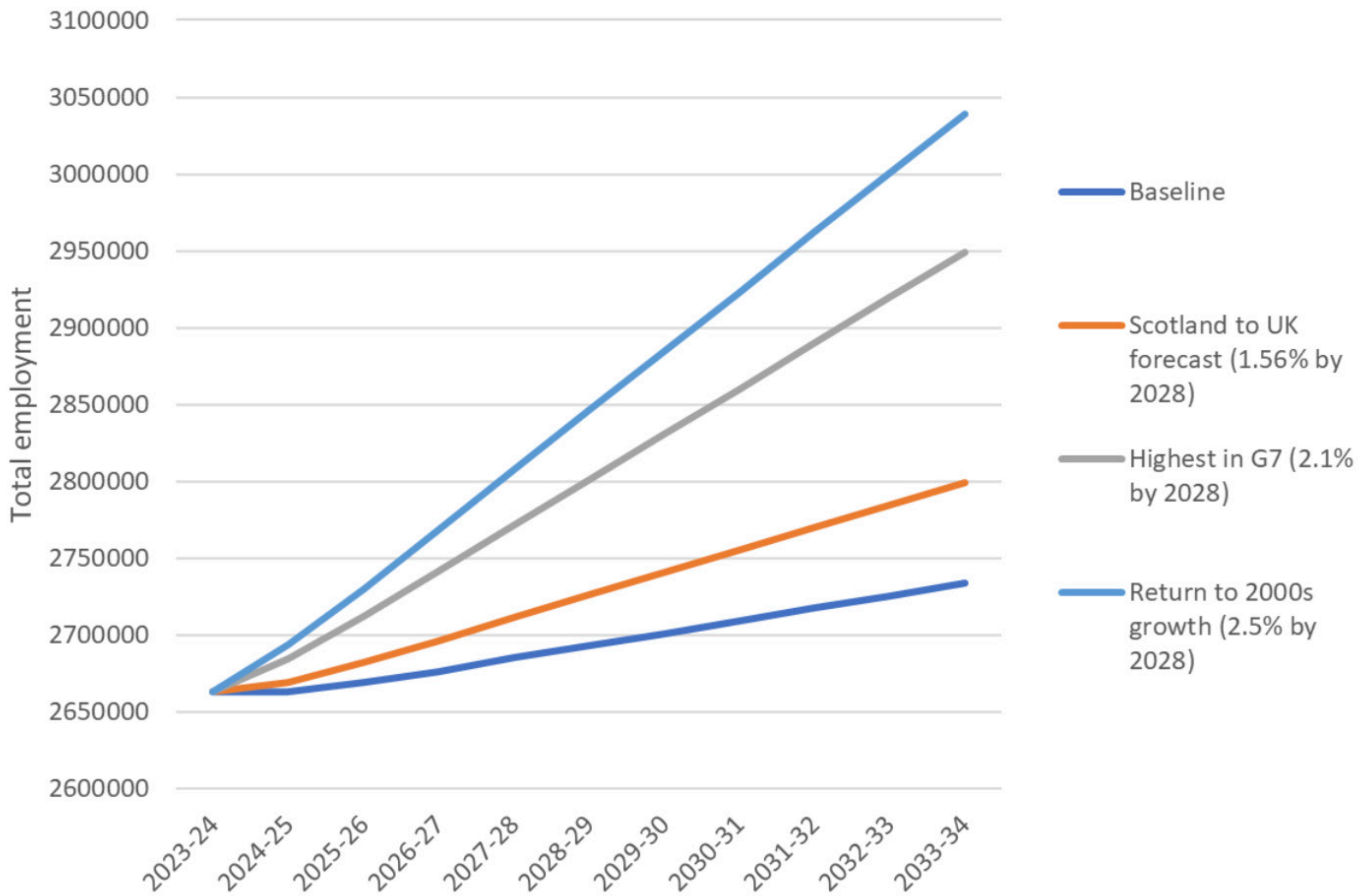
Figure 18: New cluster-based jobs which would be needed across our four scenarios.



However, this underestimates the wider jobs growth in the economy, which will be supported through both the supply chain and in increased demand for local non-exportable activity, such as hairdressers or hospitality. As well as additional jobs, we can expect higher wages and productivity in the wider economy. This is driven in part by Baumol effects – the extra pay that needs to be offered to prevent those in necessary lower-skilled jobs from switching industries: that is why hairdressers or builders in San Francisco are paid more than their equivalents in Falkirk, for example.

To generate the figure for overall jobs growth, we apply the Centre for Cities' estimate of a local multiplier for high-skilled, export orientated jobs based on UK data of 1.7 – that is, for every ten cluster-jobs created, seventeen are created in local services and supply chains.[52]

Figure 19: Total employment in the Scottish economy consistent with our four scenarios.



Over the course of a decade, a cluster-focused growth programme to get back to historic growth levels might generate around 300,000 new jobs, or a 10% boost to the labour force into higher-productivity, more sustainable industries.

