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Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 2 April 2014

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
10th Meeting 2014, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Christian Allard (North East Scotland) (SNP)
*Richard Baker (North East Scotland) (Lab)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Borland (Federation of Small Businesses)
Stephen Boyd (Scottish Trades Union Congress)
Garry Clark (Scottish Chambers of Commerce)
Professor Mike Danson (Heriot-Watt University)
Owen Kelly (Scottish Financial Enterprise)
Robin McAlpine (Jimmy Reid Foundation)
Joan McAlpine (South Scotland) (SNP) (Committee Substitute)
Ian McKay (Institute of Directors Scotland)
Iain McMillan (CBI Scotland)

CLERK TO THE COMMITTEE

Fergus Cochrane

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 2 April 2014

[The Convener *opened the meeting at 09:30*]

Scotland's Economic Future Post-2014

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 10th meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses and the visitors in the public gallery. I remind everybody to turn off, or at least turn to silent, all mobile phones and other electronic devices, so that they do not interfere with the sound equipment. We have received apologies from Dennis Robertson and we are joined by Joan McAlpine as a substitute—welcome, Joan.

Agenda item 1 is the continuation of our inquiry into Scotland's economic future post-2014. We have two panels of witnesses this morning. I welcome our first panel: Ian McKay, Scottish chairman, Institute of Directors—I thank Ian for coming; I understand that he is a late stand-in for David Watt, who is unwell—Colin Borland, head of external affairs for Scotland, Federation of Small Businesses; Iain McMillan, director, Confederation of British Industry Scotland; Owen Kelly, chief executive, Scottish Financial Enterprise; and Garry Clarke, head of policy and public affairs, Scottish Chambers of Commerce.

In view of the size of the panel, we have agreed to dispense with opening statements and go straight to questions. I say to my committee colleagues that we hope to allow an hour and 20 minutes or so for our large panel this morning. Clearly, if everybody expects all five panel members to answer every question, it will take a long time to get through business. Therefore, I ask members to direct questions to a particular panel member in the first instance. If other panel members would like to answer or make a point in response to a question that was directed to somebody else, they should just catch my eye and I will bring them in as best I can and as time allows. If we try to keep the questions—and the answers—as short and to the point as possible, that would help us to get through the points in the time available.

I will start by asking all the panel members a general opening question. In the view of the members whom you represent, what are the key risks and opportunities that arise from the vote in September on Scotland's future?

Ian McKay (Institute of Directors Scotland): Like any major change, it offers both, and I think that most businesses will come to it in that way. They will be less concerned with the politics and more concerned with how it will affect their opportunities. I will break a little from the dialogue that has tended to take place on the issue so far and say that, in some ways, our members are increasingly concerned that, whatever the outcome of the vote, we are seeing from both sides the prospect of more and more spending and less and less identification of where the money is to come from so to spend. We are entering a political phase in the debate in which both sides are trying to encourage people to vote for them rather than the other side.

On the numbers that came out from the Centre for Public Policy for Regions on fiscal balance and—leaving aside oil—the onshore deficit, so to speak, our worry is not whether we will be in the black or the red, which is the one that tends to take up people's time, but how we actually spend the extra money that Scotland gets.

I was concerned to hear talk at last week's Labour Party conference of a 50p rate of tax, whether it is brought in by Westminster or otherwise. I do not see how something like that encourages us to grow the private sector in Scotland, which we desperately need to do whether the vote is yes or no. We need to build the opportunity for businesses to grow in Scotland. That is the main concern from the Institute of Directors. Neither side is saying how we will build the Scottish economy and get rid of the imbalance in it, in which the private sector is too small.

Colin Borland (Federation of Small Businesses): We need to try to separate out the big economic questions from the business issues. They are linked, of course, but they are not synonymous. Although the large macroeconomic questions have been the focus of much of the debate, the business issues that our members bring to us have not featured particularly prominently.

Those business issues tend to divide roughly into overheads and process. As you would expect, our members raise practical questions. For example, I have been asked, "If I go down to Manchester to meet some customers and, on the drive back up the M6, I stop at Southwaite services to fill up the car, what do I do with the VAT receipt?" or, similarly, "I am an antiquarian bookseller and I do 70 per cent of my trade with the rest of the United Kingdom. Here's what it costs me to post the products within the UK and here's what it costs me to post them to the European Union. Which one of those will I pay?"

Our focus has been on trying to get our members answers, and will continue to be on that throughout the debate. I am not naive enough to think that I will be able to get them definitive answers, but I will try to get them the best information that I possibly can so that they can make an informed decision on 18 September.

Iain McMillan (CBI Scotland): Good morning. The decision on 18 September is one for the Scottish people. We will respect it whichever way it goes. It will be a case of the electorate looking at a wide set of issues from the emotional right through to hard facts, making sense of it all and making the decision on the balance of advantage as the individual voter sees fit.

My business here is about the economy and business. Although that is an important part of the debate, it is a narrower part than the wider panoply of matters that are to be taken into account.

The convener mentioned risks first, so I will deal with them first. I will not go into them to the nth degree but will be happy to take questions on them. I will take four key risks: the fiscal position of an independent Scotland; the currency that an independent Scotland may or may not use; EU membership; and the fragmentation of the current internal UK market. After that, I might say something about various industries as well.

The one thing that we need to understand is that it is quite difficult to use the official figures to try to project an independent Scotland's fiscal position because they are representative of Scotland within a union. Indeed, the "Government Expenditure and Revenue Scotland" figures make that clear. An independent Scotland would be able to take different positions. Therefore, the profile of the various areas of expenditure and of income could change over time, and the change would not necessarily be linear.

The UK's net fiscal balance at the end of the fiscal year 2012-13 was 7.3 per cent of gross domestic product. That is a very high figure indeed. Consolidation of the UK public finances needs to happen. It is running behind the original trajectory that the Chancellor of the Exchequer forecast when the UK Government took office in 2010, but it still needs to happen. The interest on the national debt is horrendous and will peak at something like £80 billion a year before the figure turns down, so the matter is pretty urgent for the UK as a whole.

Based on the figures that have come out, in an independent Scotland, the net fiscal balance in year 1 would be worse, at 8.3 per cent of GDP with oil and gas revenues factored in and 14 per cent without those revenues—in other words, just the onshore economy. There would be every bit as much need to attack the deficit and deal with fiscal consolidation, which would result in many difficult decisions on tax and spend. Scotland would not be a land of milk and honey: the situation would be extremely difficult, with many painful decisions to be taken. Of course, that may well change in the future, and one would hope that it would.

I will move on to currency, which—as we all know—is a controversial area. The Chancellor of the Exchequer and the Chief Secretary to the Treasury—who are from different political parties—and the Labour Party's shadow chancellor have, in my view, made it crystal clear that an independent Scotland would not be permitted to enter a currency union with what was left of the United Kingdom.

The issue is controversial; it has been in the newspapers in the past few days and I am sure that the debate will continue. However, the reality is that, if Scotland votes to leave the United Kingdom—and the CBI would respect that decision—we would, by virtue of that vote, leave the pound sterling. I do not see any way that an independent Scotland could force its way into a currency union with the rest of the UK—I just do not see how that could happen.

We need to hear about what would happen if such a scenario came to pass. Would Scotland adopt its own currency? Would it use the pound sterling in a dollarisation situation? We already know about Panama and the United States in that respect. There are risks around currency.

European Union membership is another highly controversial area. The Scottish Government, in writing its white paper, did very well in getting some supporting evidence from academics and very senior lawyers to support its position that an independent Scotland would remain in the EU, subject to negotiation of the terms.

Even if Scotland were to remain a part of the EU—as it is now, by virtue of our being part of the United Kingdom—some of the derogations and exemptions that we enjoy and which were negotiated before entry on 1 January 1973 may have to go. My understanding is that the UK is the only state in the EU that enjoys VAT-free new buildings, food in our shops and children's clothing. Those exemptions may have to be negotiated away, which could well be done given that none of the other member states, other than the rest of the UK, enjoys them. Of course, the terms on which Scotland remained in or entered the European Union would be subject to unanimous agreement among the other member states, which do not enjoy those privileges. The rebate that the UK won many years ago and still retains could be negotiated away too; there are a lot of uncertainties in that regard.

Even if the Scottish Government has all the support, the difficulty in my view is that the President of the European Council and the President of the European Commission have both made it clear that, if Scotland votes to leave the United Kingdom, it puts itself outside the treaties and outside the European Union, because we enjoy membership by virtue of the UK's membership. Being outside the UK means being outside Europe.

Even if that is not the case—and it may not be the case—the reality is that those two institutions will control the process, and if Scottish negotiators want to argue something different, the case may end up in the European Court of Justice, where it could take a number of years for it to be heard—

09:45

Mike MacKenzie (Highlands and Islands) (SNP): Excuse me, but do you have any idea how long this polemic is going to continue for? We have questions to ask.

The Convener: Mr MacKenzie, I do not think that it is fair to describe a witness's answer to my first question as a polemic. You have, however, had a few minutes, Mr McMillan.

Iain McMillan: Would you like me to speed up a bit?

The Convener: Perhaps you could come to the end of your remarks and let the others come in.

Iain McMillan: I will simply say one thing and will be happy to take more questions after my colleagues have spoken.

There is then the issue of the UK single market. At the moment, we enjoy an internal market, and goods, services, money and everything else moves across the Anglo-Scottish border very freely. Our concern—and the risk—is that if an international border were created, over time, the costs of doing business across it would become greater. As regulation, legislation and taxation fragmented, two jurisdictions would have to be paid for and complied with. There is a risk around that.

On the benefits of independence, we hear and have taken into account that an independent Scotland would be able to make its own decisions to suit its business and economic needs. We have read about some of the good things that the Government of an independent Scotland would do, such as the extension of free childcare, but affordability would be a real issue for the public finances in some areas. It comes down to whether we are better in a partnership with others or as sole traders.

Owen Kelly (Scottish Financial Enterprise): I will be as brief as I can be. From the point of view of the financial services industry, the risks stem principally from the way in which the political process has been constructed, and they have been clear ever since the referendum process was announced. However, we cannot have secure knowledge of how most of the key issues that concern our industry and others will play out until after the vote has taken place.

Many of the principal risks have been touched on already. For our industry, they include the terms on which European Union membership would be based. Currency is also a major area of uncertainty, as Iain McMillan said. We would not know what the currency arrangements would be in an independent Scotland until after a yes vote. That would be the beginning of a decision-making process, and at the moment we are not in a position to know what the decision would be.

There is currently a single market for financial services across the whole UK: the same pension can be sold to people in Penzance and to people in Aberdeen. We think that it would probably be an inescapable consequence of Scotland becoming a separate member state within the EU that the market for financial services would, in effect, become two markets. There would need to be separate taxation in a Scotland that was no longer part of the United Kingdom, and there would have to be separate financial regulation. I do not think that either of those is in contention. The necessary consequence of that for financial services providers is that they would need to have two different sets of products, as their products are always tailored to suit the tax jurisdiction in which they are sold. That is particularly true for retail financial services. Probably only the very rich purchase financial services from jurisdictions other than the one in which they are resident for tax and other purposes.

The fifth risk on our list would be transition. It is difficult, at this stage, to know how long the transition period would be between a yes vote and a steady state. There are different views on that. I am aware of the Scottish Government's proposition that it would take only 18 months. However, our conversations with others in Brussels and elsewhere who manage such things for a living have suggested that it might take quite a bit longer. We do not know—we could only wait to discover the answer as time passed.

We have identified some opportunities in the paper that we put out last week. Our members would have opportunities, particularly those in investment banking, if you are talking about creating a new currency and placing bonds in the market and suchlike. That opportunity probably would not be transitional but would exist for the foreseeable future. For the transitional period, as others have pointed out, there would be more work for our lawyer members and other advisers on tax and other issues.

We have not been able to identify other opportunities that would come from structural changes to the markets or the regulatory environment on the basis of what we know now. No new markets would open up to us and there would be no new harmonisations that would create new market opportunities. In fact, because you would be creating a different relationship between Scotland and the rest of the UK, you would be creating a boundary, even if it is just an administrative one, where none currently exists.

It has been suggested that opportunities might arise in an independent Scotland if there were lighter-touch or better regulation or a more attractive tax environment for financial services. Those are hypothetical possibilities. If one is open minded, one must acknowledge that the environment may go in the other direction. We have not speculated about that—we do not get into too much of the business of speculating about what might or might not be decided in a future independent Scotland in relation to our industry because those matters are not open to us at this stage of the political process.

Garry Clark (Scottish Chambers of Commerce): It is important that I state that our approach to the debate is entirely designed to ensure that our members have the best possible information about the referendum and the implications for their business, and can arrive at the most informed judgment possible. In doing that, we have been guided by our members. Last year, we conducted a major survey of our members to identify the key issues for them in the independence debate. We are surveying our members again in order to delve deeper into and explore some of the issues that have been coming to the top of the political agenda over the past few weeks and months.

When we surveyed our members last year, they were fairly clear about the areas in which they have a particular interest in relation to the referendum. Most of those areas have been touched on by the other panellists. The number 1 issue was taxation; the number 2 issue was Scotland's status in the European Union; the number 3 issue was the currency, albeit that the survey was, as I say, conducted last year; and the number 4 issue was regulation. It is fair to say that risks are attached to most of those areas, but it is also fair to say that risks are attached to most of them irrespective of whether Scotland becomes independent or remains part of the United Kingdom.

For example, our members are very keen to learn about the prospects for taxation in an independent Scotland, but we are also aware that further tax powers are coming to the Scottish Parliament. Our members view business rates as a tax, and they probably rank their interest in that tax and the changes that have been made to it over recent years above income tax and well above corporation tax. We view addressing each of those tax issues as a possible risk or opportunity irrespective of whether Scotland becomes independent. In an independent scenario, a larger basket of taxes would have to be looked at.

In the surveys that we have conducted, the vast majority of members favour Scotland remaining a member of the EU. That would be true whether Scotland became independent or remained part of the UK. Again, there are risks on either side. As Owen Kelly mentioned, in the event that Scotland becomes independent, risks are associated with the process of negotiating continued membership of the European Union. Equally, depending on the outcome of the next general election, we potentially face the prospect of a UK-wide referendum on EU membership after that election. Those areas would present risks for our members.

The currency is probably more clearly an area where most of the risks are on the independence side. We are surveying our members about their currency preference, but the feeling that we have picked up so far is that they would prefer—whether or not Scotland becomes independent—to retain sterling as the currency, principally because of the significant levels of cross-border trade. At least two thirds of exports go to the rest of the UK rather than international destinations.

I have outlined the major issues, but regulation is another. Some of the regulation is European, some is UK, some is Scottish and some is local government. Regulation comes from many sources, many of which are already within the control of either the Scottish Government or local authorities in Scotland.

Clarity is required on how we use the opportunity created by the debate on independence to ensure that Scotland has a prosperous business future. As Colin Borland said, underpinning the debate around the referendum are major issues that our members have continually flagged up over the past few years, such as connectivity and education and skills. Irrespective of the outcome of the referendum, those issues will remain a focus for us. The aim is to improve the business environment in Scotland, and we will continue to campaign on those issues on behalf of our members.

The Convener: Thank you all very much for your introductory comments. I am conscious that it has taken us the best part of half an hour to get through the first question, so we will have to sharpen up a bit if we are going to get through the rest of the questions in the time available.

I will not ask any more questions at this stage, although I might come back in later, as time allows.

Chic Brodie (South Scotland) (SNP): Good morning, gentlemen. My first question is for Mr McMillan. In 1996, in response to devolution, you said:

"The creation of another parliament, with its attendant costs and bureaucracy, would carry more risks for business than benefits."

When I go through the three pages of a submission from the CBI to the committee two years ago, it says:

"The CBI supports ... the CBI endorse ... we are appreciative of ... we welcome".

You were wrong, were you not, Mr McMillan?

Iain McMillan: Your party did not participate in the Scottish constitutional convention, and yet—

Chic Brodie: I asked the question: were you wrong in your view?

Iain McMillan: That was then, Chic.

Chic Brodie: Mr McMillan, I am asking the question.

Iain McMillan: Chic—that was then and this is now. Things change.

Chic Brodie: Were you wrong?

