

Note of informal briefing with the Organisation for Economic Co-operation and Development (OECD)

23 January 2018

Scotland's Economic Performance

Members in attendance: Gordon Lindhurst (Convener), John Mason, Tom Arthur, Jackie Baillie, Colin Beattie, Kezia Dugdale, Jamie Halcro Johnston, Dean Lockhart, Gordon MacDonald, Gillian Martin, Andy Wightman

OECD: Chris McDonald, Centre for Entrepreneurship, SMEs, Regions and Cities, OECD

The Committee received an informal briefing from the OECD to provide an overview of the recent research that they had undertaken into regional economic performance. Chris McDonald highlighted the following points:

Regional development is important to national prosperity and well-being. The OECD has conducted some analysis which shows that, in recent years (up to 2013), economic differences *within* countries have started to become more significant than the economic differences *between* countries. For some poorer countries in the OECD the gap has narrowed with the top performing countries, but the gap between the richest and poorest parts of the same country has remained (or worsened).

The OECD has undertaken research into what policy interventions and strategies helped certain regions do better than others. In particular, the OECD research found that for regions at the lower end of the income distribution a focus on skills, boosting participation and effective governance and institutions (i.e. leadership and an ability to create a strategy and implement it) tended to be most important. For regions at the higher end of the income distribution, innovation was most significant factor.

The OECD suggested that old methods of giving subsidies to lagging regions to attract economic activity could be replaced by investing in the competitive advantage of a region; known as a "place-based approach". However, governments can struggle with such an approach as policies are mainly designed nationally; governments need to learn how to foster place-based policies.

For remote regions, the research found that a strategy that focussed on the unique characteristics of that region – rather than a general approach – had seemed to work best for many. For example, this could include a focus on local assets related to tourism, natural resources, renewables etc. Investing in competitive advantage can empower regions to create strategies for growth.

Digital infrastructures are also becoming increasingly important for remote rural areas. The OECD indicated that this digital infrastructure has been a particular feature of Scandinavian economies, with many public services now also delivered through some form of digital platform. Transport infrastructure can also be an important factor in a region's prosperity, as is access to education, skills and training.

For regions that have gone through industrial decline, the OECD research demonstrates that no one-size-fits-all solution is optimal. In certain instances, improving infrastructure to help people connect with more fast growing regions can be helpful. In others, working with local communities to put forward their own solutions to the unique challenges that they face – e.g. developing a cultural hub – may be a preferred option. In Gothenburg, industrial city assets have been regenerated to create a successful arts and music scene. Investing public funds into an area without a coherent plan or local buy-in is less likely to be successful.

To increase productivity in cities, it is important that cities are able to make decisions at city level and that cities can cooperate with each other (e.g. Edinburgh and Glasgow).

An important source of productivity growth is the diffusion of technologies from frontier companies (which have the highest productivity and growth) to other parts of the economy. This has an important spatial dimension, for example in the case of the United Kingdom (UK), diffusion from London and the south-east to other regions.

One of the most important factors for increasing productivity is increasing skill levels at the bottom of the labour market (i.e. people who don't complete their school education); life-long learning is important in any region - including vocational education and helping people to retrain. Innovation also has a key role to play in increasing productivity (eg 3D printing could bring manufacturing closer to consumers to allow bespoke products to be developed quickly; such technology could benefit both rural areas and cities).

The latest OECD survey of the UK highlighted three areas:

- 1) Macro-economic performance: Brexit and the need to maintain the closest possible relationship with the European Union;
- 2) Addressing regional imbalances within the UK (e.g. between London and the south-east and northern England);
- 3) Lifting the productivity of low skilled workers (e.g.. encouraging people to stay at school and gain qualifications which are either academic or vocational).