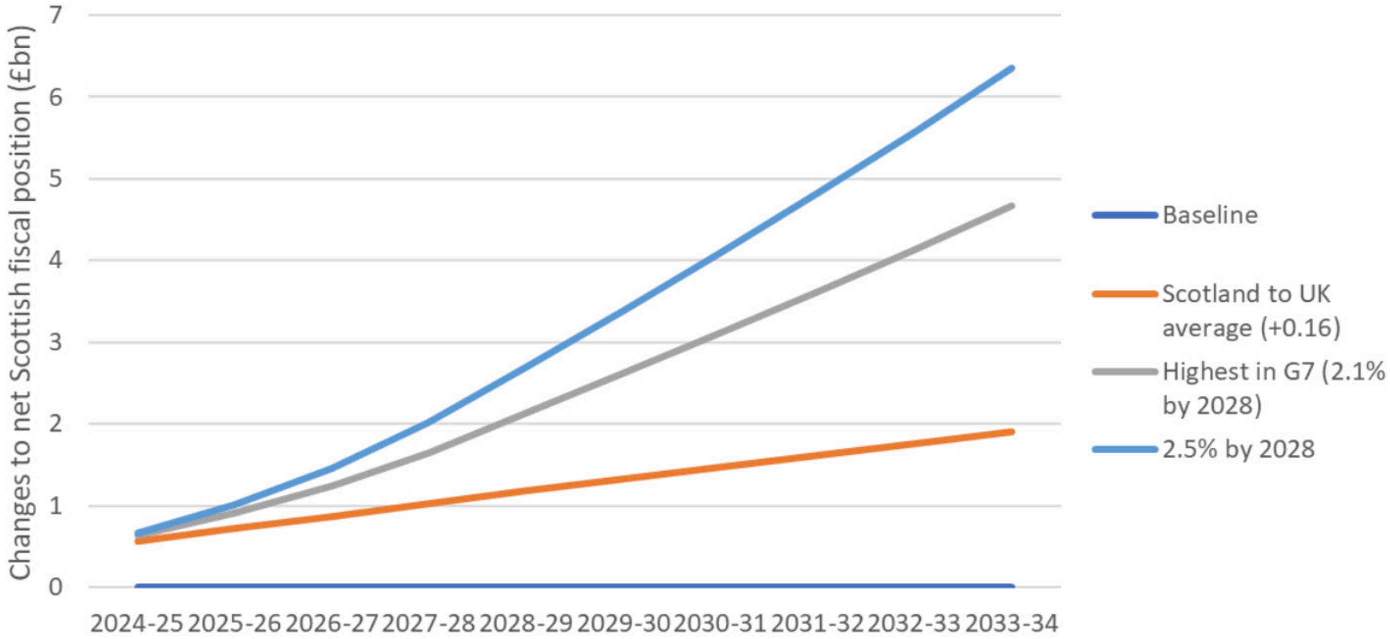
Finally, we ask what the different growth scenarios imply for the fiscal environment facing the Scottish public sector. This consists of two components:

1. **Increased tax take** from the additional economic output generated above;[53] and

2. **Reduced welfare costs** in Scotland through a combination of a buoyant jobs market and new active labour market policies.

Specifically, we model the effect of a 10% reduction in inactivity rates (a 2-basis point shift) - which is comparable to the change since in 2013-15. This would be the equivalent of moving 15,000 per year out of inactivity and into employment (on Universal Credit). At the same time, we assume that rising wages and improved active job market policies can move 10,000 people a year out of Universal Credit altogether.[54] If these goals were met – and they would be easier to meet in a high growth context – then the cumulative effect would be to reduce Scotland's welfare bill by nearly a quarter over a decade.

Figure 20: Ten-year change to Scotland's fiscal position across our four scenarios.



In the highest growth scenario nearly a quarter of the new economic value added is captured by Treasury through increased tax take, and the working age benefit bill is cut by a quarter. That frees up billions of pounds, cumulatively, to help finance investments in growth and in social programmes.

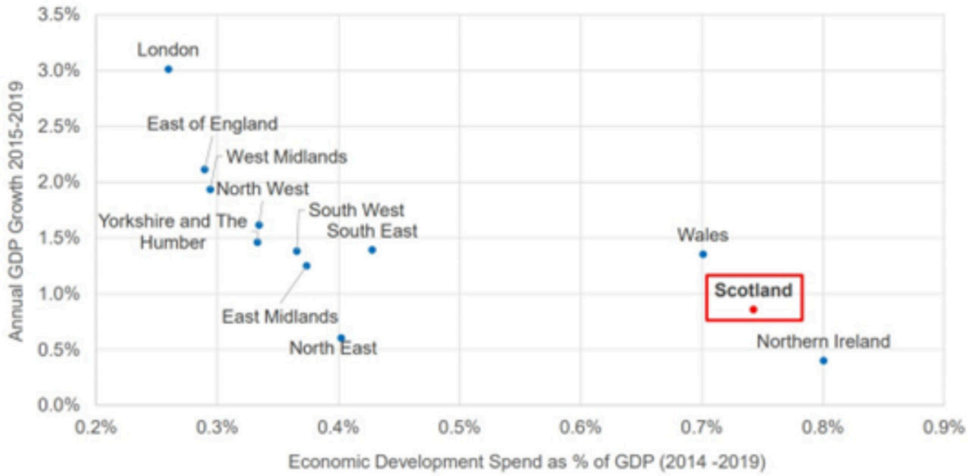
These models only consider the automatic fiscal returns from growth, by lowering the welfare bill and increasing income tax receipts. These figures are likely to be an underestimate, as they do not consider the fiscal benefits of increased consumption (through VAT) or business turnover (through corporate taxation).

Scotland is exceptionally well placed within the UK to cover any up-front investment costs to raise the growth rate.