Iain McMillan: We changed our view.

Chic Brodie: Were you wrong?

Iain McMillan: We changed our view.

The Convener: Mr Brodie, please do not badger the witness—let him answer the question.

Chic Brodie: Fine.

Mr Kelly, in 1997 Professor Grant Baird, Scottish Financial Enterprise's executive director, said:

"Our objective is to encourage a critical mass of financial investment in Scotland. We do not see this"—

that is, devolution—

"will help."

In 2008, foreign direct investment in Scotland was 8 per cent of the UK total. In 2010, it was 19 per cent, in 2011 it was 20 per cent, and in 2012 it was 18 per cent. Do you believe that devolution has conformed to Professor Grant Baird's view?

Owen Kelly: I think that you are comparing apples and pears. Most of the issues that affect our industry are reserved to Westminster.

Chic Brodie: Grant Baird was the one who commented on devolution.

Owen Kelly: It is a completely different proposition.

Chic Brodie: I turn to Mr McKay, who mentioned the trade deficit. We will come on to the fiscal deficit shortly, but I am talking about the trade deficit.

In 2012, which is the last year reported, Scotland's trade deficit—not including international exports of oil and gas—was in surplus to the tune of £6 billion. The UK was in deficit to the tune of £33.6 billion—the figure is worse if we take away the Scottish surplus. Do you not think that Scotland's economy is very robust in terms of how it trades and the strength of its businesses?

10:00

Ian McKay: One can always take great comfort from choosing to read the numbers that one chooses to read. One probably gains a more balanced view by reading the numbers that are more uncomfortable to read. The numbers that I quoted are from the Centre for Public Policy for Regions in Glasgow, which talked about Scotland's contribution and the onshore deficit, as it puts it, if we take out oil and so on. The centre says that our contribution is about 8.2 per cent against our population of 8.4 per cent, while we receive back from Barnett some 9.3 per cent.

Chic Brodie: I am talking about the trade deficit, not the fiscal deficit.

Ian McKay: As I said, it is much easier in life if you ask only the questions that you wish to ask and listen to the answers that you wish to have, but why—

Chic Brodie: I will come to the fiscal deficit in a minute but, if you would not mind, will you answer the question about the trade deficit?

Ian McKay: Why do we not try my idea, so that I give you the answer that I would like to give, rather than you just asking the questions that you would like to be answered?

Chic Brodie: That is why I am here.

Ian McKay: You asked us here in the first place.

We also have to look at how that economy will perform. You said in your question that you believe that the Scottish economy would be robust. I believe that those of us who participate in the Scottish economy are indeed robust in what we do, but I do not think that the overall economy is robust. For example, our economy is very dependent on financial services and oil, which far outweigh other areas. It is not what I would regard as a well-balanced economy, which would have good growth in a number of areas.

I refer you to my comment in my first contribution that the private sector in Scotland is far too small. I have never been one of those who takes the view that the public sector in Scotland is too large; I have always said that, in fact, the private sector is too small. However, we are out of balance and we need to address that. I take the view that it is not the form of governance that matters; it is what you do when you get here. I do not see policies coming from this Parliament or indeed from down the road that are promoting that change and that better balance in our economy. That is the answer to your question—yes, it is a robust economy, but it is out of balance.

Chic Brodie: You say that it is out of balance, so let us talk about fiscal deficit. Recently, the CBI reported that, even with the most pessimistic forecast, Scotland's deficit will fall to 2 per cent of GDP by 2018-19. Do you know whether the UK's deficit has exceeded 2 per cent of GDP in recent years?

Ian McKay: I will believe whatever number you wish to quote.

Chic Brodie: These are actual facts, Mr McKay. The reason for the question is that the UK deficit has in fact exceeded 2 per cent in every year from 2002-03 to last year.

Ian McKay: I think that that depends very much on how we calculate GDP. I return to some of the numbers from the Glasgow centre. We can look at GDP in a basic way, or we can start to look at whether the apparent benefits from some of the profits and so on that come from GDP actually find their way back into the economy or whether they disappear abroad through the profits that go to companies that are not actually headquartered in Scotland. There are a number of ways of cutting the statistics. I imagine that we can play this game all day. What matters is that we have an economy that allows the people and businesses of Scotland to go forward. As I say, that comes down to the policies that Governments follow; it is not about bandying statistics around.

The Convener: Mr Brodie, you have had four questions. You can have one more.

Chic Brodie: I regret that we lost some time early on, convener.

If I may, I will ask Mr McMillan a question. Who did you consult before you published your recent report? I notice that the Scottish Chambers of Commerce and Scottish Financial Enterprise have taken a neutral position, after consultation with their members.

Iain McMillan: We have consulted on the issue in the way that we consult on other matters of public policy, which is by meeting with our members and discussing the various issues with them over time. We then put together some committees to look at the issues. Those then go to the council of CBI Scotland, which considers the matters and comes to a position.

Chic Brodie: Why is it that some of your members say that they were not consulted?

Iain McMillan: I do not know who those people are. Who are they?

Chic Brodie: I do not have the names with me, but last week we had two reports of members of—

Iain McMillan: Who are they?

Chic Brodie: I will get the names for you.

Iain McMillan: Okay. Until you give me the names, I cannot answer your question. Why can you not give me the names?

Chic Brodie: Because I do not have the names with me.

Iain McMillan: Oh, do you not?

The Convener: Hold on, Mr McMillan. With respect, witnesses are here to answer questions from the committee, not the other way round.

Chic Brodie: Mr McMillan, you know as well as I do that such a view has been publicly expressed by at least two of your members.

Iain McMillan: Every member of the CBI has had every opportunity over time to express their views on this issue and every other issue to me, my colleagues and the wider CBI.

Chic Brodie: Thank you. I will get the names for you.

The Convener: Joan McAlpine has a brief supplementary before we move on.

Joan McAlpine (South Scotland) (SNP): Mr McKay, in your response to Mr Brodie you spoke about the importance of Government in creating the right environment for business, and you made the interesting observation that the private sector in Scotland is too small. Does that not suggest that we need to do something different, and that the UK, in holding the economic and fiscal levers, has failed to grow the private sector in Scotland or create an environment for that to happen in the way that you would wish?

Ian McKay: You are absolutely right that we need to do something different, but you will draw a conclusion from that answer that I will not necessarily accept. Recognising that something needs to be done differently does not tell us what the answer is.

I will give the committee a practical example of where we are, rather than being too confrontational on the issue. I know a little about the mail service. There was a political response up here to the privatisation of Royal Mail, with the assertion—which appears in the white paper—that the Scottish Government will renationalise Royal Mail and bring it back under public control.

That will come as a welcome development to a lot of small businesses in Scotland, as 98 per cent of them use Royal Mail and 79 per cent or thereabouts do not use any other provider. Those businesses would want a reliable mail service if there were a yes vote and Scotland became independent.

It is therefore not unreasonable to ask, if that reassurance is given, what the cost to the Scottish exchequer would be. The following factors would then need to be taken into account. First, there would obviously be some sort of compensation cost in bringing Royal Mail back under public control. Secondly, the practical cost, given Scotland's geography and demographics, of providing even the same mail service would be much more expensive in delivering just for Scotland than it is for the UK as a whole. Thirdly, mail is a strange business in that only the person sending the letter and not the person receiving it pays the money, and the Scottish mail service is unbalanced as we are a net importer rather than an exporter of mail, given that we have no big mailers in Scotland. Given those factors, anyone can see that maintaining the same service would incur an additional cost. It is perfectly reasonable that we have that reassurance, but business wants to be told what the cost will be.

It is perfectly reasonable for politicians to say that the world will remain the same or get better, but I want them to tell me how much it is going to cost me.

The Convener: Before I bring in Margaret McDougall, I have a follow-up question on the Royal Mail point, which is interesting. At a previous meeting, we heard evidence from a business owner on that very point. If we have a yes vote and there is a separate mail company in Scotland, what will happen to the universal service obligation?

Ian McKay: The committee will, I am sure, have looked at evidence from elsewhere. The person in the best position to answer that question is Vince Cable. When he gave evidence to one of the House of Lords committees, he described the overall cost of the universal service as approximately £7 billion, and the cost in Scotland, proportionately, as £630 million. However, he did not identify the on-cost of covering what he called the Highlands and Islands part—the issue is actually a lot wider than just the Highlands and Islands—in delivering in Scotland.

There would be very real problems, mainly because, as most of us know, social mail continues to fall by 3 to 4 per cent each year. The mainstay of the mail service comes from a relatively small number of very large mailers in the white letter market. None of them is based in Scotland. Even mail from the likes of RBS and so on is mailed from furth of Scotland, so that income does not come into the mail service in Scotland. That would be an issue for a Scottish mail service, which would have to recalibrate its income and outgoings. It will not be impossible, but there will be a different cost—and a further cost—to the exchequer.

I am using the Royal Mail as a practical example; there will be many others. All that business here wants to know is the real cost and what it would actually mean. We might accept it once we have been told, but it would be good to know what it was.

Margaret McDougall (West Scotland) (Lab): In the event of independence—I know it is unlikely, but we will go with the dream—if EU law results in banks such as RBS or Lloyds being forced to move to England and operate from the rest of the UK, what impact would that have on businesses in Scotland? I direct that to Owen Kelly initially.

Owen Kelly: There has been a lot of speculation about the impact of a yes vote on the location of bank headquarters. I think that you are referring to a report that stated that it would be a requirement of EU law for those companies to move to where most of their customers are located. That is one interpretation of that provision, but it is probably possible to look at other parts of Europe such as Belgium, Luxembourg and Holland, which have variations on that theme.

Your question relates in particular to where banking headquarters are located in a situation where the current jurisdiction, the UK, becomes two jurisdictions but, as has been pointed out a number of times, a larger factor is at stake. The key question is this: who would act as the lender of last resort, or who would stand behind the banks? It is doable, because there are countries of a similar size with economies of a similar size that have reasonably large banks. The issue is closely related to the currency question because, if we posit the idea of a currency union, as the Scottish Government is doing, we would have to have some kind of shared prudential regulation of the banking sector to ensure that the banks effectively had a sovereign standing behind them. I think that everybody would agree on that.

In the absence of a currency union—as Iain McMillan pointed out, on the basis of the available evidence, that looks less likely—the calculations become different. It has been hinted, although it is not official policy, that sterling could be used on a dollarised basis. That is, sterling would continue to be used outside the area of governance for the currency. That would raise difficult questions about where financial institutions are located. The other option would be to create a new currency, which would in a sense be simpler, because then there would be things such as a central bank and lender of last resort.

Therefore, your question concerns not only EU regulations; bigger aspects come into play, depending on the currency arrangements that are finally agreed.

Margaret McDougall: How would that affect businesses in Scotland?

Owen Kelly: I have offered some quick thoughts on how the different currency options would affect our industry. If there was a need for those banks to move jurisdiction, for example, that would have an impact on things such as jobs, supporting activity and advisers. It is not for me to speculate too much on that. All the companies involved have made it absolutely clear that they are not currently making such plans. If one thinks of the issue in theory, there would of course be implications for our industry.

There might be other implications for business more generally. There are other providers in the market. It is possible to provide financial services in another jurisdiction, as long as those services comply with the requirements of that jurisdiction. There are many examples of foreign companies providing services in the UK in accordance with the requirements of the regulators in the UK. Normally, that means setting up a subsidiary or a branch. Whichever way a company does it, it has to comply with the regulatory frameworks and, in particular, with the investor protection and depositor protection frameworks. Once one jurisdiction becomes two, there would probably be some reconfiguration of businesses on both sides of the border.

10:15

Margaret McDougall: I want to ask Iain McMillan about the regulatory changes and the weight of regulation that would perhaps be put on businesses in Scotland if there were to be independence. We have heard from all of the witnesses that your members are concerned about regulation. What kind of regulation are you talking about? What would be the cost implications for businesses of dealing with additional regulation?

Iain McMillan: In the UK at the moment, by and large, business has to comply with one set of laws, rules and regulations. Of course, there are exceptions to that. In Scotland, we have a Parliament and a Government and some differences in the law—for example in civil and criminal law—that go way back to before the creation of the Scottish Parliament. Businesses have to deal with those elements of two jurisdictions.

With the creation of Scotland as a new independent sovereign state, it would need to have its own suite of regulations on banking, insurance and various other industries and on things such as consumer protection. Instead of having to deal with, by and large, one regulator, businesses would have to deal with two, which would have a cost implication. There would be a cost implication to the public finances in Scotland, because that would need to be covered, and there are overheads that would have to be duplicated.

Businesses operating on both sides of the border would not only need to comply with two regulators. Over time, in all probability, most of the laws and rules that businesses have to comply with would change, because Parliament responds to public opinion and the moving agenda, and legislation is introduced to deal with public concern and the need to address various political issues. That would probably happen over time and there would be a cost attached to it.

Margaret McDougall: Colin Borland mentioned in his introductory remarks the lack of information and the concerns of small businesses about operational matters. The white paper does not explain how all of that would work. What information would benefit your businesses now so that they would have comfort going into a new sovereign state?

Colin Borland: I suppose that the question is: how would this work and what would it actually mean for me? You asked about regulation. It is true that, on VAT, for example, we are dealing with a single regime throughout the UK. However, the biggest regulator for many small businesses is the local authority or licensing board. We already deal with a range of regulators and we know the difficulties that that causes. That is why the Parliament had to pass the Regulatory Reform (Scotland) Bill.

The sort of people who are asking the most questions are the 22 per cent of our members who do their business pan-UK, because they have not yet had different regimes to deal with. That can cover a massive range of issues. Some of them are ones that I have thought about and some have been raised with me. I have mentioned examples such as Royal Mail, but there are dozens of others. When you start having these conversations, you go, “Oh, right enough—how would that actually work?”

We have commissioned work from the University of Edinburgh to explore some of the issues and drag them out in order to get to the bottom of stuff that we need to know a bit more about, and some specific things, too. For example, at an event that we held recently, a question came up about subsidies for the forestry industry and how that system would work if we were in a transitional period and negotiating an exit from the UK. That was an incredibly specific question. How can we get to the bottom of that and find out what the businesses involved think? Such questions will have an effect on businesses' plans.

Margaret McDougall: Given that the white paper is supposed to have all the answers, do you not think that the onus is on the Scottish Government to provide answers to businesses? You said that you have asked your members questions and that they will have to go off and think about them and come up with ideas. In fact, though, the Government has imposed a situation on you, so why should it not provide the information that is needed to address it?

Colin Borland: It is fair to say that there has been no debate so far in that regard. The white paper has a lot of big-picture stuff about where we want to go, and a second track of examples of the sort of thing that could be done were Scotland to have additional powers. However, our members would like a bit of clarity around exactly what that would mean and how it would work in practice.

Our difficulty with the debate, though, is that one side tells us how things would work and the other says that that is not how they would work. Their positions can be diametrically opposed. That situation leaves us trying to navigate a middle way and arrive at a best-case scenario, or the best that we can do on the available evidence.

Margaret McDougall: Is that having an effect on how businesses operate, given that they are having to think about the future in a different way? What is it doing to their current business and their business plans? Is it preventing them from advancing?

The Convener: That is your last question, Margaret.

Colin Borland: We do not know the answer to that yet, which is exactly why we are doing our piece of work with the University of Edinburgh. I think that the fieldwork for it will begin later this month. Rather than ask people what they think, it is more valuable to ask them what they are in fact doing and what difference the current situation has made to their business.

Committee members probably all saw in the newspapers on Monday the results of a survey of what small businesses think about independence. I was surprised by how definite many of the respondents were on particular questions. From memory, I think that about 77 per cent expressed a view on whether independence would be good or bad for their business. I suspect that, if we asked the question of most small businesses, the number of "don't knows" would be significantly higher—that is my gut feeling. However, that is the proposition that we are going to test.

Margaret McDougall: Convener, can Garry Clark comment?

The Convener: Briefly. Garry, do you want to come in?

