AN INDUSTRIAL STRATEGY FOR SCOTLAND

Scottish Labour

FOR THE MANY NOT THE FEW

Introduction

The Scottish Labour Party firmly believes that a strategy for industry should be a top priority for any Scottish Government. We believe it is time for a new approach to industry and that it's time this new approach sat at the heart of all governmental thinking and action.

In industries like food and drink - notably whisky - financial services, shipbuilding and engineering, oil and gas, the creative sector, biotechnology and bioscience, Scotland's economy has a strong reputation on which we must build. These important industries play a critical role in the Scottish economy, not least in establishing our international competitiveness thereby sustaining higher living standards for our society as a whole.

The new approach we need demands a long term vision for the economy, driven by an industrial policy which is not only about retaining and building on those sectors and industries where we are relatively strong; it also means pursuing opportunities in new and technologically advanced activities to broaden our economic base and secure the long term sustainability of the Scottish economy and create new employment.

Over the last few years we have seen defensive rescues mounted for key enterprises such as Ferguson Marine Engineering on the Clyde or the remains of entire industries like steel rolling in Lanarkshire and aluminium production in the Highlands. These have been welcomed by the whole Labour movement, but they have exposed, once again, the failure of an economic strategy which is over-reliant on free market forces as well as an absence of joined-up government policy and action, especially in public procurement. They have also shown the vital need to proactively plan for the sustainable development of our industrial base, rather than simply reacting to market failure.

The outcome of the 2016 European Union referendum vote and the election of a protectionist US President heralds a period of renewed uncertainty, as does the possibility of a second independence referendum. Informed commentators like the Fraser of Allander Institute warn that the SNP government's economic strategic priorities have been "turned on their head by Brexit" [1] and that the further uncertainty of a second independence referendum will also have a negative impact on economic growth.

Indeed, the latest quarterly report by the Fraser of Allander Institute has shown that Scotland has had a close brush with recession as our economy shrank by 0.2% in the last quarter of 2016. That GDP grew by just 0.8% in the first quarter of 2017 shows there is no room for governmental complacency, especially as the Federation of Small Businesses says that business confidence remains "substantially lower" in Scotland than in the rest of the UK.

For Scottish Labour these reports make a revised approach to industrial policy in Scotland more, not less, urgent. All of these recent developments also reinforce the need for Scotland to co-operate more closely with our closest neighbours, our biggest trading partners on these shared islands, not seek to withdraw our democratic voice from within the United Kingdom.

This industrial strategy paper is the start of a new conversation with industry, business, economic institutes, trades unions and the wider Labour movement about how Scotland's economy can once again become a dynamic force which ensures decent jobs with decent wages for people now and in the future.

An Industrial Strategy must:

- recognise the enabling role of government, to assist where there is potential to develop sectors, create well-paid jobs and sustain viable enterprises
- identify the need for long-term investment support
- recognise and resource the critical role of innovation in developing new industries and ensure existing industries remain competitive
- consider steps to tackle both the productivity and production gaps in Scotland when compared with other advanced national economies
- encourage a diversity of ownership and governance of our industrial base which best serves Scotland for the long-term
- welcome, encourage and actively support, more inclusive and participatory forms of democracy in the economy, recognising the critical role of trade unions
- recognise that a modern Industrial Strategy for Scotland must address the challenges of climate change
- generate high skilled, high quality, stable employment for both women and men
- increase efficient domestic production of goods currently being imported for domestic consumption
- develop the economy of Scotland by increasing its diversity with a focus on creating sustainable high quality employment, ensuring that the new jobs are environmentally friendly and broaden our export base

The shape of the Scottish economy today

Scotland's economic base has been transformed dramatically over the last 40 years. In 1979 more than 600,000 people worked in manufacturing in Scotland representing 28.8% of the workforce. As TABLE 1 shows this has declined substantially to only 8.6% today.

The decline of manufacturing employment and of traditional industries, in short the process of deindustrialisation, overseen by the Conservatives, has left many communities in Scotland blighted by joblessness.