Scotland spent more than any other part of the United Kingdom on economic development as a percentage of our GDP between 2014 and 2019, but the evidence suggests we are not getting bang for our buck.

Figure 21: UK spending on enterprise and economic development as % GVA vs economic growth 2015-19 by region.

Figure 21: UK spending on enterprise and economic development as % GVA vs economic growth 2015-19 by region.



Devolved and reserved expenditure in Scotland already accounts for over £6bn on enterprise and economic development (with around £1.3bn of that spend devolved to the Scottish Government), over £650m on science and technology, and nearly £300m on employment policies beyond the UK-delivered Job Centre Plus network.[55] Taken together, this is bigger than the Government's spending on transport, and is only behind health, education and social protection.

With sufficient financial flexibilities, we envisage funding the proposals set out in our next chapter within existing budgets; as policies begin to deliver and income tax receipts and equity returns rise, government could make wider use of borrowing powers to invest further in growth.

Others have proposed opportunities to increase the income tax in Scotland to fund further investment in growth. The Fraser of Allander Institute produces estimates for two proposals – one from the Scottish Trades Union Congress, one from IPPR Scotland – which could raise an additional £220m per year by 2028-29.[56]

Plausibly, future UK governments may pursue small increases in taxation and spending that could also unlock additional spending in Scotland through the Barnett allocation. For instance, the Institute for Fiscal Studies estimates that Labour's plan to levy VAT on private school tuition could raise £1.3bn per annum,[57] while Warwick University estimated that abolishing non-dom tax status could raise £3.2bn per year. A per capita share of this allocated to Scotland would imply around £360m of additional spending per year, while Labour's proposed Green Prosperity Plan may unlock £2.3bn per year of investment for Scotland.[58]

Our Plan for Scotland

So far we have set out a distinctive set of challenges and opportunities for the Scottish economy as well as a set of distinct preferences for how wealth ought to be generated and distributed.

At the same time, we have demonstrated how current policy could do more to support growth opportunities and – if that goal could be realised to in fact raise growth taxes– how austerity in Scotland's public finances could be eased.

But all of those lofty goals are conditional on there being a viable path to higher growth in Scotland. What would it take to create 120,000 cluster jobs, and 180,000 in the supply chain, over a decade? How can public authorities – at the local, devolved and national levels – work with private partners to move hundreds of thousands of Scots into the labour market or up the ladder into better paid jobs?

Our view is that there is no 'silver bullet' that will be sufficient on its own to transform Scotland's economy.

Instead, we propose a new framework for growth in Scotland: a whole suite of coordinated interventions which – taken together – have the potential to move Scotland's economy out of first gear.

We argue that innovation, the care economy, improved technical education and anti-poverty efforts are not competitors: they are all essential ingredients for successful reform.

To seize Scotland's opportunity, policy needs to build up four pillars of the economy at once:

· **Pillar one – Better jobs, built around Scotland's clusters:** We need to create new, high productivity, export orientated and globally networked jobs across Scotland. The existing approach is not good enough: strong universities and skills, and high economic development spending in Scotland is not delivering. We need an ambitious plan, capable of creating 50,000 jobs directly and supporting another 150,000 jobs over a parliament – or creating new or better jobs for one in ten Scottish workers over five years.

· **Pillar two - Better work, better skills and better pay for working people:** the majority of Scottish workers will continue their working lives in the NHS, retail, teaching, the manufacturing supply chain, logistics and public administrations – all sectors where a relatively modest boost in productivity growth is just as impactful as fast growth in new s ectors. A plan for improving skills, public transport, retention, planning and governance can raise the potential of all Scotland's economy.

· **Pillar three – Better careers and support to work for all those who want it:** around half a million working age Scots are on the edge or outside of the labour market.[59] This is a waste of human potential and a barrier to the social democratic Scotland that citizens want. Over a quarter of a million Scots are in work but living in poverty – typically with children in the house too.[60] While pillars one and two will create new jobs and opportunities for all, we will need a dedicated 'Welfare to Work' programme for a new decade: retasking Job Centres in Scotland to move people into progressive careers, rather than any old job through a 'Skills to Good Jobs Programme'.

· **Pillar four – Better use of the proceeds of growth to meet Scotland's moral missions:** with the success of growth and job creation in the Scottish economy, and a corresponding reduction in welfare bills, fiscal space of billions of pounds would open up in the Scottish economy. There will be many Scottish citizens who are not able to join in an economic renaissance directly: they may be too young, too old, or too ill. But they too should benefit from the proceeds of growth which should in part be used to fund a national anti-poverty effort in Scotland.

In our last chapter, we modelled the potential impact growth could have on the Scottish economy and public finances, to answer the all-important challenge of how we fund reform. In this chapter, we set out an agenda for change that governments in Edinburgh and Westminster could realistically deliver in a term.

Pillar one: Better jobs, built around Scotland's clusters

The current approach of the Scottish Government, set out in the 2022 National Strategy for Economic Transformation, gets it wrong.[61] It does not set out a clearly prioritised industrial strategy of the type needed to coordinate public and private investments and the mandate it gives to agencies like Scottish Enterprise lead to the jam being spread too thinly to change Scotland's growth trajectory.

That needs to change. Internationally, the policy debate has shifted markedly in recent years away from asking "whether" governments should engage in industrial policy towards asking "how" to engage in it. This has sparked a rich debate, emphasising the importance of clear goals (e.g. target sectors) and the importance of coordination, convening and regulation – rather than subsidies to 'lame ducks' – in successful industrial policy.[62]

The upshot of this new research is that Scotland needs to pick a small number of priorities and then needs to create the governance and financial institutions needed to deliver them.

