Scotland's Economic Performance

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Executive summary

Growth

Scotland’s economy has grown more slowly compared to rest of the UK, just under three quarters of the rate (72%) of the UK economy. There is a smaller gap in the rate of growth in economic output per head.

The structure of the Scottish economy does not explain lower growth, rather the same industries in other parts of the UK have been growing more quickly.

Measurement

It is possible that the way in which some services and industries are funded and supported in Scotland may not be as easily captured in GDP figures. If the rate of growth in Scotland’s energy sector had matched that of the UK, growth in GDP per person in Scotland would have been 95% of the equivalent figure for the UK.

However, adjusting growth rates to show a relatively small gap with the UK does not give Scotland a free pass on its economic performance. Growth in the UK economy has been too low with real wages failing to grow.

Growth sectors

Turnover across Scotland’s growth sectors fell (in real terms) by £23.9 billion from 2008 to 2015. The growth sectors in which Scotland has focused its efforts are growing three and half times more quickly in other parts of Britain, this difference cannot be wholly explained by the decline of oil and gas.

Inequality

Wages have been growing more quickly than profits in Scotland. But the burden of taxes has changed significantly and may have limited gains in reducing inequality.

Drivers of growth, Scotland’s industrial composition and UK comparisons

Scotland’s economy has grown more slowly compared to rest of the UK. The latest data available shows that from 1998 to 2016 the Scottish economy grew by 29.2% (in real terms) compared to growth of 40.6% for the UK.

The Scottish economy is growing at just under three quarters of the rate (72%) of the UK economy. Scotland’s population growth has also been lower than the rest of the UK. There is therefore a smaller gap between Scotland
and the UK in the rate of growth in economic output per head, with Scotland growing at 87% of the UK rate.

The gap in economic growth between Scotland and the UK is wholly explained by lower growth across Scotland’s industries. The structure of the Scottish economy does not explain lower growth, rather the same industries in other parts of the UK have been growing more quickly.

For example, the UK’s construction industry grew by 28% from 1998 to 2016 outpacing 22% growth in the Scotland’s construction industry. Significant differences stand out in two parts of Scotland’s economy; the energy industry and Scotland’s public sector.

The UK’s energy industry grew by 11% from 1998 to 2016, Scotland’s energy industry shrunk by 12% over the same period. Government and other services (including local government, health and education) grew by 31% across the UK, more than twice the rate of growth in Scotland at just 15%.

The latest summary of electricity generated in Scotland (available online) shows an increase of 1.6% from 2000 to 2015. This includes a significant move towards renewables and a steep decline in electricity generated by gas, oil and coal. The latest data for the whole UK (available online) shows a 6.6% fall in the amount of electricity supplied (net) between 1998 and 2016.

The low rate of growth among government services has been driven by the Scottish education sector where GDP declined by 3.1% (in real terms) between 1998 to 2016. That is to say, the output of Scotland’s education sector was higher in 1998 than it is today. Part of this decline can be explained by the falling number of school pupils, a fall of 9.8% between 1998 and 2016.

Data from the Index of Services (available online) show that for the UK as a whole, output from the education sector rose by 7.9% between from 2011 to 2016 (the equivalent figure for Scotland was 1.0%). Therefore, education in the UK grew around eight times as quickly as Scotland after tuition fees were raised significantly in England.

Growth in the education sector of 7.9% from 2011 to 2016 is compared to UK growth in education output of 4.6% from 1998 up to 2011.

The measurement of Gross Domestic Product (GDP) includes operating surplus (including the profits of companies), wages paid to workers and taxes (minus subsidies). The ONS has classified some renewables support as subsidies, it is likely that Scotland has been a net beneficiary from renewables schemes and this may have the effect of dampening output growth figures (relative to the rest of the UK).

GDP is better at capturing market outcomes is limited in capturing non-market outcomes. It is possible that the way in which some services and industries
are funded and supported in Scotland may not be as easily captured in GDP figures.
If the rate of growth in Scotland’s energy sector had matched that of the UK (1998 to 2016) then growth in GDP per person in Scotland would have been 95% of the equivalent figure for the UK.

*Scotland’s key sectors: drivers of growth and productivity?*

The growth sectors database (available online) shows turnover for the growth sectors from 2008 to 2015. Adjusting turnover to 2015 prices (using HM Treasury deflators) the collective turnover of the growth sectors turnover among the growth sectors (excluding financial services) declined by £23.9 billion.

Jobs growth among Scotland’s growth sectors (between 2009 and 2015) was 3.6%, the equivalent figure for Great Britain was 12.5%. The growth sectors in which Scotland has focused its efforts are growing three and half times more quickly in other parts of Britain.

*Inequality and economic growth*

The latest Scottish economic accounts (available online) show that in 1998 wages accounted for 55.6% of Gross Value Added (GVA) at factor cost. The remainder of the economy was accounted for by operating surplus (including the profits of companies).

By 2016 the share of wages had risen to 58.8% with a corresponding decline in profits. Between 1998 and 2016 wages in Scotland had grown 32% more quickly than the operating surplus in Scotland.

Perhaps of more significant concern is the growth in taxes, less subsidies, on products. Net taxes on products in Scotland grew four and half times more quickly than net taxes on production between 1998 and 2016.

The most recent (July 2017) report by the Office for Budget Responsibility (OBR), (available online) highlights effective tax rates on businesses, investment, labour and consumption.
Tax rates on components of GDP

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