Whilst discussion at the Committee may well focus primarily on issues related to the possibility of independence, I would wish to suggest that there are a number of other topics related to our economy which merit discussion in the context of ‘Scotland’s potential economic future’.

The key topic I would wish to have discussed is how Scotland’s productivity and hence potential growth rate could be increased. Low productivity across the UK since the last recession is a worrying fact. While the data are subject to varied interpretations, the position is certainly no better in Scotland than the UK norm and might be slightly less positive.

This trend in productivity, which leads to lower competitiveness against other economies, shows itself in low business investment and low innovation rates. The (welcome) higher than expected employment rates in recent years may well be associated with these trends regarding investment. In uncertain times businesses may prefer to increase employment rather than invest, as changing employment levels may be perceived as a more flexible albeit less productive approach.

Low business investment levels may be related to both demand and supply side factors. Businesses may decide of their own volition to invest less; or problems in access to appropriate finance may encourage them to defer investment decisions. Some of the evidence that I have seen in Scotland suggests that lack of demand may often be more importance than supply constraints, but nevertheless it is clearly important that the financial sector is open to requests for funds based upon sound investment proposals.

One continuing conundrum related to innovation is that whilst Scotland is a world leader in terms of HE R&D (HERD) activity our level of business investment in R&D (BIRD) and business innovation generally is low down the league table. We are rightly proud of the HERD achievement but why is this not translated into a strong performance on BIRD? (I accept some HE institutions work very hard at this.) Again there could be issues regarding the supply side – the incentive mechanisms for many of those involved in HERD may not lead them to seek BIRD opportunities as fervently and frequently as some might wish. Or (some – this is a generalisation for which I apologise) Scottish businesses could be reluctant to innovate as at times they appear reluctant to invest and grow beyond certain levels. Or it could primarily be a ‘matching’ issue. Those seeking to innovate do not know sufficient about the sources of HERD and hence innovation possibilities and vice versa. Or there could be funding issues, lack of access to the right type of risk capital.

Maintaining our emphasis on HERD whilst increasing the transition rate to BIRD could make a major contribution to innovation, competitiveness and potential growth. Finally there is scope for more exporting companies in Scotland and for diversification of our export markets. The rest of the UK is clearly Scotland’s major
export market, followed by Europe and the USA. Major steps are being taken by SDI to encourage and facilitate access to emerging markets, but while a significant number of Scottish companies are achieving success in China, India, Brazil, etc. there is clearly scope for many more competitive exporting companies and increasing attention on these new markets. Exporters need to be competitive and exports stimulate growth.

The topics raised above are not independent but inter-related. I do not have the answers but wish the questions to be addressed – including the role of management and ambition.

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