Our findings so far suggest that Scotland has a set of emerging industrial strengths which could form the basis of an industrial strategy. But a single approach will not work for all sectors or all places. The nature of the economic challenges facing Glasgow (namely: graduate underemployment due to a lack of large, high value firms) are very different to those of Aberdeen (industrial transition, but with relatively more capital) or Stirling (where connectivity and scale are bigger challenges).

To "raise the roof" of the Scottish economy, then, we need an approach based on rapid growth of industrial clusters across the country, based on distinctive regional strengths. And these need to go further and faster than current cluster-based places to create a meaningful number of jobs.

RECOMMENDATION: Agree an Industrial Strategy for Scotland, based on a small set of geographically-defined 'big bets'.

1. Agree an **Industrial Strategy for Scotland** based on developing out five clusters. Early evidence suggests – subject to further detailed work – these could focus on:

a. Green manufacturing and advanced minerals/exploration in Aberdeen and Fife;

b. Digital and creative exports in Dundee;

c. Professional business services in Edinburgh;

d. Precision medicine and advanced manufacturing in Glasgow; and

e. Premium agrifoods and alcohol in rural Scotland.

2. Agree **five physical sites** – one each in Dundee, Aberdeen and Edinburgh, and two in metropolitan Glasgow – to serve as **Growth Zones**. Each Zone would be co-governed by local authorities, Scottish Government and UK Government, providing a physical home for one or more priority sector and the lab space and industrial units needed for growth.

Proximity matters. If firms or workers are close to each other, that makes it easier to access a shared labour market, supply chains, or a community of knowledge. The precise nature of the economic activity shapes how close firms or workers need to be: for some of the most knowledge- and collaboration-intensive activity, these proximity (or agglomeration) benefits drop off if workers are on different floors of the same building; for others, such as manufacturing focused activity, a half hour drive can be close enough.[63]

This would represent an expansion of the current UK Government's Investment Zone programme to Scotland's other metropolitan areas. It is different in that, when taken together with other interventions in this Growth Plan, the Growth Zones are complemented by a clearer national industrial strategy,by growth funding, and by an emphasis on encouraging export-orientated activity.

The Scottish Government should lead on identifying anchor employers to turn each Growth Zone into a multinational campus (as with Deloitte in Belfast or HSBC relocating their head office to Birmingham) and commit to reinvesting all business rates raised in the Zones for twenty-five years, including through expanded Selective Assistance,[64] while offering conditional tax rebates through the UK Treasury for employers who meet demanding employment creation, training targets and/or export revenue targets.[65]

3. The UK Government, through UKRI, should commit to a **Catapult centre in each of the five Growth Zones** tied to each industrial strategy, to act as a custodian for the local business ecosystem.

The 2010 Hauser Report,[66] commissioned by Lord Mandelson, then-Secretary of State for Business, Innovation and Skills, called for the establishment of Fraunhofer-type institutes in the UK, with an explicit mission to bridge the gap between the UK's world-leading universities and the business community. Since the inception of the Catapult network in 2011, nine Catapults in fifty locations have been established, growing in size over time. The UK Government's latest review restates the case for Catapults and commits £1.6bn to further growing and supporting the network over the next five years.[67]

In Scotland, the Catapult network already includes the Compound Semiconductor Applications Catapult in Glasgow, the High Value Manufacturing Catapult, focusing on medicines manufacturing, in Glasgow, the Cell and Gene Therapy Catapult in Edinburgh, and Offshore Renewable Energy Catapults in Levenmouth and Aberdeen. These would be expanded as part of this recommendation.

RECOMMENDATION: Back the Industrial Strategy for Scotland with dedicated funding vehicles to enable sustainable, co-created growth – especially for start-ups looking to scale.

Scotland's skills base and infrastructure is relatively good for its level of productivity: what is holding back Scotland, for now, is the shortage of high-growth, high-productivity firms. If this constraint could be eased by speeding up the pace of growth for firms demanding higher-skilled workers, Scotland's growth rate could enjoy a transitioning surge.

Scotland has the ingredients needed for growth, with the highest number of deals and second highest value of deals outside of London and the South East, with growth up nearly a third in 2022-23; co-location of local early-stage and equity investors and businesses; and public financial vehicles (like the British Business Bank's Investment Fund for Scotland) already established.[68] Our challenge is to bring this to scale.

Best practice is to create an ecosystem to support firms from their inception, helping founders develop their products and business plans and to secure financial backing in successive funding rounds; and then helping established start-ups to scale and mature into higher-employment firms. This ecosystem depends initially on public support – as with the military in Silicon Valley or in Israel's tech sector – but can become self-sustaining over time as business networks and capital develop. 'Blended finance' approaches, using public funding as a catalyst for private investment, is increasingly well understood and could be scaled quickly if pension or insurance assets were added into the mix.[69]

While this 'ecosystem' approach is increasingly well-understood for digital or biotech firms in particular, the job-creating impact of those sectors is limited. An approach based on patenting Intellectual Property (IP), proving its value, and then selling up to a major firm based in Silicon Valley will bring wealth to a few in Scotland, but will not create the jobs needed to transform our economy. Delivering that transformative change will require even more effort, to expand Scotland's IP-economy *and* create a German-style *Mittelstand* of inter-dependent mid-sized employers.