Garry Clark: I recognise a lot of what Colin Borland said. Having spoken to many businesses of different sizes, I think that there is a mixed picture on how they are approaching the area of risk. Obviously, Standard Life's contingency arrangements to cover any eventuality, however likely or unlikely, have been well reported. Equally, many businesses say that, whatever happens, it will make no difference to their investment plans in Scotland. More than 60 per cent of our members trade almost exclusively in Scotland, so perhaps there will not be as much of an impact on them. Our surveys suggest that those businesses are more sanguine about the possible outcome of the referendum than are those who trade mainly in the rest of the UK. That trade is important, though, because our most recent business survey showed that it was business from the rest of the UK that drives the manufacturing sector, for example.

There is a wide range of opinions among businesses, and it is difficult to generalise about them or to categorise. However, like Colin Borland's organisation, we are surveying our members.

Margaret McDougall: Ian McKay wants to come in.

The Convener: Briefly, Mr McKay.

Ian McKay: Part of the difficulty is to do with the possible EU membership referendum. If we compare the fear and trepidation over that possible referendum with the referendum here, we find that the vast majority of businesses are a lot more concerned about the EU membership referendum, because of its effect on their businesses and trade.

Dealing with the income tax changes that have already been agreed by the politicians in the Scottish Parliament and by those down the road at Westminster, which are due to come in in a couple of years, is worrying a hell of a lot more small businesses. There is always a worry about such things. The main thing is to quantify that worry and work together to try to get over it, whatever the outcome happens to be.

The Convener: We need to move on. Alison Johnstone is next.

Alison Johnstone (Lothian) (Green): My colleague asked about impacts of regulation and costs and so on. The World Bank currently ranks the UK tenth out of 189 countries on the ease of doing business. The Organisation for Economic Co-operation and Development currently ranks the UK as the second least stringently regulated product market in the developed world. It is therefore fair to say that we are certainly not overregulated.

My question is for Colin Borland. We tend to lump together small and medium-sized enterprises, but they can be incredibly different and diverse. Given the increased number of people who are self-employed—no doubt due in some part to the fact that people cannot find jobs or that the jobs that they can find are less secure than they may have been in the past—would there be any benefits in having a microbusiness regulator that looked specifically at the needs of microbusiness? That would be a sort of one-stop shop that provided information on starting up and other issues.

Colin Borland: In an ideal world, I would love to see all regulators start out by thinking about things from the point of view of the microbusiness rather than the large plc or the public sector, and then try to change things a bit to make it easier for smaller businesses to comply.

One thing that we have argued for in a UK context has been a small business administration like the one in the United States. Such an administration has many functions, but one is to be a small businesses corner-man in Government discussions so that, whenever something is being put through, that body is there to act as a check and ask people to think about how it will operate. As you will imagine, we have all sorts of fun and games arguing our case in Brussels and encouraging people to think small first.

Therefore, the more that we can get people to think, when regulations are being designed, about how they would impact on the smallest businesses, the better. After all, those businesses form the vast majority of the business base, so that has to be a good thing. I leave you to decide whether there is a constitutional dimension to that.

Alison Johnstone: Okay, but you are finding it a challenge to have that issue addressed at a UK level at the moment.

Colin Borland: It is always a challenge, but it is a challenge at local authority level, too, and in the Scottish Parliament and Brussels. That is the nature of how we make legislation and of how those bureaucracies operate.

Alison Johnstone: Going on to other challenges, one challenge that many businesses face at the moment is that of accessing finance. There is a view that, since the economic crash, very little has changed to address the structural faults that led to the crash in the first place.

Would you like to see an opportunity in an independent Scotland to reform the way that we bank and to have small banks that are really interested in getting to know local businesses and lending to them? When the economic crash happened, the German small banks lent more money to small businesses whereas, here, the drawbridge went up and it became increasingly difficult for businesses to trade. Would you like an independent Scotland to have a look at reviewing the banking sector?

10:30

Colin Borland: Independent or not, we have to look at the banking sector and the consolidation in the market at the moment. The committee’s excellent report on that subject highlighted how difficult people are finding it. It is a particular problem in Scotland that we have a big two, not a big four. There is obvious scope for a broader range of financial products, but that does not mean being able to walk down George Street in Edinburgh and see lots more coloured signs; it means having genuine competition among the products that are available.

I am not qualified to comment on whether that would be easier or more difficult to achieve in an independent Scotland—I leave it to colleagues in the financial and banking industry to say what would be possible. However, in principle, anything that gets the finance to ambitious businesses that are ready to grow on terms that are realistic and that they can afford must be a good thing.

Alison Johnstone: Thank you. My next question is for Mr McMillan. My colleague Mr Brodie asked who you had consulted before reaching the views that are expressed in your submission. You said that you had had meetings with various groups. I would like to be clear about who you are representing today. In your list of members, there are universities and several quangos. Is the view that is expressed in your paper the view of those universities and quangos?

Iain McMillan: The view that we represent in the paper is the broad collective view of the CBI. We do not claim that it is identical to the view of every individual business and organisation that is a member of the CBI. It is a collective view that has been determined by the council of CBI Scotland, which, in the main, is elected by the members.

Alison Johnstone: Thank you.

The Convener: Before we leave the point, Mr Brodie has a supplementary question on it.

Chic Brodie: Mr McMillan, my robust questioning is nothing personal. I feel that I owe you an answer to your question. I have in front of me a comment from one individual, and I will get more. He is the chairman of a care company and a member of the CBI. He says that the CBI

"never consulted me on my views on independence and I don't know of any members they have asked".

Iain McMillan: I cannot speak for Tony Banks. Are there any more comments, or is it just that one?

Chic Brodie: That is the one that I have in front of me.

Iain McMillan: So it is Tony Banks. I cannot speak for Tony Banks. What I am not going to do—at this committee or anywhere else—is report private conversations between me and my account managers and our members. I am afraid that that is off limits—you will understand why. Mr Banks is entitled to his view, but the submission states our position.

Alison Johnstone: I have a question for Mr McMillan on the CBI's submission. You say that

"Scotland's success is underpinned by being a vital part of a dynamic and outward-looking UK economy"

and that

"Scotland in the Union is an economic success story".

You will be aware that that is simply not the case for far too many Scots. We are seeing increased inequality and we had a debate last week on child poverty. We are finding it difficult to mitigate some of the worst impacts of the UK's welfare reform agenda.

We can look at things through the prism of GDP, but that is not a comprehensive measure of a successful society. Do you feel that your members have a role in addressing those issues in society? Is it simply about creating wealth, or is it about ensuring that everyone in society benefits? For far too many people, the status quo is not delivering. You obviously advocate Scotland staying part of the UK. What do you see changing within the UK to address that inequality?

Iain McMillan: Poverty and inequality are, sadly, not peculiar to Scotland. We see some serious aspects of poverty in other parts of the UK as well. Inequality is an abstract term, if I may say so. I read a lot about the issue of inequality, but I am not quite sure what it means. Does an equal society mean a society with equality of outcome or equality of opportunity? I am not quite sure whether those who speak about equality and inequality mean one or the other of those. Can you help me with that?

Alison Johnstone: Certainly. Let us look at equality of opportunity. It is a known fact that, in this affluent city of Edinburgh, a person's results depend on where they go to school. If we look at a map of Edinburgh, we can see that there are notable gaps and differences in attainment, which depends on where people live and which school they attend. Therefore, it is clear that there is not the equality of opportunity that we would like to see. I just want to understand whether you believe that there will be a trickle down and that, if some people become very wealthy, that will benefit everyone. It is clear that that has not worked so far.

Iain McMillan: We certainly believe that wealth needs to be created before it can be distributed and that the business community's primary job is to create that wealth, from which many benefit and some benefit less well than others.

On opportunity, I have been in my job for a long time. I talk with many business leaders, and they are passionately concerned about the poor in society and those who perhaps do not have the same opportunities that others do. That is why so many businesspeople are involved in public works outside the boardroom and away from senior management. Many are involved in charity work and many are on the boards of public bodies, for example. Sir Ian Wood is a very good example. He is currently carrying out a piece of work for the Scottish Government on skills to try to broaden our skills base and ensure that more young people, for example, will be skilled enough to be able to come into the workforce, perform well and have a good standard of living when they do so. So I agree with you.

Alison Johnstone: I have just one more question, convener.

The Convener: Briefly, please.

Alison Johnstone: I attended the national summit on developing the young workforce on Monday and very much welcomed Ian Wood's views, particularly on parity of esteem between vocational and academic qualifications. However, do you not agree that we can get only so far when a Parliament is put in the position of having to mitigate the worst impacts of another Parliament's decisions? The bedroom tax is probably a very good example of that.

Iain McMillan: In most areas of investing in the supply side of the economy, including skills, which we have talked about, the powers reside with the Scottish Parliament. It has powers over education and training, which inward investors always see at the very top of their list of requirements. Those areas are fully within the devolved powers of the Scottish Parliament. The development of the transport infrastructure is very important, as well, and our contribution to the environment is devolved. Therefore, a lot can be done here.

In politics, there is a swing from the left to the right. I have seen that all my life. There can be an independent Scotland and the right-to-left pendulum will swing just the same. A separate and sovereign Parliament here will not necessarily solve these problems any better or any worse than the UK Parliament or Parliaments elsewhere.

Alison Johnstone: Thank you.

Marco Biagi (Edinburgh Central) (SNP): I have a question for Owen Kelly. Last week, a letter that was written by George Mathewson, Angus Tulloch, Jim Spowart and other figures from the financial services industry set out their view that an independent Scotland could lead to an improvement in jobs and investment, including in financial services. Earlier, Owen Kelly was at great pains to say that he was neutral on the structure but that that might be a direction in which an independent Scotland could go, if it was so minded. I do not know whether you know those people personally or professionally—perhaps you could let us know that—but do you accept that it is a route that an independent Scotland could take? Do you accept that it is a possibility, even if you do not necessarily expect it?

Owen Kelly: Do you mean the possibility of a better-regulated, lower-tax environment that might attract more financial services? I am making an assumption. I know and have met some of those individuals; one is in our membership. The difference between how they and we, as an organisation, approach these issues is that they are coming from the position that independence is the right thing. We are coming from a position in which we do not really have a view on whether independence is the right or the wrong thing but are just trying to understand the implications for our industry.

It is of course possible to imagine that there would be a new jurisdiction in Scotland in which, theoretically, there was better regulation and taxation. Whether you think that that is likely is entirely a matter of political judgment and belief. What is not in dispute is that where there are jurisdictional boundaries in financial services, to some extent that creates the structure of the market. That is in the nature of the provision of financial services, because we are one of the most regulated industries in the economy. People who purchase financial services rightly expect protection from regulatory and other frameworks, and the products and services that are sold by financial services are to a large extent determined by the tax environment of the person to whom they are being sold.

I hope that it is not controversial to observe that, at the moment, we have the whole of the UK as a market that is built around one regulatory and tax framework. Therefore, whether I am providing pensions, savings products or anything else, I have that market. If Scotland becomes a separate jurisdiction for tax and regulatory purposes, it will be a different kind of market. It probably is not unreasonable to look across the water at Ireland, just for a rough idea. I appreciate that there is a currency complication there but, roughly speaking, I could look at Ireland and say, "I am a provider of services in Scotland and I serve customers in Ireland in many cases, but I do that on the basis that I comply with Irish tax and regulation, so the cost of providing those services is slightly different from the cost of providing them to people in my jurisdictions." That is a long-winded answer.

Marco Biagi: If we took that argument to its logical conclusion, there would be an advantage in having a single European market for financial services.

Owen Kelly: Indeed, and we are big supporters of that. It has not happened. I think that the European Commission is going to do some work on that in the coming year because, with the election and so on, it is downtime. It is going to try to reinvigorate the single market. I do not want to take a poll, but it is a matter of fact that most people would buy savings-related or investment-related financial services only from a provider that is regulated in their own jurisdiction.

Products such as investment funds are sold across borders reasonably freely, but they are regulated in the jurisdiction of the point of sale to the investor or saver. It is true that most French people, for example, do not buy their pensions from Germany; they buy them from companies that operate in their jurisdiction, which is entirely understandable, because we are a heavily regulated industry and people want protection.

Marco Biagi: I will change the topic entirely and ask a question of Garry Clarke and Colin Borland. Vince Cable said that London

"is becoming a giant suction machine draining the life out of the rest of the country".

When Danny Alexander came in front of the committee, I asked him whether he agreed with that perspective. He said that he did not agree with the wording but he did agree with the sentiment. As representatives of small businesses, which perhaps have the greatest difficulty with the concentration of transport and central Government spending—or otherwise—in London, do you share that analysis or do you have any other concerns about the current balance of the UK economy?

Garry Clark: It is certainly a matter of fact that the performance of the London economy over recent years has outstripped that of the rest of the UK. Scotland has been doing reasonably well over the past couple of years, with low rates of unemployment and high rates of economic participation, but we have seen huge amounts of investment in London. Crossrail has been a massive scheme and high-speed rail is starting in London before it goes elsewhere, although we would like to see it start at both ends and meet in the middle. London has a gravitational pull on the UK economy. That is something that all parts of the United Kingdom have to contend with at the moment.

I do not know whether the situation would be better or worse in an independent Scotland but—to come back to some of the points that were made earlier—our members believe that what is important is creating the best possible prospect for businesses to start up in Scotland, to be attracted to Scotland and to succeed in Scotland, and ensuring that we have access to the best pool of talent that is available. That involves, as Alison Johnstone said earlier, making better use of our workforce in Scotland and ensuring that we have better-skilled people who are more able to access those employment opportunities.

10:45

Marco Biagi: All things being equal, is it easier for an entrepreneur who was born and brought up in Glasgow to set up a business in Glasgow than it is for someone who is in London to set up a business in London?

Garry Clark: Everything is relative. We made our submission in conjunction with colleagues in Aberdeen and Grampian Chamber of Commerce and, if you look at the north-east of Scotland from a micro-perspective, it looks quite like London, in that it is an extremely prosperous part of the economy. That carries with it opportunities but also complications in terms of the cost and availability of housing and so on. Even within Scotland it is difficult to generalise. It depends on the kind of business that someone is setting up, where the markets are, where the suppliers are and so on. All of that has to be taken into account.

There are challenges wherever you set up a business. Whatever the outcome of the referendum, we want Scotland to become a better place to do business in and to become more competitive with London and other locations all over the world.

Marco Biagi: Colin Borland, is London a drain on the rest of the economy?

Colin Borland: Garry Clark's point about Scotland being a big and diverse place is well made. There are places where things are booming and people are doing great, and there are areas of extreme deprivation.

Unfortunately, I do not have with me the figures for London specifically. What I know, however, is that our quarterly confidence index shows that Scotland is now tracking the UK average almost exactly. Taken overall, we do not seem to be doing markedly worse than the rest of the UK. In fact, by some indications, we are very marginally ahead. What strikes you, when you read that, is how few variations there are between Scotland and the rest of the UK. If it would be helpful, I could get you the breakdown for the whole of the UK by region, including London. That might give you some more insight into the matter.

Marco Biagi: The FSB has been keen to get access to Scottish public procurement—that has been a key topic of debate in recent years. Do you think that you have adequate access to UK Government procurement?

Colin Borland: Again, the issues that come up tend to be similar. However, when we ask our members who sell to the public sector to say which bits they sell to, we find that they sell most to local authorities and less to some of the big UK departments, such as the Ministry of Defence. However, you then have to consider what those departments are buying and so on. There are all sorts of questions around that.

In our experience, procurement strategies that are set out from on high or are dictated by Government are only as successful as the managers who are implementing them are able to make them. The real value comes from having managers who have the confidence to think a little bit creatively rather than just going for the big blue-chip company because that is the easiest course of action and will increase their chance of not getting sacked if something goes wrong. Some sort of regulatory format or public audit format that did not put the fear of God into those managers would be a step in the right direction. Again, however, I make no comment on whether we would have to be independent for that to happen or whether it could happen in the current framework. That is for you to decide.

The Convener: Ian McKay wants to come in on that.

Ian McKay: The Institute of Directors Scotland opposed HS2. We did that because when the going gets tough and there is not an awful lot of money to throw around, you need to be very careful what projects you support. In fact, my colleagues in Coventry opposed HS2 along with us. Generally speaking, we would support such big, new, high-tech projects because they are good for the economy.