Our proposed funds remedy this: creating a distinct pathway to commercialise university Intellectual Property; and a second – the Scottish Development Fund – to bring high-promise firms to scale as part of the Industrial Strategy for Scotland. Responsibility for developing the wider system, and helping to manage public investment portfolios, should sit with a re-tasked set of devolution agencies.

Scotland has a cluttered and uncoordinated national economic development landscape, with both UK and Scottish governments involved as well as local authorities. There is a British Business Bank and the Scottish National Investment bank. This landscape needs to be simplified and coordinated to work together towards these strategic objectives. This may require institutional change, but it should be possible to do so through focused and directed cooperation rather than the abolishing some and creating other new bodies.

To this end, and in addition to the new local coordination we proposed later – we propose:

4. Endow a £4bn **Scottish Development Fund**, by pooling the £2bn earmarked for the Scottish National Investment Bank with Scotland's per capita shares of the British Business Bank and UK Infrastructure Bank, supplemented by UK Shared Prosperity Fund monies. Use the Fund to back the Industrial Strategy for Scotland and firms in the Growth Zones, focusing especially on scale-ups. Renew the mandate of the Scottish National Investment Bank to focus on co-investing into priority sectors in deals sourced by private investors.[70]

5. Convene a meeting of Scotland's universities to form a **Scottish Universities Fund**, equivalent to Northern Gritstone – the university-led spin out fund founded by the universities of Manchester, Sheffield and Leeds. Offer match-funding for a first funding round through the Scottish Development Fund. Use UKRI's Strength in Places Fund to provide support for business development for university-based researchers, such as funding MBAs or providing a matching service with professional services firms.

Both the Scottish Development Fund and the Scottish Universities Fund should seek partnerships with the European Investment Fund, to crowd in further catalytic public funding.

6. Change the mandates of existing **Scottish Development Agencies** to: (i) manage their own portfolio of equity investments, under the umbrella of the Scottish Development Bank; and (ii) support the development of investment capability and networks across Scotland's communities.

In addition to these cluster-based plans, the Scottish Government should learn from emerging best practice – in the US and EU – on modern industrial strategy. In particular, the state should prioritise equity investing over grants to firms to ensuring public money generates a public return and the public sector shares in upside risks as well as downsides. To avoid the risk of becoming attached to "lame duck" firms, the Scottish Government should take no more than 40% ownership of any given firm.

7. The Scottish Government should clearly signal its willingness to **drop or defund failing projects and organisations**.

Pillar two: Betters work, better skills and better pay for working people

Successful growth policy depends on both a modern industrial strategy – to shape the direction of the economy – and high quality inputs: high skilled people, quality infrastructure, a functional job market and effective partnerships between public and private sector.

While pillar one aims to "raise the roof" of the Scottish economy, this second pillar of our plan ensures that the rest of the economy benefits. That will be especially important in those areas outside of core metropolitan Scotland and in supporting the movement of people up the job ladder – into new industries, and into the vacancies created by those moving into them.

RECOMMENDATION: Transform Scotland's skills system with a move to life-long, flexible learning, designed in partnership with industry.

There is evidence of both need in Scotland for more technical skills below degree-level[71] and of the value of colleges to Scotland's economy.[72] The model for this approach was set by the Lord Sainsbury-chaired 2016 *Independent Panel on Technical Education*,[73] which advocated for a wider range of routes to skilled employment based around distinctive industrial needs, with curricula co-designed with industry and included significant industry-placement time.

8. **Introduce S-Levels**, a Scottish technical qualification that can be pursued in college as a foundation towards a degree-level apprenticeship or a technical career. Co-designed with business, and drawing on the lessons of T-levels in England, the S-Levels should align with regional industrial strategies and Growth Zone strengths, providing a talent pipeline for rapidly expanding Scottish exporters.

9. Convert FE colleges across Scotland into **Scottish Community Colleges**, based on the US model. Foster links between these Community Colleges, Scottish universities and major employers, to allow for flexible modular degrees that workers can dip in and out of over their careers. This could be mobilised quickly by providing more free, online material with low-cost accreditation methods – such as a negotiating country-wide free access to Coursera or similar EdTech tools.

10. Introduce a "**Right to Learn**", guaranteeing all employees five paid days of L&D upon request (with evidence of skill development), if their employer fails to provide five days themselves. We should role model best practice in the public sector, working towards a commitment of pro rata'd ten days of L&D for all public sector workers in Scotland.

Our modelling aims to raise job creation beyond the level that could be met just by moving people out of unemployment – given the relatively low levels of non-employment in Scotland's economy today. Therefore, in addition to raising the skills profile of Scotland as a whole, the Scottish Government should consider interventions to increase retention in Scotland.

11. Review the case for a **Scottish Welcome Payment** of £3000 for workers coming from the rest of the UK with a job in an industry facing skills shortages, subject to clawback if those individuals leave Scottish employment within five years; seek to negotiate a **return for Scottish universities to the Erasmus programme**; and provide **free ETIAS visas for all Scottish students** to encourage movement and knowledge-transfer across Europe.

RECOMMENDATION: Create a new tier of high-calibre, high-powered regional leaders to drive growth and transport systems in metropolitan Scotland.