I direct you to an article on inward investment that was in the *Financial Times* just before Christmas, which said that, while London continues to take the lion's share, it is Scotland, Wales and Northern Ireland that have managed to hold up their heads. That is because of what you have been doing and because we have a Scottish Government, a Welsh Government and a Northern Irish Government. It is the other English regions that have lost out; they are not getting what they got before. Whatever form of governance we end up with, we will have to tackle the London and south-east phenomenon. It should be there as a wonderful world centre of trade and production, and it is that for a lot of companies, but one has to question whether benefit comes to the rest of us, whoever the rest of us are. Ironically, given this discussion, it is the rest of England that is suffering more than anywhere else.

Marco Biagi: I have a request for supplementary information. Mr Borland, we have seen the information about your members' dealings with public procurement and their satisfaction levels. If you have similar information from members about their dealings with UK Government departments, it would be very interesting to see that. After all, this is an inquiry into Scotland's economic future post-2014; it concerns not one scenario specifically but both possible scenarios. If you could send the committee that information, we would appreciate it.

The Convener: I am conscious of time and we have four members still to ask questions. If the panel is happy to run the session for another 20 minutes or so, we will try to get through the questions.

Mike MacKenzie: Mr McMillan, in the event of a no vote in September, is it fair to say that you would not support more powers for this Parliament?

Iain McMillan: Our position is that the Scottish Parliament has been successful and has achieved a lot over its time in the areas in which it has devolved responsibility. Business tends to like a level playing field. The more things that stay the same—corporation tax or any tax, for instance—the better. However, we fully accept that, for political reasons, there probably will be more devolution in the event of a no vote. If there is, our priority will be to work with the UK Government and the Scottish Government to make sure that whatever is mandated by the people in the 2015 general election and in the 2016 Scottish general election is implemented in a way that benefits the public best but costs business the least.

Mike MacKenzie: With respect, you did not answer the question that I asked you. I asked whether you support extra powers for this Parliament.

Iain McMillan: I think that there will be extra powers coming for the Parliament. Whether we support that or not, it will almost certainly happen.

Mike MacKenzie: Just answer the question.

Iain McMillan: I am answering it. We accepted the Scotland Act 2012—indeed, CBI members worked on forums with the UK and Scottish Governments about implementing its provisions—and we will do exactly the same going forward.

Mike MacKenzie: So you are not prepared to answer. That is interesting.

I read with great interest the report that you submitted to the committee. I notice that you made no reference to any of the policies for growth that the white paper suggests, such as cutting air passenger duty and having a competitive tax regime, a different immigration policy and enhanced childcare. Why did you not mention any of that? What is your view on those policies?

Iain McMillan: You mentioned air passenger duty first. We called on the UK Government to freeze air passenger duty in the most recent budget and in the previous budget. Air passenger duty has not helped business or the UK and we want that problem to be addressed.

The white paper contains a number of pledges on childcare. Those are the pledges of the current Scottish Government; they are not the manifesto commitments of other parties, which may or may not become the largest party and form the Government after 2016. There is therefore a great deal of uncertainty about the issues.

Mike MacKenzie: Your submission says that Scotland's farmers do well under the UK scenario, but it is a fact—not a matter of speculation—that, under the recent common agricultural policy reform, Scotland's farmers received the lowest payments in Europe. Was there a drafting error in your document, or do you just not understand farming? Perhaps you can explain what you said.

Iain McMillan: Farmers have done well, as have many other businesses, from being part of the United Kingdom. Is everything right for farmers and for every business? No, it is not, but if there is a yes vote, an independent Scotland will have much lower levels of influence in the European Union to deal with those matters than the large member state of the UK does. That is an opinion.

Mike MacKenzie: I am sure that Scotland's farmers would be astonished to hear you express those views.

Iain McMillan: It is good of you to know that as a fact.

Mike MacKenzie: My final question is for Mr Borland. When I interact with businesses across the Highlands and Islands, one of their big concerns is disproportionate delivery charges. Has the UK Government done enough to regulate those charges?

Colin Borland: That is a really tough one. I understand it when businesses and consumers in the Highlands say, "Look at these ridiculous charges"—[*Interruption*.]

The Convener: Somebody has a mobile phone or something switched on that is causing a buzz.

Colin Borland: I am not guilty.

The Convener: I was not suggesting that you were, but somebody has something that is on, so please all check that your devices are off.

Colin Borland: We need to balance the competing interests of businesses in more remote areas that receive goods and are subject to the charges and businesses that deliver the goods. We have arrived at a sensible compromise with a code of practice whereby retailers—particularly online retailers—that make it clear up front that they will deliver through the Royal Mail and make clear the delivery charges get a kitemark or seal of approval. That makes perfect sense.

I understand from speaking to my colleagues at Westminster that the Department for Business, Innovation and Skills is looking at a similar scheme. Provided that it can bring in something that is along the same lines and does not harm business or hamper the choice of online sellers but looks after—

Mike MacKenzie: I say with respect that you and I both know that the matter is for UK regulation. As you say, the Scottish Government has used the full extent of its powers to suggest a code of practice. Do you feel that the UK Government has done enough to regulate the unfair delivery charges across the Highlands and Islands and other rural parts of Scotland?

Colin Borland: I think that—

Mike MacKenzie: A yes or no will suffice.

Colin Borland: The UK Government is looking at the issue, but I am not sure that statutory regulation is the way forward.

The Convener: We should let Mr McKay comment on the matter.

11:00

Ian McKay: I declare an interest: I sit on the Office of Communications advisory board that considered the matter, and I had something to do with the mail service for quite a long time.

Parcel delivery has never been regulated. It is not regulated in Europe; it is not regulated by anyone. You will find that, for most of the businesses that you might talk to, particularly in the Highlands and Islands, the benefit that they gain is not through the parcel service, but through the application of the universal service obligation. The USO offers protections and allows a network through which small items are delivered. As I have mentioned, if the USO and the protection of that service were to come under question, that would have a much more serious effect on those small businesses that utilise the USO and its services.

Mike MacKenzie: I get the point that you are making, but I have a further question. Are you complacent about the hugely disproportionate delivery charges that both businesses and consumers complain about across the Highlands and Islands?

Ian McKay: I am at a loss to see how you could possibly have derived that from what I said. Those who are sitting on my side of the table probably talk to quite a lot of businesses. The danger that I would see, and what I would be afraid of for my members, is that anything that would question or make more difficult the ability to bring goods to market, which is the lifeblood of small businesses, would affect those—

Mike MacKenzie: You have already made that point, thank you.

The Convener: Okay, okay.

Ian McKay: That is called answering your question, which is what I was trying to do.

The Convener: Thank you. We need to move on. Richard Baker has the next question.

Richard Baker (North East Scotland) (Lab): I have only two questions, the first of which is for Mr Kelly. You referred to Europe in your answers to Mr Biagi. You mentioned that people living in France, for example, are unlikely to purchase financial services products from businesses in Germany. We have huge financial businesses headquartered and operating in Scotland and 90 per cent of their customer base is in England. Mr McKay mentioned the importance of those businesses—perhaps they are too important—to our economy proportionately. Given that situation, some of those businesses are saying that, at the very least—this goes beyond financial regulation and business reasons—they would have to reconsider whether they would remain in Scotland if we became a separate country from the rest of the UK.

Owen Kelly: Questions of location and so on get a bit emotive. That just goes with becoming a separate regulatory and tax jurisdiction. We have not been able to reason our way to any conclusion other than that companies would have to reconfigure, as they do all the time across Europe and internationally, to meet the regulatory and tax requirements of the jurisdiction where the customers reside. I think that the Scottish Government's most recent figures from its global connections survey show that, once oil and gas are taken out, we are by a long way the biggest exporter of services internationally and to the rest of the UK. After us, I think, comes the food and drink sector, which includes whisky. Serving customers in the rest of the UK is quite a big part of what we do as an industry. As you rightly said, for some of the biggest names in our industry that run substantial operations or are headquartered here, 90 per cent of their customers are in the rest of the UK. That is the customer base on which their success is built and that is what they must do everything to enhance and protect, whatever the constitutional situation.

Richard Baker: Given the time pressures, I will move straight to my final question. My question is for Mr McMillan, who has had an interesting session. I understand that you are not in agreement with Mr Tony Banks, the chairman of Business for Scotland.

Iain McMillan: We get on very well.

Richard Baker: You get on very well, despite the fact that that organisation was established to campaign for separation. You made the point, as did several other panel members, about the importance of currency. Mr Clark made the point that, in business, people operate contingencies and that there are back-up plans if things do not go right with plan A. The Scottish Government has put forward its plan A for a currency union. That has been rejected categorically, not only by George Osborne but by Danny Alexander and Ed Balls. Do you think that it is sensible, therefore, for the Scottish Government to maintain a position in which it has no plan B on currency and in which it is not putting forward its preferred option should the currency union not proceed?

Iain McMillan: It would help if the Scottish Government had a plan B. The risk, or the probability, of the UK Government not permitting an independent Scotland to share the pound sterling in a formal currency zone seems to us to be very high. I do not think that Mr Osborne, Mr Alexander and Mr Balls could make it any clearer than they have done that there will be no currency union. Therefore, it would be helpful if the Scottish Government presented an alternative plan for an independent Scotland's Scottish currency.

The Convener: Christian Allard—thank you for being so patient.

Christian Allard (North East Scotland) (SNP): Good morning—it is still the morning. First, I have a question on the two referendums. Mr McKay has already answered the question when he said that his members were more concerned about the EU in/out referendum in London than the referendum in Scotland. I had the same experience when members of the French chamber of commerce visited Aberdeen and they wanted to talk about only one referendum, which was the EU referendum. I have seen some of the written evidence and it focuses very much, as my colleague Marco Biagi said, on what will happen if there is a yes vote. Perhaps we also need to inform your members about what will happen if there is a no vote.

Mr Clark, how would your members rate the two referendums? Which one would cause them more concern?

Garry Clark: We have not asked our members a direct question on which referendum they are more concerned about. We have asked them to rank the issues in order of importance. Scotland's position within the European Union came second after taxation as the issue that they wanted more information about, because they are clearly concerned about the prospects.

As I mentioned earlier, clearly Scotland's position within the EU has a degree of risk in the event of a yes vote, but it also has a degree of risk—arguably a higher degree of risk—in the event of a no vote. Our members are concerned about that.

We are surveying members at the moment to delve into the specifics of their preferences with regard to Europe. However, the polling that we have done so far has indicated that well over 80 per cent of businesses in Scotland—I think that the percentage was in the high 80s—want to remain part of the EU. That is a priority for us and it is an issue for businesses in the event of a yes vote; it is also an issue in the event of a no vote, although clearly, in the event of a yes vote, there are more parties suggesting that Scotland remain within the EU. The question then would be how easy it is to negotiate continued membership with all the existing opt-outs—retaining currency and all the rest of it. In the event of a no vote, we may be faced with the prospect of an in/out referendum and certainly—in the main—our members would not want to leave the EU.

Christian Allard: Mr Borland?

Colin Borland: In general, we recognise that the EU has been good for business but it is an institution that needs reform. As Garry Clark said, we have not yet explored the issue in detail with our members but it will be very interesting to see what happens in the work that we are doing over the summer and the extent to which EU membership emerges as an issue.

Christian Allard: Mr Kelly, have you asked your members about the issue?

Owen Kelly: We are in line with our counterparts in London as an industry, in that we do not think that it is helpful to call into question the UK's membership of the EU. It gives us and our members—particularly inward-investing members from other jurisdictions outside the EU—access to a very large market and we do not want to lose that.

The two things are different at this stage of the political process, obviously, because we know that there will be a referendum on Scottish independence whereas we are still, as a business organisation, in the business of thinking about whether there should be a referendum on EU membership. That has not yet been decided and it depends to a large extent on the outcome of the next UK general election. As a matter of principle, our industry is entirely positive about the UK staying in the EU.

Christian Allard: I have a question for Garry Clark on immigration. In your written evidence, you state:

> "Scotland's companies need access to the best talent to enable them to compete across the world. Scotland needs migrants with certain skills."

I agree with that, of course. How well does the UK immigration system meet the needs of Scotland's businesses, particularly in the north-east?

Garry Clark: There are some failings at present in the UK's immigration system with regard to how it serves Scottish businesses. That situation needs to be addressed, potentially through independence or through further derogation of powers within the UK.

Looking at the skills issues in the north-east of Scotland, it is clear that there is a very high reliance on bringing in skills from other parts of the world. In the energy sector more widely, not just in the oil and gas industry, some of the renewable energy companies are looking at accessing skills very quickly from other parts of the world rather than necessarily developing all the talent that will come through at a local level in due course. That talent must therefore be available to them.

There have been positive moves in respect of transfers within companies, which have been allowed under the current UK immigration framework. There is a wider issue in that, like the CBI, we have universities among our membership. The universities want more access to non-EU students because those students are valuable resources, not just as a result of the funding that they provide directly to the universities but in the sense of getting young people from all over the world to come to Scotland. They would stay here—one hopes—at least for a short period, and build up connections in Scotland. They would then perhaps go back to their own country, or stay here and join the workforce.

Even if those young people elect to leave Scotland after completing their studies and a period of work, they will go abroad with a positive image and a positive story to tell about Scotland the world over. One would hope that that might bring more business to Scotland in the future.

With regard to the direct skills needs of businesses such as those in the oil and gas industry, the renewable energy industry and others, and of our academic institutions, and bearing in mind our ability to project Scotland's image overseas, there is a real need to address some of the constraints in the UK immigration system as it currently stands.

Christian Allard: In your written evidence—I am sorry to ask you again—you state:

> "Politicians must be clear on how they would use Income Tax to benefit Scottish businesses, whether or not Scotland is independent."

The Labour Party has produced muddled income tax proposals as a result of its devolution commission, and the Westminster Government has done the same with the oil and gas sector, especially given the bareboat charter tax, which came out of the blue.

Are the changes in taxes that would occur following a no vote as clear? Do you see a difference between a no vote and a yes vote in how taxation would be approached and how continuity and change would be approached in that respect?

Garry Clark: There is an element of uncertainty in either event. The current Scottish Government has clarified in the white paper the position that it would take in the event of achieving all its goals in the independence negotiations and exiting the UK, and then being elected as the first Government of an independent Scotland and implementing a raft of policies, many of which are contained in the white paper.

That is clear as far as it goes, but it may or may not be the situation that we ultimately have. That is why it is important for all parties, irrespective of whether there is independence, to bring forward proposals—if there is a no vote, for example—on how businesses in Scotland will be more able to compete with the rest of the UK and how we will use the powers that we have at our disposal just now and the additional powers that will come to us in order to ensure that businesses in Scotland are as competitive as possible and are working in as competitive an environment as possible.

We also need to look at what other areas could be devolved and where it would be beneficial to devolve areas in the event of a no vote. Equally, in the event of a yes vote, we have the Scottish Government's preferred stance but that may or may not be what we end up with. It is certainly helpful, but it is not a definitive answer for business.

11:15

Christian Allard: Were your members disappointed by the reaction of the Westminster Government and the Labour commission?

Garry Clark: The paper that we issued was post some of the Westminster Government's observations, particularly on the currency, but pre the Labour Party's devolution proposals. We have not yet measured our members' reaction to them. There has been some progress since then and there has been a little bit more clarity from some parties, but we will look further into the matter. We are surveying members on their reaction to current issues as we speak.

Joan McAlpine: I will try to keep my questions as brief as possible. Perhaps the answers could be kept brief, as well.

From the perspective of the businesses that you represent, what is the preferred currency for an independent Scotland?

Garry Clark: We are actively surveying our members on that. The anecdotal information that we have from businesses is that it would be sterling.

Owen Kelly: That is simply not a question that we think we can answer at the moment, because we do not know what the negotiations will throw up.

Joan McAlpine: But surely you can say what your members' preferred option would be.

Owen Kelly: Not really. I suspect from your question that you expect an answer along the lines of, "I would like to keep sterling," but without knowing what the basis of that construction would be, it is very difficult to say. If it was thought that the sterling currency union that emerged from some negotiation process, if that ever occurred, was unstable or that the markets would not be particularly confident in it, obviously other options might be preferable. Therefore, I simply do not think that one can answer that question at the moment.

Iain McMillan: I agree with Owen Kelly. That is a very difficult question to answer. It is a hypothesis. I understand why Joan McAlpine asked it, but our view is that the pound sterling is the best currency for Scotland, and it certainly appears to us at the moment that the only way to achieve that is for Scotland to remain in the United Kingdom.

Joan McAlpine: You say that sterling is the best currency for Scotland, so in the event of a yes vote, you would back it as the currency for Scotland.

Iain McMillan: No, I am not saying that at all. I am saying what I have said.

Colin Borland: It is right that that is a very difficult question to answer, particularly when neither side can agree on even the most basic fundamentals of the debate. It will be interesting to see whether that issue comes out when we start to dig into things a little bit more with our members over the summer.

Joan McAlpine: So you do not know what your members' preferred option is, either.

Colin Borland: At the moment, we have not asked them.

Joan McAlpine: Right.

Ian McKay: I do not think that any of our organisations has polled in the way that you are suggesting. When at least three of the organisations that are here were asked that same question by a House of Lords committee when it was up in Glasgow last November, I think—I am trying to remember when that was—we all said that our preferred option was sterling. However, when playing poker, if you can see that all the aces have already dropped, it is a bit strange to call somebody's bluff that they might have aces in their hand. My point is that the world has moved on. We would have to look at the situation as it came out and consider our preferred option. There is a big difference between sterling as it appeared at the time when we were asked the question a year or so ago and the political situation as it is now, regarding the basis on which one was using sterling. It is a matter of record from that time.

Joan McAlpine: Okay. In the event of a yes vote, will your organisations all argue the following day for a sterling zone?

Ian McKay: The following day, we will all go to our work and try to make the economy work just the same, whatever the politicians have done to us in the meantime. That is what we do.

Joan McAlpine: Crawford Beveridge from the fiscal commission gave evidence to the committee a few weeks ago. He said that everything will change after the vote; currently, it is all about politics but after the vote things will change. In representing your members after a yes vote, will you argue for a sterling currency zone?

Owen Kelly: You make the point that it is all political and, of course, it is. It is hard to speculate on attitudes that would follow a yes vote, if that happened. Reference was made to comments that were made by the governor of the Bank of England to the effect that everybody's views will change. I think that there will be quite a rapid realignment of opinion, but much of that will be realignment in the UK and people will think quite rapidly on behalf of the rest of the UK, excluding Scotland. That is a different way of looking at things.

Recently, Standard & Poor's issued a document about Scottish independence—Crawford Beveridge echoed the point in an interview on "Newsnight"—that said that it might be quite a good thing if the largest banks moved away, because it would remove the potential difficulties of having a disproportionately large banking system. I thought that that illustrated quite well how, once things were being considered on a wholly separate basis between two separate sovereign states, different policy conclusions would be reached. However, I return to my earlier point about the currency and thinking ahead to such a situation. The question really would be, "Do you think that sterling would be the right currency under any circumstances?" The answer to that can only be, "Well, it depends on the circumstances." That is probably where I would have to leave it for now.

Joan McAlpine: I have a question for Mr Clark. You said that tax came out of your survey as the issue of greatest concern to your members. Most businesses can agree that the current tax system is far too complex and inefficient. I know that the Office of Tax Simplification found in 2010 that there were more than 1,000 separate exemptions in the UK. The fiscal commission and the Institute for Fiscal Studies have suggested that independence would offer Scotland the opportunity to create a much more streamlined and simple tax system for both businesses and individuals. Would you support that?

Garry Clark: I think that we would support a more streamlined and simplified tax system. Independence could provide that; equally, it could be provided within the existing structures in the UK. We would support the overall objective of a simplified tax system. Our members ranked the taxes according to their importance to them. Number 1 was business rates, which are already within the Scottish Parliament's control; number 2 was income tax, which will come increasingly within the Scottish Parliament's control; and number 3 was corporation tax, which is currently still with Westminster. There are questions about that both in the event of independence and in the event of a no vote.

Joan McAlpine: Mr Borland?

Colin Borland: I am sorry—what was the question?

Joan McAlpine: Would you support a simplified tax system in the event of independence?

Colin Borland: That is not a difficult question. Yes—obviously, we have been calling for simplified taxes for a long time. We are delighted by the work that the OTS has been doing. Anything that would make that easier would be welcome.

The two most time-consuming taxes for our members are VAT and pay as you earn. Of course, regardless of what happens on 18 September, aspects of PAYE will come to Scotland anyway, so it will be interesting to see how that operates. Anything that we can do to fold taxes into each other to reform some of the more arcane taxes has got to be welcome. Whether an independent Scotland is essential for that, or whether we can do it within the UK, is a matter for debate.

Joan McAlpine: My last question is a follow-up for Mr McKay in the light of his comments about the postal service. Do you agree with the National Audit Office that the UK taxpayer got a very poor deal as a result of the way in which the UK Government sold off the Royal Mail?

The Convener: That question is slightly off topic, but Mr McKay is welcome to give his opinion if he wants to do so.

Ian McKay: It is quite hard to reduce such things to a yes or a no, whatever one's ideological view.

My personal view is that Royal Mail required to be privatised; it could not survive without privatisation. Getting there was a long process, which involved quite a lot of commitments on the part of the UK Government as well as the company itself. Personally, I think that it was sold short. That said, the company's ability now to trade without coming back to the UK Government for more will be an enormous benefit into the future.

Joan McAlpine: But you agree that it was sold too cheaply and was undervalued.

Ian McKay: It depends whether you want to cut down the several sentences that I just gave you to a soundbite. The answer that I gave you is the answer that I gave you.

The Convener: Thank you.

It has been a long session and we have run over time, but we have covered a lot of ground. I am grateful to all our witnesses for coming along this morning. I suspend the meeting briefly to allow for a changeover of witnesses.

11:25

Meeting suspended.

11:31

On resuming—

The Convener: I welcome our second panel of witnesses this morning: Stephen Boyd, assistant secretary at the Scottish Trades Union Congress; Professor Mike Danson, professor of enterprise policy at Heriot-Watt University; and Robin McAlpine, the director of the Jimmy Reid Foundation. Thank you all for coming, and for being so patient. The previous panel overran a little, but we had interesting ground to cover.

As I did at the start of the previous question-and-answer session, I ask members to keep their questions short and to the point, and it would be helpful if responses could be likewise. Not everybody seems to listen to my injunctions in that respect, but I always try my best.

I ask members to direct their questions to one particular witness initially, and to catch my eye if they would like to direct a question to someone else. Having said that, I will begin by directing a question to everyone on the panel.

Reading the submission from the STUC and the joint submission from Professor Danson and the Jimmy Reid Foundation, I noticed that there was a lot of common ground between them in terms of a desire to refocus the economy and, in particular, place a greater emphasis on manufacturing. The STUC submission said that there was a recognition on the part of Government that that needs to happen, and a lot of talk around that issue.

Given that this inquiry is considering Scotland's constitutional future, my question is: do we need to change our constitutional framework in order for that rebalancing to happen? Is it more a question of using the powers than one of changing the balance of powers between different Governments?

Stephen Boyd (Scottish Trades Union Congress): That is a good question. We would argue that both could be done under any constitutional scenario. The more pertinent question is: would additional powers help us to achieve that rebalancing more quickly and effectively than might otherwise be the case?

As we highlight in our submission, although the Scottish Government's independence white paper has lots of positive things to say about manufacturing and the role of industrial policy in general, our concern is that some of the things that we believe would have to change in order to make industrial policy more effective and to rebalance manufacturing's share of the economy are not even mentioned. Those issues include structural reform of the financial sector, which you spoke about briefly with the first panel; corporate governance reform; the incentivisation effects of taxation of high earners; and the way in which we can provide patient, committed capital to grow our manufacturing companies in Scotland in ways that have not been the case up to now.

As I said, I think that those issues can be addressed now, at least to an extent. The Scottish Government has been involved in some activities, such as the Scottish Investment Bank. Would more taxation powers allow us to do more? They probably would, but I reiterate that, if we want to be more effective in doing this stuff, we need to talk about things that are not currently on the agenda, with structural reform of finance and corporate governance at the top of the list.

Professor Mike Danson (Heriot-Watt University): I agree with all that. It is useful to look elsewhere at how other countries operate and see whether there is a difference and whether we lack powers here. The most successful economies around Europe and beyond tend to be small, to have a strong sectoral and bottom-up approach, to have much more worker involvement, to be more innovative, to have higher wages and so forth. A lot of the components and essential elements of the economies and sectors elsewhere are lacking in the UK, and I do not see them being on the agenda at all.

I agree with everything that was just said. To take us forward and restructure the Scottish economy, we will require changes that go beyond what we can do in Scotland within the devolved settlement.

Robin McAlpine (Jimmy Reid Foundation): We could do loads more with the powers that we have, but we reach a point at which there is a fundamental problem. We want to move to a much more manufacturing-focused economy because we need to create a high-wage economy. The UK economy is the second lowest waged economy of all the advanced nations, and that is at the root of all the other problems that we have with public finances, poverty, inequality and so on.

Manufacturing jobs are high-value jobs that create wealth. The problem in reaching a point at which we cannot do more in the UK is that there are structural parts of UK policy that focus on low wages. For example, the UK welfare system is largely focused on pushing or compelling people into low-wage employment, and we have the second lowest level of industrial democracy in the European Union. Low levels of industrial democracy encourage low-wage employment.

We could do much more—particularly on procurement, industrial policy, how we develop industry plans and a bunch of other things that we could do better—but we will eventually hit up against structural policies that push in the opposite direction. That is the difficulty. If we really want to create a manufacturing, low-inequality, high-wage economy, we need to integrate housing policy, welfare policy, industrial democracy policy, industrial policy, procurement and so on. If some of those policies are going in the wrong direction, we will not be able to do as much as we otherwise could.

The Convener: I will ask one follow-up question before I bring in other members. Robin McAlpine mentioned a lower level of inequality—an ambition that I know the panellists share—and his submission mentions fiscal changes that are required. Professor Stiglitz has said that, to create a more equal society, we would need to increase the tax burden on higher and middle-income earners. Do you think that that requires to be done?

Robin McAlpine: I would think about the issue the other way round. A lot of people say that the key to the Nordic economies is high tax, but we can think about high tax as what the Nordics choose to do with their higher wages. The fundamental difference between the Nordic economies and ours is the wage structure. They do not have poverty because they do not have low wages and everybody can afford to participate in the economy. Once people have that higher wage, they choose to put more money into tax, because they like public services.

We have to create an economy that creates high wages. Once we have them, we can go in different directions. We could be more like Switzerland, where taxes are lower and people do more themselves, or we could be more Nordic, where things are different. What a country does once it reaches the high-wage economy is a democratic choice, but the issue is about wages rather than just taxing ourselves. It is important to point out that, because of the inequality in the labour market, taxes are quite ineffective, because a large proportion of people in Britain do not really pay tax.

The Convener: I will put the same question to Professor Danson. To pick up on Robin McAlpine's point, is there a bit of a chicken-and-egg thing here? How would we get to the higher-wage economy that he talked about without using taxes as a lever?

Professor Danson: Many of the Nordic countries do not have a minimum wage and so on, but they have strong collective bargaining and some of the highest rates of trade union membership in the world, particularly among women.

When I was in Norway last year to give lectures, some local businesspeople told me that there had been a major problem with their cleaning industry, because they had been getting a poor service from cleaning companies. The wages council increased wages in the industry to about £16 to £18 an hour. The employers threw up their hands in horror, but they had to invest in their workforce and in new capital equipment, which meant that they provided a much better service.

As Robin McAlpine said, increasing wages and having a much more equitable and rewarding wage structure is key to the success of the Nordic economies, and higher taxes follow from that because people are earning more.

Stephen Boyd: I agree with Mike Danson that the salient feature of the Nordic economies is the very high rates of collective bargaining, which lead to a far flatter distribution of income. However, we must be clear that, if we want to create public services akin to those in the Nordic nations, that will involve taxation taking a much higher proportion of GDP—I cannot see any way around that. Michael Keating's written submission to the committee referred to the "wishful thinking" that sees us creating a virtuous circle the wrong way round.

We did a bit of work last year that showed that over a 20-year period all Nordic nations collected significantly more—about 10 to 13 per cent more—in taxation as a proportion of GDP than we did. The Nordic taxation systems are also very different from our system in that they are regressive, as the tax component of the tax-and-spend system relies much more heavily on consumption taxes and taxes on labour than ours does. However, they use that for progressive purposes, so the tax-and-spend system as a whole becomes progressive.

It is not a serious proposition to suggest that, in the short to medium term or even into the longer term, Scotland could create under any constitutional scenario a Nordic-type society by using current levels of taxation.

Christian Allard: Good morning. I want to ask you about public services. We now have fewer public services in the UK because more and more of them are being privatised. The most recent example of that was Royal Mail.

I will start with Stephen Boyd. You will have seen that the white paper indicates that the direction of travel for an independent Scotland will involve having a lot less privatisation and more public services. In fact, there will be no privatisation at all and all public services will be in public hands. In the 30 years that I have been here, the direction of travel for public services has been to have them privatised. We are now paying a lot of money for our energy and other public services. What is your view on that? Do you think that there are two diverse directions of travel? If we voted no in the referendum, do you think that there would be a possibility of returning to what we had previously: public services in public hands?

Stephen Boyd: Over a sustained period of time now, the approach at the Scottish level to the delivery of publicly owned and accountable services has been very different from the rest of the UK's approach. We have seen that different approach develop through the course of devolution. It is particularly apparent in the health service, but there is also a very different Scottish approach to education.

Constitutional change might help to embed those different trends, but it is important to note that they are already happening and that they are likely to be sustained, either through devolution of the kind that we have at the moment or enhanced devolution, or, indeed, through independence.

It is also important to reflect on the fact that Scotland will be subject to similar pressures as those in the UK. Indeed, as in most advanced, developed nations, demographics will have a major role to play in Scotland. Certainly, there will be significant public spending pressures in the short to medium term. There will therefore be pressures in Scotland to privatise. Although they have been resisted to date and will probably continue to be resisted, the pressures will remain.

Christian Allard: Does Professor Danson have anything to say on the subject?

Professor Danson: One of the key words that Stephen Boyd used was "accountability". Accountability is a key part of successful and efficient public services.

I should also emphasise the stress that public sector spending will come under over the next three years. Again, it is highly questionable that, with shrinking budgets, it will be possible to continue with the level of public service provision that we have in Scotland. Therefore, there will be increasing tensions within a devolved settlement and increasing tensions even if the proposed changes happen down the line.

Christian Allard: I ask the same question to Mr McAlpine. Do you think that, after a no vote, there will be pressure to comply with the level of privatisation that we see at Westminster?

11:45

Robin McAlpine: The UK had a period of 35 years in which there was greater nationalisation and collective ownership. That was 35 years ago and, since then, we have had 35 years in which there has been only one consistent course, which is for more and more privatisation. For 35 years, we have gone in the opposite direction from the direction that we took in the 35 years after the second world war.

When we think about collective ownership, we have to be aware that it is not only about service provision; it is a key economic tool. Let us think about the ownership of energy. If we allow the current model of energy development to continue, we will have a situation in which large multinational corporations buy cheap or comparatively inexpensive infrastructure from overseas manufacturers, install it here and exploit the profits. That creates very few jobs, comparatively.

If we take collective ownership of our energy, we can borrow against future energy income—that is an absolutely safe thing to do—so that all the cost of infrastructure is passed on. We can then control that ourselves and choose to manufacture and install the infrastructure domestically, which could create tens of thousands of jobs. That would come from using collective ownership of core services as not only a service provision tool but an economic development tool.

We have produced a paper that suggests that 5,000 jobs could be created fairly quickly simply in developing energy storage capacity in Scotland by Scotland. That is the real opportunity if we think about collective ownership of various parts of the economy. The key is to have a much more mixed and diverse economy, by size, type and ownership, and part of that is collective ownership of industries that can be used more effectively collectively than simply by contracting private companies.

Richard Baker: I agree with a great deal of what has been said but, as the witnesses will perhaps expect, I want to challenge the assumption that, with independence, by being a smaller economy we would de facto become a more progressive economy. For example, Ireland has a higher incidence of low pay than Scotland has, so it does not necessarily follow that by being a small economy we would suddenly become more progressive.