Post-devolution Scotland has become a blend of high levels of centralisation in Holyrood, coupled with a patchwork of local institutions. As Adam Lang of *Reform Scotland* notes, Scotland now faces "130 public bodies in Scotland, including 32 local authorities, 30 Integrated Joint Boards (IJBs) for Health and Social Care, 14 Regional NHS Boards, 8 Special Health Boards, 7 Regional Transport Partnerships (RTPs), 6 Sheriffdoms for managing our Court system, 3 enterprise areas and single national agencies for both our Police and Fire services".[74] In addition, the last 15 years of SNP government has led to a systematic disempowerment of local government in terms of functions finance and status, so that Scotland is now much more centralised country than it was before devolution.

To navigate this blend of different agencies and tiers of public authorities, Scotland (in partnership with the UK Government) has used City Growth Deals and Regional Growth Deals to drive regional policy. These 'deals' build on the experience of Combined Authorities in England, negotiating case-by-case reforms to improve local governance and coordination.

12. Building on the existing Growth Deals process and taking appropriate learning can be found in the Combined Authority model in England, **invite Greater Glasgow, Greater Edinburgh, Greater Aberdeen and Greater Dundee to develop a proposal for regional governance within 100 days of the next UK General Election, potentially including a directly elected Mayor or Provost. Such governments might oversee:**

a. City-region transport systems, and transport and spatial planning, including moves towards bus franchising now that the Scottish Government has laid regulations following the Transport (Scotland) Act, 2019;

b. Delivery of S-level provision in the region;

c. Decentralised budgets for house building and a statutory responsibility for regeneration-focused housing developments, with a financial incentive to authorities able to exceed housing building quotas in high-demand areas;

d. The Chair position of the Growth Zone for their region.

13. All local authorities – including in rural and suburban Scotland – should be required to set out a **Plan for Social and Economic Renewal** within a year, setting out their five-year priorities for public service reform, with clear targets for improved outcomes and commitments to difficult local choices (around planning or relocation of services) in return for any funding.

14. Based on the work on the Infrastructure Commission for Scotland and the National Infrastructure Commission, the Scottish Government should set out a **Ten-Year Infrastructure Plan** – to include plans for further expansion of light rail (tram) networks in metropolitan areas, and bus franchising.

RECOMMENDATION: Use Holyrood's powers to shortcut planning processes where firms 'land bank' strategic sites or unrepresentative communities hold back housing or clean projects.

Holyrood, Westminster and the new generation of Provosts will need new powers – and the political strength to use them – to drive through development at pace if we are to raise Scotland's growth path. That is especially true if growth is to accomplish a just transition, and if it is to avoid rewarding rentier "land bankers".

15. Commit to calling in existing planning decisions – such as on Scotwind – within 100 days, and issuing **a "use it or lose it" ultimatum** to developers to combat land banking.

16. Develop a **Clean Scottish Future Strategy**, which – as well as supporting jobs growth – examines ways to keep Scottish energy in Scotland. Poor storage options mean energy will head south along the National Grid, with significant energy loss in transmission. This should consider storage technologies like next generation batteries and green hydrogen; opportunities to relocate energy-intensive activity towards energy production hubs; and methods to create demand incentives for modern building techniques – heat pump and insulation installation, hydrogen energy for construction plant, and timber frame manufacturing and assembly.

17. Give the new Provosts the power to pass a **regional spatial plan** (subject to Scottish Government call-in) without unanimity, if local authorities cannot agree a regional spatial plan themselves; and compulsory purchase order powers. Lift restrictions on public ownership of municipal transport companies and make franchising easier, while considering local tax options that can be used to increase subsidises for public transport.

RECOMMENDATION: Create the institutional architecture of better co-operation and connectivity with the rest of the UK and Europe.

Following on from the Commission on the UK's Future, there are clear gaps in ensuring strong national and regional representation – as well as transparency in analysis and decision-making – in UK-wide organisations. At the same time, not enough is done to encourage networks and sharing of expertise and insight across the nations and regions of the UK, or with Europe and beyond.

18. Boost **Scottish representation on key UK economic policy bodies**, including in the Bank of England, UK Government agencies and regulators, such as Ofgem and the British Business Bank, and public bodies such as the BBC. This should include representation of Scottish voices (and those of other regions and nations) in governance and oversight arrangements, and routine geographic assessments of their work.

19. Establish a permanent **Scottish presence in the City of London** to attract venture and growth equity capital, taking advantage of Europe's largest venture and growth capital market to build relationships with co-investors and encourage firms to look to Scotland for investment.