I want to challenge your assumption about what is on offer. A lot has been said about a Scandinavian style economy and approach to taxation, but at the same time the proposal is to have a low-tax approach in important areas. As you know, one of the key proposals in the white paper is to cut corporation tax by up to 3 per cent. How does that square with the proposal to have more investment in public services, which Professor Danson mentioned, and to have higher wages? Does it not actually open up the possibility of a race to the bottom on taxation?

Robin McAlpine: A corporation tax cut of 3p is not a good proposal. It would encourage the kind of corporations that have low margins and that like 3 per cent cuts to come here. Largely, it would be low-wage corporations that would benefit from that. High-value and high-productivity companies look for other things if they are to be attracted to an economy.

To be fair, although I think that the policy is a bad one, since a lot of those corporations are functionally paying zero corporation tax in the UK, 17 per cent would be 17 per cent more than many of them pay now. A large number of multinational corporations pay no tax. Transfer pricing means that, functionally, we already have incredibly low rates of corporation tax for large businesses in this country, which in itself is not a good thing.

Overall, I do not think that the policy is a good one. It is important to be aware that it is largely predicated on a model that contains a built-in assumption that cutting tax creates more jobs when, empirically, that is not usually what happens when corporation tax is cut. However, I would not want to defend the UK on the basis of its having a sensible corporation tax policy, because I do not think that anybody would suggest that it has such a policy. When Nobel prize winner Mirrlees reviewed the current UK system, he described it as “absurd”. Therefore, I do not think that a cut is the right policy, but I would not want to hold up the UK as a particularly sensible alternative at the moment.

Stephen Boyd: It is a bad policy for a number of reasons. Of course, it all stems back to a decade ago and Scotland’s obsession with what was happening in Ireland. There was a fundamental misunderstanding of the economic development model that Ireland had embarked on in the late 1980s, which relied much more on huge spare capacity in its young and very well educated workforce than it ever did on low rates of corporation tax.

As far as I understand it, what is on offer is that companies in Scotland would pay 3 per cent less than companies pay elsewhere. I am not sure that I accept Robin McAlpine’s proposition that companies will arrive here to pay a proportion of what they are not paying elsewhere. I think that we have to assume that the corporation tax framework would be roughly the same in both jurisdictions.

The wider question was about whether it is possible to reconcile the social objectives that are contained in the white paper with some of the economic objectives. From the STUC’s perspective and as our “A Just Scotland” paper makes clear, there is an awful lot of positive stuff in the white paper with which we can work and engage. There is some very interesting stuff about the workplace and management of the labour market. However, there is a fundamental disconnect between some of the economic and social objectives.

We have the latest information from Eurostat on UK wages compared with those in other EU member states. As our submission to the committee makes clear, the reason why they are so low is that, 30 years ago, the UK embarked on a model that prioritised low regulation of the labour and product markets and comparatively low business taxation. That has delivered the model that we see, and the results of that are apparent in the wages.

What are we going to do to alter that under any constitutional scenario, whether the current one, enhanced devolution or independence? How do we marry up social and economic objectives to achieve the kind of high-wage economy that Robin McAlpine has described?

Richard Baker: Another area in which I see there being a danger of a race to the bottom is regulation, particularly on terms and conditions and protection in employment. Nobody can seriously argue that we are overregulated when it comes to health and safety.

Stephen Boyd: Although I think they will try.

Richard Baker: Exactly. The white paper talks about streamlining regulatory systems and wasteful duplication in regulation. Does that not create a concern that, instead of doing more to protect workers’ rights, high pay and good working conditions, we will come to a system in which we try to cut each other’s throats in these islands by reducing those provisions to get an economic advantage? Is that not also a potential concern about moving to a different structure?

Stephen Boyd: In crude terms, the white paper proposes for the regulation of the labour market and some other aspects of regulation a Nordic model that relies heavily on what we might describe as social partnership between Government, employer representative organisations and unions working together to manage a lot of stuff. In European nations, that often avoids the need for statutory regulation. The problem is that we are just not in that situation.

As Mike Danson described, the Nordic nations do not have a national minimum wage because collective bargaining covers between 70 and 90 per cent of their economies so they do not need regulation for a minimum wage. We are in a very different situation, so the statutory minimum of labour and product market regulation is very important. The question then becomes how we manage it.

I was present almost exactly a year ago when John Swinney published his paper on economic regulation. A lot of that is sensible stuff on streamlining. Personally, I could not care less whether all regulators sit under the one roof, but there are issues that are not being addressed. The model of economic and competition regulation proposed would leave an awful lot of economic power residing within one body. Issues with governance and culture have not been addressed in the white paper or the separate paper on economic regulation. Although I do not oppose the proposed way forward, there is much more to be discussed and debated before we make it a realistic model.

Alison Johnstone: I address my question to all three witnesses because they touched on the issue in their submissions. Are you surprised that reform of the banking sector is not being properly addressed in the debate? What would you like to happen in that sector? Under what referendum outcome do you believe that that would be most likely to occur?

The Convener: I know that that was a big question, but can we have fairly brief responses?

Stephen Boyd: I am extremely surprised. A really tiresome debate is going on—and I see no end to it—about whether Scotland would be able to bail out financial institutions if the same thing happened again, but I have never managed to get my head round why the yes side does not try to anticipate that argument by proposing major structural reform of the sector.

What was the second component of your question?

Alison Johnstone: What reform do you want to see?

Stephen Boyd: I want to see financial institutions that are too big to fail, to manage or to prosecute removed from our economy. They must be broken up. That would not necessarily lead to the more competitive banking sector that was described by a couple of the earlier panel members. Indeed, UK retail banking has a long history of treating retail and small business customers as milk cows. Asymmetries of information and the lack of transparency in charging structures mean that retail banking just has not acted as a competitive sector. Even if we have a lot more players in the sector, it will need to be much more tightly regulated.

I want a public investment bank. The world's best performing economies recognise that the private sector does not provide the patient, committed capital to growing companies that I have mentioned. That is a job better done by the public sector. Nothing that I have heard over the past five years has led me to think that such reform is likely under any constitutional scenario, I am afraid to say.

Robin McAlpine: The banking regulation part of the white paper is not coherent; it does not make sense. The biggest risk to the UK is that we have not dealt with the systemic risk in the finance sector. If another serious external global shock occurs, it is quite hard to see how the UK would respond to another financial crisis, given how indebted we are. We cannot get into that situation again. The policy must be much bolder.

What do I want? I am 100 per cent on board with Stephen Boyd. We need a national investment bank. That is crucial to the development of industry and business and long-term patient capital, which the private sector is not delivering. We need to get rid of the systemic risk in retail banking. What would that look like if we got it right? The Airdrie Savings Bank times 30 or 40. You would have a strong, mutual, local bank that you trusted implicitly to look after your savings and offer loans to your small business; a bank with which you had a personal relationship with high degrees of trust and that you knew was there for you. We need to get to that position. That could be done by actively breaking up the banks, by regulation or by stimulating a different type of mutual banking sector. We must get there.

I do not believe that, 10 minutes after independence, people would still be sitting there saying, "Actually, let's stick with this banking regulation." That does not make sense. Any sensible banking regulation discussion would start to change. My vision for banking in Scotland is that we do not talk about banking in Scotland any more. If the industry was working well, the bank would be where you went to get a loan, get some investment or get your money; the rest of the time, we would not be talking about it and it would not be a constant subject of national conversation. That would be a great place to get to with banking. I am a little more optimistic that we could do that in Scotland.

Professor Danson: I have very little to add to what has been said. I suggest that we look to Scottish banking history. Scottish banks were very conservative and highly innovative and they were trusted by the UK regulator for hundreds of years until very recently, and we know what happened there. As George Kerevan suggested, the banks ceased to be Scottish banks a while ago. Perhaps by returning to their Scottish roots—with regard not to ownership, but to philosophy and approach—they would build the structures that we want to see.

Alison Johnstone: Governments seem to be endlessly attracted to offering big bungs to multinational companies to operate in Scotland. A few weeks ago, Hugh Andrew of Birlinn Ltd was before the committee. He explained the difficulties that small companies such as his are put in when companies such as Amazon are given millions of pounds and how that practice undercuts our small indigenous businesses. Why have successive Governments operated in the same way? Will it take independence before we see the value of investing in small indigenous businesses? We seem to have a notion—we are following the UK idea in this regard—that if taxes are lower we will get the best workers and attract good employers. Why are we continually attracted to those models instead of looking at what we have in Scotland and investing properly in that?

Robin McAlpine: That is a mystery. If we look at examples from around the world, the successful economies are not low tax economies and large bungs are not given to big multinational corporations. Instead, successful economies are investing in their indigenous industry and creating structures that enable that industry to work well for all sorts of reasons. A small reason is that such industries grow. If you do not have indigenous industries that you are protecting and growing, you do not get the medium-sized industries. That is what Scotland is missing. We have a large small-business sector and a corporate sector and very little in the middle. It does not make any obvious sense.

12:00

Political orthodoxy in the UK is that we do not intervene in the economy, but we do. Everything that we do intervenes in it, and it tends to favour one side or another. For example, Hugh Andrew did some work with us on procurement. If you put big contracts out, it favours big players. If you put small contracts out, it favours small players. The ideology, which has emphasised only competition as a route to economic development, has not worked. It has visibly not worked.

Rather than saying that all that we want to do is to facilitate global trade, we have to recognise that the lives of an awful lot of people rely on local trade. There is this idea that there is a lot of competition. I live in a fairly small town and my local garage and shops are not really in competition. They need investment in them as indigenous industries that are part of a local economy, which, after all, creates most of the jobs that people rely on.

Scotland should aim to be a great exporting nation—it is absolutely essential that we are. We should be exporting things that we make here. However, we must balance that by saying that local economies are really what sustain the quality of life for an enormous number of people. By overly favouring global trade, we have lost a focus on the importance of local trade. If we do not get that back, we will be unable to build a strong, domestic Scottish economy.

Professor Danson: Why do we give lots of money to inward investment? It is partly because of the destruction of the Scottish economy in the 1980s. Hundreds of thousands of jobs disappeared very quickly and a quick way to replace them was inward investment. That of itself was not a bad thing; it is more that, as Robin McAlpine said, under that economic regime we did not support indigenous companies in the way that other countries, such as Germany, did. The problem is not so much that we focused too much on inward investment as that we did not look at the rest of the economy, with the inevitable consequences over time. As we know, energy and banking and so on are dominated by a very few multinational companies, some of which are owned by overseas states.

I have been reviewing a book proposal on Irish economic development. We can learn a lot there, in that Ireland distinguishes between gross domestic product and gross national product. Although the Irish economy sometimes looks as though it is doing very well, a lot of the value is being sucked out of the country in profits and so on. There are a lot of parallels with Scotland, some of which are to do with the sort of pay Ireland has, and the corporation tax and so on. It confirms that we have got into a problem with the structure of the economy, which needs fundamental change that is not being offered by the Westminster Government.

Stephen Boyd: It is a difficult question to answer briefly because it raises so many issues, but I will do my best. Why inward investment? As Mike Danson said, it is because we have a comparatively low business birth rate in Scotland and what I would describe as a structural deficit in good jobs. Whenever there is an inward investment proposal, politicians of all stripes have always, over a long period, been very attracted to funding it.

Your question is not entirely fair to the direction of public policy over the past 10 years. I think that it is more than 10 years since "A Smart, Successful Scotland" was produced. That was all about trying to shift from foreign direct investment to growing indigenous firms. The current Administration and its predecessor have very much had a key sector, demand-led approach. Again, that is about growing indigenous industries. It is tremendously difficult, though, and it is even more difficult when the global economy, which remains the main determinant of success in Scotland and elsewhere, tanks as it has done in the past few years. It is difficult to identify the small businesses that have the capacity and willingness to grow and that will make a real difference to innovation and employment and, in the end, to gross national income. A lot of people already out there in the Scottish economy are trying to do exactly that, but our expectations collectively of what those people and their agencies are ultimately able to deliver are probably often quite unrealistic.

Joan McAlpine: My question is about childcare. I hope that the convener will not mind if I make the observation that it is disappointing that neither of our panels today has had a female member on it. The Education and Culture Committee, of which I am a member, is making a similar inquiry into Scotland's future. We discussed childcare yesterday and the entire witness panel was female. That is wrong, too, because childcare is an issue that affects all parents.

Now that I have got that out of the way, I will ask our all-male panel about childcare. As you know, the Scottish Government is committed to transforming childcare after independence. In your view, what is the benefit to the economy of a transformational change in childcare?

Professor Danson: First, one of the key members of the Jimmy Reid Foundation's common weal project was Professor Ailsa McKay, who we miss very dearly—she would, I hope, have been here to support us today.

I also agree that we should not segment issues by calling some, such as childcare, women-only issues. I am a carer.

In countries where there are much higher levels of childcare, women's ability to use their skills and experience brings benefits to individuals, families, communities and the economy. That leads to two things. First, there is a need for the workers in the childcare sector to be properly remunerated and trained. Secondly, it leads to the wider societal and economic benefits of being able to use all the skills of women graduates, in particular.

In the years after 2004, up to 100,000 workers from central and eastern Europe, mostly Poles, came to Scotland. Our research suggests that two thirds of them had a degree or the equivalent. How did the Scottish economy use them? To gut fish, make beds and so on. The Scottish economy has a major structural problem. One of the ways in which that manifests itself is through a gross underutilisation of women, particularly of their skills and experience. The availability of childcare will lead to a much better opportunity to employ them productively in higher-wage, higher-value-added jobs.

Robin McAlpine: An interesting front-page story in the *Financial Times* pointed out the gap in the participation of women in the economy between the UK and Norway. Women's participation in the economy is worth more to Norway than its oil wealth. When you get that statistic into your head, the value of getting proper female participation in the workforce becomes clear. Therefore, I back everything that Mike Danson says.

We must be conscious that, if we are using a stimulus approach to shift the economy towards being a higher-wage economy, a lot of the jobs that people associate with that—the energy and technology jobs and the housebuilding jobs—are often particularly attractive to young men. We have to bear in mind the need to think about stimulating employment opportunities for young women—that is where a large part of the low-pay problem lies. We should be looking to childcare not only to get women into employment, but as a way to enable us to create a professional sector that creates large volumes of good-quality jobs for young women. If we see it as an economic development tool in that way, we can maximise the benefit of the policy.

I am completely convinced by the broad outline work that Ailsa McKay did, which suggested that the policy would probably pay for itself comparatively quickly.

Stephen Boyd: I endorse the comments that have already been made. In the longer term, the most important economic impact will be seen through the children who benefited from quality childcare in the early stages.

I endorse Mike Danson's comments about the importance of the workforce, which is often overlooked. We are already working closely with the Scottish Government on these issues, and we have been doing so since we held the women in work conference in 2012.

I would caution against making comparisons between what is achieved in the Nordic nations and what can be done in Scotland, because those countries tend to have universal wraparound childcare, which is not yet what is being proposed in Scotland. I absolutely accept that the direction of travel is towards that, but we cannot assume that the labour supply considerations will mirror what happens in those countries, given that our offer to women is not exactly the same.

The last note of caution that I would strike is to say that, although enhanced childcare will increase labour supply and help more women to re-engage with the labour market, supply does not always create a demand, as we have found in the labour market over the past 20 or 30 years. Childcare that provides good opportunities to women in the labour market can be only one component of an economic development strategy.

Joan McAlpine: Your observations are very similar to those of the all-female panel at the Education and Culture Committee meeting yesterday. In particular, it discussed the professionalisation of childcare workers, which you are also discussing.

It is notable that Cathy Nutbrown, who was asked to review the educational requirements of the UK workforce, has expressed her extreme disappointment that the UK Government has not taken up her suggestions on increasing the professional qualifications of the childcare workforce. The panel yesterday agreed that the childcare workforce in Scotland is more highly qualified than the UK childcare workforce. Do you agree that the directions of travel on childcare in the UK and Scotland are different?

Robin McAlpine: I am no expert on childcare policy south of the border, so I am not sure that I can make a comparison. However, the more successful European economies invest in increased skills and capacity at every level. That is one of the things that the UK has not been good at. Again, if you look at the Nordic economies, you will see that people there tend to look sector by sector and ask how increased skills can improve productivity and innovation in that sector. Industrial democracy and a different attitude to training are crucial to that. People in the Nordic economies work much shorter hours than we do, which gives people more capacity to invest in skills.

It is not just about childcare. Over a 30-year period, sectors in many of the Nordic economies have been more highly skilled and more innovative, specialist and productive than the same sectors in the UK. We have tended to take the lower-wage economy attitude of, "This is sort of working with the low-wage, not particularly highly skilled jobs we've had, so why bother?" In our joint submission, Mike Danson and the Jimmy Reid Foundation say that we need to start to take a sector-by-sector approach and to say that the fact that something works sort of okay just now is not enough. We have to invest in our labour market and skills, and put much more emphasis on the innovation that creates higher productivity in childcare and almost all sectors of the economy.

Professor Danson: The Fraser of Allander institute series of papers around 10 years ago, and numerous other reports, said that early years intervention has been neglected and that we change society and improve the lots of many families across Scotland and many women, for example, through early years intervention. Much more focus on childcare, the early years and the professionalisation of childcare staff are an essential part of that.

Similarly, I do not know enough about what is going on down south to make a comparison.

Stephen Boyd: I endorse the previous comments. Robin McAlpine is right that we often train to the exact requirements of jobs at the moment, and that is a problem. In Scotland, we do a lot of the sectoral skills work that Robin McAlpine is calling for, and all the Scottish Government's key sectors are developing skills investment plans. I have been heavily involved in the energy one, which is a very impressive bit of work. Even in less glamorous sectors such as textiles, similar bits of very positive work are going on.

A wider problem with the key sector-led approach is that it ignores the very important sectors in the economy in which most people work. Two classic examples are the social care sector, of which healthcare is a part, and the retail sector. What are our plans for training people in those sectors? Do we just want them to train to do the minimum? A retail worker in Germany will train to be a manager, whether or not they ultimately become one. We have to raise expectations and demands in that respect.

The Convener: For the record and the benefit of Ms McAlpine, we try very hard to produce a gender balance on witness panels, but that is sometimes just not possible. Sadly, today's meeting has been a very bad example. I completely take the point; we try to deal with the issue.

I will pick up on a point that Professor Danson made about eastern European workers coming in. It is absolutely right to say that they are highly skilled and educated and are doing jobs way below their pay level, but was not the problem in a period of economic expansion in the early 2000s that many jobs were available in food processing, agriculture and hospitality that nobody else would do?

Professor Danson: It was quite complex. Interestingly, quite a lot of those jobs were new jobs. There were no barriers to the workers coming in. For Scots workers going into those sectors, there were questions about issues such as the skills that they were going to be given, training and progression. The same thing happened elsewhere in the UK and in Ireland, but it also happened in many other countries throughout the world. There were major changes in the labour process and in the way in which agricultural goods were being processed. What was manifested here was part of a global phenomenon of change. Supply and demand in the labour market worked out in a fairly complex way and it raised questions over things such as the minimum wage.

12:15

The Convener: I am sorry—that was slightly off topic, but I just thought that it was an interesting comment.

Margaret McDougall has a supplementary on childcare.

Margaret McDougall: Yes—we were talking about childcare and the way in which it benefits women in the workplace. How can we increase female participation on company boards? Childcare might be a little aspect of that, but it is not the only barrier to women getting into company boards.

Professor Danson: A few years ago, I was involved in the volunteering strategy for Scotland. One aspect that became clear is that many people who are disadvantaged in the labour market do not volunteer. If we ask people why they do not volunteer, many say that they do not have time. If we go beyond that, they say, "I was never asked." Many women are more than capable of sitting on boards and other committees, but they do not put themselves forward for that and are not asked, so one strategy would be to promote the idea. We all sit on various committees of various sorts, but it could easily be any of our colleagues who are not male.

We could promote the idea and encourage mentoring and training. Many boards and committees in universities and companies do not mentor people or train them on what is expected of them. Often, that is not very much. Boards and so forth should, as in this committee, have a complementary set of skills and experiences. In many ways, there is a perception among women that they would not fit or that they do not have the talents that are required for a committee or board, whereas in many cases they would do well. In part, the issue is about asking, promoting and encouraging, as well as moving towards minimum levels of participation of different groups on boards, such as women, trade unionists and disabled people.

Robin McAlpine: We barely talk about corporate governance, but it is one of the big opportunities for us to improve the economy. To again use Germany as an example, one third of the board of directors of Volkswagen is elected from among its workers. We have published a report on changing industrial democracy, which has some wonderful quotes from Volkswagen shareholders, on their relationship with the board. The shareholders say, "Of course we want workers on the governance body—how the hell do a bunch of managers know what is happening? We need workers on the board to make the company effective." The attitude that we strongly pitch in that paper is to see reform of governance and better industrial democracy—better involvement of people in the running of enterprises—as a win-win for everybody. It improves companies' productivity, innovation and quality of governance. It brings in a bunch of perspectives and understandings about the business that cannot be had from the senior managers or owners alone.

The idea is that we create a culture in which we collectively identify the benefit of better governance structures that include more workers, more women and people from different socioeconomic backgrounds, who bring different skill sets, experience and levels of expertise in the company. Some companies do not have a lot of female experience in their running.

We have got to stop seeing it as being only the woman individually who suffers from not being on the company board; we need to move towards a culture that says that it is the company that suffers from not having women on its board and from not having employee input into how the company is run. If we look at where innovation really comes from and where it happens in most economies, we will see that most of it is employee innovation. It is somebody saying, for example, "Do you know, if we changed this delivery route, we could get an extra two houses in per day?" Innovation does not come from a laboratory but comes from employees saying, "This is how, day to day, we can improve this business."

The problem is that we do not have a governance structure that captures that. Too often in this country, an employee with a good idea is on a minimum-wage, zero-hours contract and goes home and does not bring that expertise to governance. If we can see governance as being one of the great opportunities for improving the quality of our economy, that will help women to get on to boards as well as help employees and others.

Stephen Boyd: I have three points to make. I find it difficult to see beyond having a regulatory response in the first instance to the need for more women on boards. It could be just a short-term regulatory response, because creating quotas could help establish a pool of well-known and respected women board members, which I think would become self-generating. The regulatory response would not necessarily have to rest on the statute books for evermore.

I support the kind of reforms to private corporate governance that Robin McAlpine talked about. It is very important that we see them within the wider system, because if that does not change, we will not create a system like Germany's through specific mechanisms. If a company is driven towards providing high returns over short timescales, that will mute the possibility of making changes.

Regarding public corporate governance, one of my very long-standing hobbyhorses is the sorry fact that institutions of economic development in Scotland do not reflect the people whom the institutions are there to assist, who are the citizens of Scotland. They have drawn their membership from very narrow strata of society, which I think is unacceptable. They ignore and do not benefit from the vast amount of skills and experience that people in civic Scotland could bring to their boards.

Mike MacKenzie: Most folk would agree that inequality has grown across the UK over the past 30 years. Given that Iain McMillan, from the earlier panel, said that he discerns a shift to the right in the political centre of gravity at UK level, how realistic do you think it is to assume that we could tackle inequality without constitutional change?

Robin McAlpine: Greater equality, a high-wage economy and better public services are some of the range of things that float around of what people say they want—and people do say that they want them. Many people and economists say that they want a more connected society and economy. However, it is not about a thing but about a philosophical approach.

We currently have an underlying political philosophy that is conflict driven. Put two people in a room and whoever comes out alive must be the best—that is the underlying principle of a lot of UK policy making, which assumes that it is only about competition and that only the winner has anything to bring. If we allow that to continue, we will inevitably end up in a situation in which bigger people win and get bigger, and win and get bigger, and the loser gets smaller and smaller.

If we are going to stick with a purely competitive system in which the only thing we do is identify who won and back them, we will keep going along that route. However, we could have a political system that says, no, there is a mutual approach to this. Sometimes what we have to do is recognise that both sides—both participants, big and small—have things to bring to the economy and we have to find ways to mutually bring out both their interests and enable those things to happen. Without that sort of approach, I doubt whether we will ever really tackle inequality.

There are hard, specific actions that we need to take. There is no way that we can talk about that here, because it does not involve doing just one thing. However, industrial democracy, the reform of welfare, an industrial policy to change the structure of the economy and universal public services are crucial. All those things form a pattern that creates greater equality.

Mike MacKenzie: What you are saying is fascinating, but you are not answering the question, which is this: how likely is it that we can tackle inequality under the current constitutional settlement?

Robin McAlpine: It could be done, in theory. However, not one of the things that I have just outlined as a possible solution is being promoted by any UK political party.

Mike MacKenzie: In practical terms and not in theory, how likely—

Robin McAlpine: It is not going to happen.

Mike MacKenzie: It is not going to happen—thank you.

The Convener: Are such ideas being promoted by any Scottish political party?

Robin McAlpine: One of the things in the white paper that have not been discussed properly is industrial democracy, which is incredibly important to equality. The white paper says that there will be a commission on industrial democracy, which is important. It says that there will be an industrial policy, which is also important, although there is no detail on that. It also says that welfare will be reformed. However, the white paper does not go as far as we will probably have to. Policies from Labour in Scotland are coming from the same direction.

To an extent, Scotland is going in a slightly different direction. If we wanted to really tackle inequality, there is no question but that we would need to be bolder. There is no question but that the policies that I am talking about are not supported at Westminster and are better supported in Holyrood.

Mike MacKenzie: Is it me again, convener?

The Convener: Carry on—I was interrupting.

Mike MacKenzie: I am interested to hear from Professor Danson and Stephen Boyd on the same question. Under the current constitutional settlement, how likely is it that we will tackle inequality?

Professor Danson: As Robin McAlpine said, that could happen—for instance, Germany has lower levels of inequality. However, as he argued, we cannot see that on the horizon. According to Department for Work and Pensions statistics that went to the European Union, in 2010—after 13 years of a Labour Government—the UK had the highest rates of poverty in the European Union among the sick and disabled and among families. That is a pretty damning confirmation that we cannot expect Westminster to change the direction of neoliberal economics that we have suffered from for the past 25 to 30 years.

The convener asked whether parties in Scotland make a different argument or whether the situation would be different under independence. I very much hope that the situation would be different. We do not have the opportunity in the current settlement to expect progressive change.

Stephen Boyd: I see no great prospects for change under the current settlement and I am not entirely relaxed about change being forthcoming under other constitutional settlements. We all talk about inequality these days, but the quality of the debate is really poor.

Mike MacKenzie started by saying that inequality has increased in the past 30 years. The trajectory of inequality in Britain is interesting. It rose steeply in the 1980s and it has bobbled along for the past 30 years. Over that time, inequality has grown in every major advanced nation. Some of the nations that we like to think of as much more equal and much fairer have had much more rapid increases in inequality. We must have a much more focused discussion about what is driving inequality and how we can tackle the drivers at each level of governance, but that debate is not happening.

From the perspective of economics, the main drivers in the past 30 years have been seen as skill-biased technological change—greater pay for those with higher skills—and trade. If that was the case, inequality should have increased equally across the modern advanced and developed nations. However, that has not happened. The increases in the US and the UK have been much greater over a long period. That leads us to an explanation that is much more about norms and institutions than it is about global economic drivers.

What are those norms and institutions? How do we begin to change them? Who is talking about changing them under enhanced devolution or independence? I do not see that debate taking place. I hear an awful lot of lazy stuff about the UK being the fourth most unequal nation on earth—end of story—when the situation is much more complex. If we take into account the free delivery of public services, the UK falls down the table. We need to think in much more detail about the issue.

I really welcome the fact that David Eiser from the University of Stirling is to give evidence to the committee. What he and David Comerford have done with David Bell in Stirling is the only serious work on inequality at a Scottish level that I have seen. It is quite pessimistic about what might be achieved through some of the levers that we might turn to, such as taxation.

We must all do what we can to develop a much more coherent and detailed debate. We must be much more forensic about how we might change things for the better.

Mike MacKenzie: You have partially anticipated my next question. I take it that I am getting two questions.

The Convener: Yes, you are.

12:30

Mike MacKenzie: I want to ask about the scope, after a yes vote, for tackling inequality and ensuring a more successful economy. I hope that you share my opinion that those are not mutually incompatible aims. I think that Stephen Boyd said in his written evidence that we cannot just transplant models from elsewhere and impose them on Scotland, and we cannot do everything overnight. In the early days, what steps could we take towards greater equality and a more successful economy?

Robin McAlpine: To answer the first part of that question, absolutely. We are not talking about photocopying the economy or economic system of another country and trying to impose it on Scotland—that would be daft and it would not work—but we can learn about what worked elsewhere.

On whether we could become more equal, the question is whether there are others who have done it better than us, which is undoubtedly the case. What is it that they did better that has enabled that to happen? Again, there is a range of areas in which you would have action. We have to create better-paid jobs. Only one in five jobs in the Scottish economy is paid between £25,000 and £35,000. Three out of five jobs earn less than £25,000 and half of all the jobs in Scotland pay less than £21,000 a year. If we have that structure in the labour market, we cannot have greater equality. We have to create an economy that creates more high-quality jobs, which would mean having an industrial policy.

In the very early days of independence, I would favour some bold stimulus work on high-quality house building in the public rented sector. A large volume of house building would create a lot of jobs quickly. It is the same with energy technologies. I would like to see investment in domestic manufacture of renewables technology to create jobs. Industrial democracy, welfare policy, universal public services and a range of other equalising policies are what other countries appear to have used to create greater economic equality.

Professor Danson: Mike MacKenzie talked about the early days of independence. I suggest that in the early days—in the first few years—we need to change the conversation and recognise that we cannot get major changes overnight. It is about getting people and politicians to accept that the short-term analysis and expectations and so forth are not sufficient for changing and restructuring our economy and changing society for long-term improvement. As Stephen Boyd said, it is about changing the norms and institutions—it is about starting those conversations.

We can have short-term Keynesian interventions, depending on negotiations over the currency and so on. However, the Nordic countries had years of class struggle and conflict before they were able to start having a more equal society and greater economic success. We need to lower expectations in the hope that, in the longer term, we would get towards a better society.

Stephen Boyd: Mike MacKenzie's question posited that greater equality is not incompatible with economic growth. That is true, but it is highly dependent on what model of economic development you settle on. As we tried to outline in our submission, if you pursue the path of comparatively very low product market regulation and a very lightly regulated labour market, you are unlikely to achieve greater equality. We need to be very clear about that. Business tax cuts and low top rates of tax for high earners exacerbate that.

What can we do? I would argue that the single most important thing, which I think is consistent with what Robin McAlpine and Mike Danson have said, is to increase collective bargaining coverage in Scotland. That is very easy to say; it is tremendously difficult to achieve. This is an area where I am very pessimistic about what lessons we can learn from elsewhere. More than anything, industrial relations are an outcome of specific cultural, historical and economic factors, so we would need to settle on a solution that works for Scotland. To be fair, the white paper has outlined ways in which we might begin to do that, but it is unrealistic to work on the basis that we might achieve significant change in the short to medium term.

I absolutely agree with Robin McAlpine that better jobs are important. Again, we need to be realistic about the global drivers. Throughout the developed world, there is a deficit of good jobs, and there are important trends that we will not be able to avoid, one of which is certainly the rate of automation. We are having an internal debate in Scotland about developing our economy under constitutional scenarios while the rest of the world is fretting about what more automation means to developed countries. What will that mean for Scotland? What does it mean for creating more and better jobs?

There is a debate at the global level about secular stagnation. People are casting back to before the financial crisis and saying that there was a global savings glut. Companies could not discern sufficient investment opportunities to ensure that people throughout the world were employed in decent jobs. How will that change? There are no signs that it will. Everything suggests that we are in a prolonged period of very low interest rates, because people cannot discern such investment opportunities. What does that mean for Scotland? We need to work through all that stuff.

Our submission mentions the word "levers", which is beginning to grate on me. There is an assumption that we will obtain more levers that we can pull and there will be a discernible cause and effect between those additional levers and better economic outcomes. That is fanciful. We have to be much more realistic.

Finally, raising the top rate of tax is one of the first things that can be done. We would have to be very clear that that is not to generate more revenue but to set incentives for companies to ensure that their long-term investment horizons, rather than their directors' pay and bonuses, drive their business plans. There is copious evidence at the UK level to suggest that that has been a major problem.