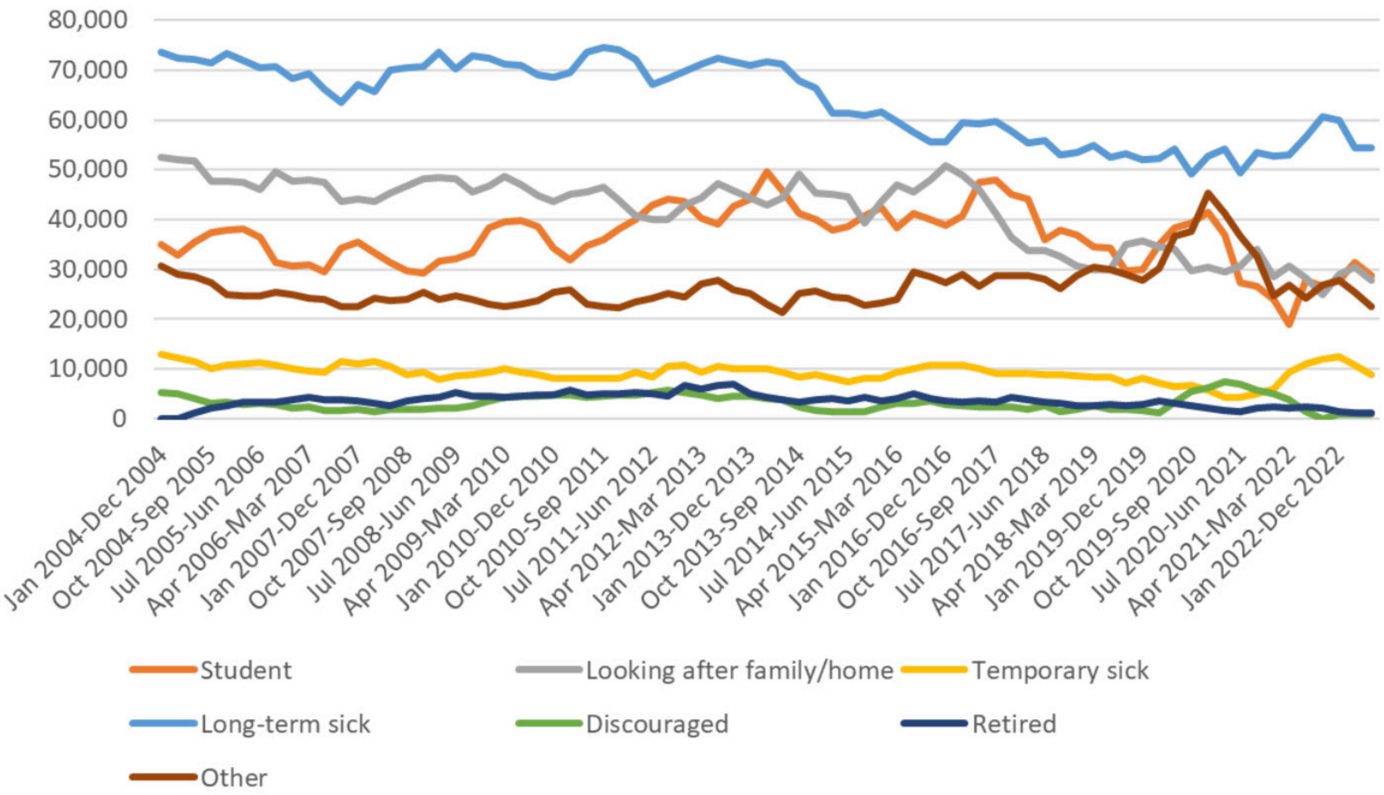
20. Formulate international trade policy in collaboration between Holyrood and Whitehall, including introducing dedicated **Scottish export desks** in key embassies.

Pillar three: Better careers and support to work for all those who want it

Our first two pillars raise up the Scottish economy. Together, they will create an upward pressure throughout Scotland's labour market, which will help in our ongoing efforts to find work for all those who want it. But in truth most of those who are outside of employment in Scotland today face a significant hurdle – such as illness or caring commitments – which prevents them from entering the labour market or forging a career. Policy needs to offer proactive support to those people.

Around 122,000 Scots are classed as unemployed and a further 144,000 are classed as economically inactive despite saying they want a job. Amongst this latter group, over 40% are temporarily or long-term ill and 20% are either students or those who are careers, especially parents.

Figure 22: Count of economically inactive Scots who want a job, by category



Source: NOMIS

Inactivity has become higher in Scotland than the rest of the UK since 2016, driven by a rising share of inactivity due to ill health that pre-dates the pandemic (and is especially driven by mental ill health).[75]

RECOMMENDATION: Launch a Scottish Work Programme as an update to Welfare to Work, creating a pathway to work for the currently inactive.

21. Launch a '**Scottish Work Programme**', building on the Welfare to Work model, providing personalised skills investment and coaching for those on Universal Credit in Scotland, with a view to moving 75,000 people out of unemployment and into work (with continued Universal Credit support) over five years. Complement this with the **devolution of the Job Centre network,** for a Scottish Job Centre focused on:

a. **Younger people:** replacing the bureaucratic Kickstart programme with a locally-directed alternative focusing on **building careers** across a wide range of roles and through a wider set of avenues than Job Centres, by convening public sector and willing private sector employers in a local area.

b. Those with **poor mental health:** expand **Individual Placement Support** to all with mental health conditions who need it across Scotland; mandate public sector authorities to identify job options to support the recovery of those suffering with mental health issues.

c. **Early retirement** due to ill health: while many will not return to work, we should support those who want to. The Government should **create a "wind down" career status** allowing employees to gradually reduce their hours over time; and should extend the National Citizens Service to enable older people to play a role in their community even if they are no longer working, based on the AmeriCorps Seniors model.

22. Launch a "**Scottish Careers Service**" through the Scottish Job Centres, to support those facing in-work poverty – relying on Universal Credit despite being in work. The biggest challenge is helping those in work raise their skills levels to enable them to achieve better jobs and to take up the vacancies that exist where there are skills shortages. Provide priority access to S-levels, and provide an allowance to fund training programmes which could, over time, be converted into a degree-level apprenticeship.

23. Work with local authorities to **map all gaps in childcare provision across Scotland, and develop a plan for investment** – as a stepping stone to a universal childcare package for Scottish families. Support a move towards shared parental leave, by making it the norm across the public sector in Scotland.

Work is not the path out of poverty that it ought to be. One in ten Scottish workers face persistent low pay, i.e. are paid below the real Living Wage – and 72% of the them are women.[76] The Joseph Rowntree Foundation finds that 80% of those locked in low pay work in hospitality, health and social work, retail, administrative support or manufacturing.

24. Match a commitment to raise public sector productivity through improved skills with a commitment to raise public sector wages, **offering all public sector workers or contractors pay at the real Living Wage** by the end of the parliament – with transformative impacts in social care especially.

Pillar four: Better use of the proceeds of growth to meet Scotland's moral mission

As Scotland gets growing, raises additional tax revenue, boosts take-home pay for those who are in-work and offers better jobs to those outside of it, we have a new opportunity: to make Scotland Britain's first poverty free nation. That is how we deliver on Scotland's ambition for a solidarity based, social democratic Scottish economy.

The Robertson Trust has found that, in Scotland, infants (27-30 months) living in deprived areas are 16% more likely to display development concerns; just over 2 in 5 young people living in the most deprived areas achieve one or more Higher when leaving school (43.5%), compared to almost 4 in 5 young people living in the least deprived areas (79.3%); and four times as many school leavers in Scotland's deprived areas are unemployed after six months than those in the least deprived areas.[77]

There is an economic, as well as a moral, imperative to act. We know that child poverty in particular can hold back the long-term prospects of the individuals who experience poverty, and our economy as a whole. IPPR Scotland has found that people over the age of 30 who had experienced poverty during their childhood have around 25 per cent lower income than those who didn't; and that the unemployment rate among over-25s who experienced child poverty is much higher (16 per cent) than the rate among those who had not (2 per cent).[78]

Finally, recent research has confirmed the widespread intuition that investing directly in young people, especially the under-5s, brings a public benefit unlike almost any other intervention: by delivering long-run benefits to human capital accumulation, and indirectly supporting parents and siblings, most interventions can literally pay for themselves.[79]

Our proposal is simple: reinvest the billions generated over the next decade through improved growth into anti-poverty initiatives, focused on children in particular.

RECOMMENDATION: Develop and launch an initiative to end child poverty in Scotland.

25. Work with the UK Government to launch a **fundamental review of Universal Credit and the Child Tax Credit system**. We estimate that an extra £25 per week for each child poverty would lift as many as 184,000 of Scotland's quarter of a million children facing poverty out of poverty altogether, as a cost of around £600m per annum.[80]

26. Review, and where feasible implement, the **recommendations on tax reforms by the Poverty and Inequality Commission**, with an emphasis on moving to a more redistributive approach to council tax.[81]

Conclusion: Relearning the language of priorities to transform Scotland

This long-term plan for growth must become the priority for all our political parties. Because we are nearing the point where, without it, our public services are becoming unsustainable.

Economic growth is not a luxury for Scotland over the coming decades: it will decide whether or not the social contract maintained by government to provide people with dignity and material comfort can continue.

Low growth is already costing our public services dear; in 2022-23, slow growth in Scotland's underlying tax base more than offset the money raised from additional tax revenues collected due to Scotland's higher rates.

In other words, even though Scottish taxpayers paid more of their income to fund public services than workers elsewhere in the UK, it did not feed through to higher revenues because of the weakness in the underlying economy.

We therefore risk becoming a high-tax, low-income nation.

And this is happening at a time when, as we all know, our public services are getting more and more stretched.

An ageing population means that the NHS will require more funding – by 2070, it could require more than 50% of total government spending in Scotland.

Planned increases in benefit spending must be paid for: costs are expected to rise from £5.3bn last year to £7.8bn in 2028, from £5.3 bn in 2023-24 to £7.8 bn in 2028-29.[82]

By 2027, the Scottish Government estimates it will have a budget shortfall of 4%, or £1.9 billion by 2027. Little wonder that the Scottish Fiscal Commission has concluded that, in the coming years, "the Scottish Government will face significant challenges in funding the future provision of devolved public services in Scotland."

We know how this will impact society.

Those who need government support will suffer the most. Inequalities will widen. We risk nothing less than the fracturing of Scottish society; a "two nations" Scotland made up of middle income earners and the destitute.

As is already happening, the NHS will become a two-tier service, as long waiting times force people to go private in order to get knee and hip replacements, and minor procedures.

Schools will have to fire teaching assistants, mental health workers, and librarians just to make sure classes are staffed by enough teachers.

And as more people are driven into poverty, benefit payments will have to be cut back with only those at the very bottom being given support.

This is the future we are facing without growth.

As we have shown in this report, however, it is avoidable.

By making the right choices now, Scotland can become one of the global success stories of the fourth technological revolution.

We can be a nation that others aspire to follow and become a better version of ourselves.

It is time for us to choose a better way: to use the proceeds of growth to create the good society we crave.

Endnotes

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54 We assume a saving per person moved off of Universal Credit of £320 a month, which is the average received under Universal Credit for the top 100,000 households in receipt (averaged across top five bins of 20,000 recipients, accessed here: https://stat-xplore.dwp.gov.uk/webapi/metadata/dashboards/uch/index.html); conversely, we assume that those moving from inactivity to employment under Universal Credit receive an average benefit of £520.

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Our Scottish Future believes that good government in Scotland and across the United Kingdom has to be based on the values of cooperation, empathy, solidarity and reciprocity.

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