Marco Biagi: Vince Cable has said that London is becoming a

"giant suction machine draining the life out of the rest of the country",

and, at the committee, Danny Alexander agreed with the sentiment, if not the language. Do you, too, agree with that view? If so, what would you want to be done about it?

Robin McAlpine: The big picture is that, in Scotland, we have to find ways of creating different centres of gravity, more localised economies and more use of all the public policy approaches that can enable us to secure more of the domestic economy internally. Procurement is very important, because local economies must be able to supply local products and do those kinds of things.

It is important to be clear about this: the problem is not really a Scottish, but a British one. There was a period when the economy of the City of London grew by 35 per cent and the economy of south Wales grew by 3 per cent. That is not a united kingdom. There is a massive inequalities problem in Cornwall, the midlands and the north of England, and it is largely about how the economy is structured. The City of London is far too powerful right across the UK, and it has the same effect on everybody.

Another point that I want to make strongly is about the democratic deficit. What we need is not a federal UK, but a federal England. There is too much power in the centre of England, and the rest of England is not able to do the same things.

London is a "suction machine", and as long as we are tied to a purely City of London financial model of the economy, it will keep sucking. It would not have quite the same suction effect if we could create a manufacturing economy that was able to export and were therefore able to create more wealth here. However, London is a big international city, and it is not going to disappear.

Stephen Boyd: I wish that Vince Cable and others could posit economic problems in less dramatic language. Their approach is not particularly helpful to anybody.

London is a problem, but that problem is often exaggerated and distorted. I recently saw the Centre for Cities report, which contained the dramatic finding that, between 2010 and 2012, London accounted for two thirds of private sector job growth. It is interesting that, in all the reporting about the report, those dates were almost immediately lost, because it was, of course, the period leading up to the Olympics.

Since the recession ended, Edinburgh has, by a distance, been proportionately the best-performing city in the UK in job creation. In the past year, Scotland has created 92,000 net new jobs and London has created around 63,000. Even in nominal terms, before the different sizes are taken into account, Scotland is generating jobs at a much quicker rate than London. We need to bear all of that in mind.

Some things are simply very difficult to overcome. London is so powerful because, 300 years ago, a few rich individuals sat down in Mr Lloyd's tea shop to decide how to insure a ship, and subsequent agglomeration effects have turned it into a world centre for financial services. We will just have to live with the fact that such things cannot be replicated elsewhere.

Vince Cable has to think through the industrial strategy in England, because it was really designed to benefit if not London alone then the Thames corridor. In fact, when Michael Fallon, who has ministerial responsibility for regional growth, was up here a couple of weeks ago, I asked him about the Government's plans to spread growth much more fairly around the rest of England, if not the UK. The relationship between Scottish industrial strategy and that in the rest of the UK poses interesting questions.

Robin McAlpine was absolutely right to highlight the geographic spread of economic activity in Scotland. I do not think that the policies of this Scottish Administration or its predecessors have cracked that issue. We have to accept that, for those in East Ayrshire, the two priorities of connecting to the Scottish Government's key sectors and growing indigenous small businesses are not going to work. The debate should be much more about how we make the economic activity that will reside in an area no matter what—utilities, retail banking, supermarkets and so on—much more valuable to the local economy. That is important, but tremendously difficult, and we are discussing the issue in great detail with the Scottish Government.

Chic Brodie: I am disappointed that Stephen Boyd imagines that, in relation to the proposed 3 per cent cut in corporation tax, we would simply adopt the same collection system that currently exists elsewhere.

Stephen Boyd: That is not the point that I was trying to make.

Chic Brodie: I am sure that we would be a lot more assertive about collecting what is due.

That said, Mr Boyd makes a good point about the banking system. Nobody talks about Barclays Bank, which is an English bank, being bailed out by interests in America and Qatar.

I ran eight companies in Europe, one of which was in Denmark and serviced Nordic companies. I am a bit concerned when we talk about everything being solved by high wages. I should say that I support a high-wage, high-productivity economy, because we have to be globally competitive. We have talked about board-level employee representation in the Nordic countries, and, indeed, the supervisory and management board set-up in Germany, which are certainly constructive. However, other than one reference to the co-operative system, there has been no mention of the way in which equity participation might generate the kind of productivity and guarantees that we want.

Before I entered Parliament, I was involved in company turnarounds, among other things. In each case, I insisted that shares were handed out and allotted to longer-term employees. In one case, the company—a manufacturing company—grew by 300 per cent, largely on the back of its employees' interest and involvement in decision making. What are your views on equity participation by employees?

Robin McAlpine: What I would call anchoring strategies are really important. The UK is not particularly strong at seeing the protection of ownership in the economy as a key economic aim; other countries are much stronger in that regard. What we have seen in Scotland is the development of a strong industry followed by an equity buyout. For example, disposable contact lenses were developed and manufactured in Scotland, which led to the creation of 1,000 jobs in Livingston. They are now creating many, many more jobs than that in Vermont, because the entire company and its intellectual property were bought up and exported.

As I have said, we need greater diversity among our companies; we must have mutuals, co-operatives and employee-owned businesses as well as smaller businesses, collective ownership and so on. Such a balance is much better for the economy. One of the key things about employee equity—or, indeed, the model that exists in Germany, whereby the local community has the right to have members on the company's board of governors, which we might think of as being incredibly radical—is that it means that a company's long-term interest is to build, the employees' long-term interest is to help the company to do that and the community's long-term interest is to keep employment in the country. That kind of anchoring strategy means that you do not lose those big industries.

Such a model could, for example, involve equity finance, with an investment bank initially encouraging industries to develop in Scotland. Employee governance does that kind of thing automatically. Employees are not interested in equity sale, because it means that they lose their jobs. If an employee is on the board of governors but the company is sold and they are there only as a representative, not as a shareholder, all that happens is that the company goes, so there are—

12:45

Chic Brodie: No, no, no. I am sorry, but I am talking about having a combination of the BLER or German arrangement with shareholder representatives. If employees are shareholders with equity in the company, they will have a say; they will certainly have their tuppenceworth on whether the company is sold or how it progresses or diversifies. That is what I am talking about.

Robin McAlpine: All I am suggesting is that no single model will save us. We need a much more balanced economy. Some companies will have employee governance rather than employee ownership; other companies will have employee ownership; and in other cases the model might be slightly different. We need an ecosystem in which there is more anchoring of and support for companies that are being built up in Scotland, and employee ownership and employee governance are absolutely two of the tools that we can use for that.

The Convener: I am sorry, Mr Brodie, but we are getting a little bit off the topic of Scotland's constitutional future, which is really what we are here to discuss.

Chic Brodie: No, we are talking about industrial democracy in Scotland.

The Convener: Well, if we could have questions on that issue—

Chic Brodie: We are talking about the whole structure of the industrial and financial base.

Perhaps I can ask Stephen Boyd about the implications for trade unions if we had employee equity participation in a post-2014 Scotland—

The Convener: Good try.

Chic Brodie: —and employees were actively involved in their companies.

Stephen Boyd: It depends what the company is like and what it is trying to achieve with such a scheme. I could bring in a series of my colleagues from the STUC general council whose companies have operated such schemes, and they would tell you that they have not really been serious schemes; instead, they have supplemented wages. One of my colleagues works at a large chemical plant at which the workers owned shares. At year end, they formed a massive queue outside the offices to cash in their shares because the scheme was never really about ownership and employee engagement in that company; it was just about supplementing wages.

Chic Brodie: I am talking about proper shareholders agreements.

Stephen Boyd: Indeed, but very often our members have a degree of cynicism about such schemes because, in the past, they have been through schemes that have not been serious. If a company that introduced such an equity shares scheme was also engaging with its employees, involving them on the board, establishing European-type works councils and generally engaging employees in the future of the company, I am sure that our people would be happy about that. However, I am not entirely convinced that it would necessarily become a more relevant option under independence than it is at this moment in time.

Chic Brodie: I will come in for one more question—and again, I am talking about Scotland post-2014. A high wage was mentioned, but nobody mentioned high productivity. We live in a globally competitive world. Of course, we want to achieve and maintain full employment. How do we ensure that we are competitive and yet have a high-wage economy—and, I would add, high productivity?

Robin McAlpine: It is about productivity. When we are exporting, we have to be exporting with a focus on the idea of smart specialisation—doing the thing that we can do better than others to a high quality—and compete that way.

If we look again at the full range of the economy, we see that a lot of jobs, such as local jobs in retail and various other areas, are not in competition with international competitors. It is very telling that, if a country moves to a higher wage economy, it affects all parts of the economy. If we look at countries that follow the German and Nordic models, we see that, in those countries, somebody in retail is much more likely to be a manager of a section of a shop. Such countries have high-skill jobs right across the economy. Rather than having one centralised manager and then a whole bunch of people who are just drones putting things on shelves or operating tills, they upskill the nature of the economy so that people manage parts of a shop. That is an example of how higher skill and higher wage jobs can percolate beyond the highly skilled, high-productivity manufacturing sector.

Therefore, the answer is about productivity. It would be crazy for Scotland to think that we can get to a high-wage economy doing what we are currently doing. We have to do something different if we want to get a high-wage economy. It is not about taking the jobs that we have and paying more—that would just cause inflation and massive economic inefficiency. It is about rebalancing the economy in a way that puts more productive high-skill elements into it. That then helps to build and, in effect, drag up the rest of the economy and improve the assumption.

Competition works two ways. We assume that competition is about only how lower costs can enable businesses to compete with other businesses in the industry, but if we create an economy where businesses are competing for the best skills, their quality is driven up by the skills in the labour market. Such competition can build up a high-wage economy. It is a question of creating an economy that has at its heart a productive goal and working to improve the quality of industry sectors and to make more and more of them higher skilled.

Chic Brodie: I have one last question. Robin McAlpine alluded to one issue that we face, which is the lack of mobility of workers in Scotland. There is full employment in the north-east, whereas areas such as inner Glasgow are very deprived and have lots of unemployment. How do you recommend that we change the culture to increase mobility among Scotland's workforce and management?

Robin McAlpine: I strongly suggest that we have to stop seeing centralisation as being the key and start seeing economic activity locally as being the key. For example, given its natural resources, Scotland has a low level of land-based industries. Many hundreds of years ago, the north of Scotland was a thriving, populated economic area with things happening in it, and it could be the same again. Likewise, the islands could be much more effective economic units if an island-based strategy was a key part of what we were doing.

Localising economies is the key. I do not really want butchers to be mobile and to move into large groups in the middle of Edinburgh so that they can compete for public sector contracts. We need public sector contracts that support local butchers to supply their local schools.

Chic Brodie: We are talking not about butchers but about large—I hope indigenous—corporations or companies that will be globally competitive.

Robin McAlpine: And you are talking about them shedding jobs as they move.

Chic Brodie: Let us take the oil and gas industry as an example. We are short of people in the oil and gas industry and in renewables.

Robin McAlpine: I would strongly suggest that, in that industry, we focus much more on what we would call build and train.

In 1970 Norway had no oil engineers, but by 1980 it was running an entirely self-sufficient oil industry, because it did what the UK does not usually do: it gave a contract to a company to operate its oil wells and part of the contract was to train domestic capacity. Over the course of 10 years, it went from being wholly reliant on an external provider to being wholly reliant on indigenous capacity.

If what you are asking is how we will ensure that the capacity is in the economy in some of these big industries, the answer is that we need to manage them better and to make conditions of licensing and conditions of contract more effective to ensure that they develop capacity, are not only in effect exploiting the business opportunity, and do more to build up domestic capacity. Again, other countries do that routinely.

Stephen Boyd: As far as I understand your question, Mr Brodie, you are asking how labour supply and demand could match up better in Scotland. In other words, if someone is unemployed in east Ayrshire, how do they connect with the labour market in the north-east?

That raises a range of issues. First, there clearly have to be supply-side interventions to ensure that people in east Ayrshire know about the opportunities in the north-east. I am not satisfied that that happens as much as it should, although I understand that the issue is being addressed.

It is a big transition when people move from one part of the country to another, so they need to feel secure about that transition. Housing is a major issue. How do people who are unemployed in east Ayrshire move to Aberdeen to avail themselves of an employment opportunity if they do not have a house or accommodation to move into?

Welfare reforms do not help. They are generating a lot of insecurity among people right through the lower end of the wage spectrum and among those who are unemployed, and a lot of evidence from behavioural economics shows that, if people are feeling more insecure, they are much less likely to take a risk. We do not even really need behavioural economics to tell us that; it is common sense.

As I have already said this, I will not dwell on it, but we also need the economic strategy in Scotland to have a much clearer spatial dimension than it currently does.

The Convener: The last question is from Margaret McDougall.

Margaret McDougall: We have heard quite a lot during the meeting about increasing industry and the manufacturing side of the economy. How is Scotland's goal to be a sustainable low-carbon economy consistent with the role of the oil and gas industry?

Robin McAlpine: This is really Professor Danson's specialist area, but the idea of smart specialisation, which is all about not just doing what everyone else is doing but doing what you do particularly well, gives you a chance to be competitive. Some of the smart specialisations that Scotland should be pursuing are in the renewable energy technologies.

An obvious area where we could seek to build more enterprise capacity is hydrogen batteries. Scotland has a fair chunk of the global research and development expertise in that area; we have people who are actually quite good at this work, and we have a number of opportunities to develop that industry sector.

If we were to put in place a smart specialisation strategy, I would be in favour of its having what might be called a moral element. I want a smart specialisation strategy that moves Scotland towards more green technologies and more sustainable economic activity and which allows us to be less reliant on, for example, defence. Morally, I would not want our economy to be based in the long term on making bombs and guns.

I want a diversification strategy based on a collective moral view of the kind of economy that we want to build, and, in that respect, I want Scotland to have a productive, positive, global, low-carbon economy. Although important, oil and gas are not really Scotland's future, which I believe lies in whether we can get our highly skilled workforce to work in a very high-skill economy. That is the big challenge for Scotland's future. Oil and gas are simply transitionary things that will help us as we work through this, but they are not really Scotland's future.

Professor Danson: I agree. We need to make better use of our world-class universities and consider other uses of oil and gas rather than simply using them to burn hydrocarbons. Given Scotland's rich and diverse range of natural resources, there is no essential need for it to have a high-carbon future. We need to look to and build on our existing strengths in this area and use the ingenuity that we have to consider ways in which the world has to change.

Stephen Boyd: This is a category issue. When we talk about manufacturing, we tend to talk not about oil and gas but about energy, but I admit that chemicals, which we would also talk about with regard to manufacturing, flow naturally from oil and gas.

I see no inconsistency between wanting to grow the manufacturing sector and meeting our sustainable development goals. Indeed, a range of agencies in Scotland is already carrying out a lot of work to ensure that our manufacturers and service industries are as efficient as possible with regard to emissions, and I see no reason why that work should not continue.

I know that Mike MacKenzie gets frustrated with my pessimism at these kinds of events, but it is important to be realistic about what is achievable in manufacturing. The rate of productivity growth is such that, even if we were to increase manufacturing's share of economic output, it would be really unlikely that we would see any surge in manufacturing employment in Scotland. We have to be clear about and work with that.

I am not entirely sure about the figures, but it is no accident that food processing is the UK's biggest manufacturing sector. After all, the work tends to be low-skilled and low-paid. We can all get a wee bit lazy and simply assume that manufacturing necessarily means higher wages. That particular industry continues to be competitive from its UK base because it is pursuing cost minimisation strategies for global competitiveness, but that will not work with other industries that we are seeking to be competitive in.

The question is how we change the economic model from the one that we have described in our submission to one that works for manufacturing and the rest of the economy. That is difficult, long-term stuff, and it does not lend itself to snappy responses to members' questions in this evidence-taking session. Over the past six years, we have published two very lengthy discussion documents about growing manufacturing in Scotland, but even if Government at all levels were to be very effective in implementing what we have called for in those papers, we would still have to recognise that this is a long-term struggle.

The Convener: Thank you very much. We will call it a day there. We have had a long session, but that simply demonstrates how fascinating some of these concepts are.

12:59

Meeting continued in private until 13:00.

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