TABLE 1

Employment in Scotland by Broad Sector 1989-2015 [2]

	1989	1999	2009	2015
Agriculture, forestry and fishing	1.5%	1.9%	1.9%	1.3%
Energy and Water Supply	2.9%	2.2%	3.4%	3.8%
Manufacturing	20.5%	14.9%	8.7%	8.6%
Construction	6.6%	5.5%	7.9%	6.8%
Services [3]	68.4%	75.5%	77.6%	79.1%
Number of employees in the workforce	1,957,000	2,022,000	2,483,3000	2,542,100
Proportion Male	52%	51%	52%	52%
Proportion Female	48%	49%	48%	48%

Half a century ago manufacturing represented around 40% of Scotland's Gross Domestic Product (GDP) and accounted for around 30% of all employment. Today, it accounts for just 12% of the economy and less than 9% of the workforce – which equates to fewer than 220,000 people. That relative decline does, however, obscure some excellent areas of manufacturing innovation in Scotland, with several companies achieving a real global reach with their products and services.

These include, but are not limited to, firms like Optos, Clansman Dynamics, Alexander Dennis, Linn Products, Aggreko and Wolfson Microelectronics. Although these firms represent a small 'competitive core', they contribute disproportionately to Scotland's growth, with high productivity and active engagement in innovation and internationalisation projects. The big challenge for Scottish manufacturing in the coming decade is how to position such firms as the norm rather than as exemplars.

Shipbuilding, while not the major force it was, does continue to provide skilled employment. Indeed, shipbuilding's share (including ship repair and maintenance) of manufacturing employment in Scotland has grown – in 2014 it accounted for 1 in 27 manufacturing jobs compared to 1 in 29 in 2009.

The recent signing of a £3.7 billion contract by the Ministry of Defence to build three new Type 26 frigates on the Clyde guarantees skilled engineering jobs for decades to come and secures thousands more jobs in the supply chain. In Glasgow alone, 2,723 workers (full time equivalent) are employed at the Govan and Scotstoun yards, in Fife 1,773 full time equivalent workers are employed at Rosyth. [4]

Scotland's productivity, innovation and export challenge

Looking at a more aggregated picture of the Scottish economy, increasing the level of productivity is the key to achieving sustainable economic development, to raising incomes and to creating better quality employment. In addition, businesses need to be highly productive as a prerequisite to compete effectively in international markets and so grow exports.

While TABLE 2 shows Scotland is one of the better performing parts of the UK by measure of productivity, it is still below the UK average. Currently Scotland's productivity ranks in the third quartile of Organisation for Economic Co-operation and Development (OECD) countries and the rate of productivity growth in Scotland consistently lags behind many of our competitors.

To catch up would therefore require a significant, transformational, increase in Scotland's rate of productivity.

But the prize of success is substantial. Increasing Scotland's productivity to the level of the top quartile of OECD countries would grow GDP by almost £45 billion (an increase of 30%), and annual average wages could be over £6,500 higher (an increase of 25%).

Scottish manufacturing can provide the engine for driving some of this transformational change in productivity. It is manufacturing which continues to disproportionately drive innovation, investment and international exports.

TABLE 2

Productivity Gross Value Added per head by region and nation 2015. [5]

Nation or Region	GVA per head
London	131.5
South East	109.2
East England	99.3
Scotland	98.4
South West	92.9
North West	90.1
North East	87.5
East Midlands	86.9
Yorkshire & Humberside	86.1
West Midlands	85.3
Northern Ireland	80.9
Wales	79.1
UK Average	100.0

By some measures, Scotland's innovation performance is improving. However, by many other innovation indicators, our performance is still being outstripped by other countries. Despite some signs of improvement, Scotland's research & development (R&D) performance continues to be below that of the UK (see TABLE 3) and most OECD countries.

Although business enterprise R&D (BERD) increased by 45% to £905 million between 2010 and 2014, faster than the OECD and UK average, Scotland's performance still remains near the bottom of the third quartile of OECD countries.

To reach the top OECD quartile, Scottish BERD would need to be 200% higher (an increase of £1.8 billion). The need to close this gap is critical. Although the number of businesses in Scotland investing in R&D in 2014 was 2,790 - an increase of 23% since 2012 - R&D remains heavily concentrated, with just ten businesses accounting for 45% of the total. Almost 70% of R&D investment is by non-Scottish owned businesses. [6]

TABLE 3

Expenditure on R&D performed by businesses as a percentage of GDP by region and nation 2015. [7]

Nation or Region	**Expenditure on R&D as % of GDP**
East	2.52%
South East	1.66%
West Midlands	1.59%
East Midlands	1.36%
N Ireland	1.28%
North West	1.18%
South West	1.02%
Yorks and Humberside	0.62%
Scotland	0.60%
Wales	0.57%
North East	0.54%
London	0.44%
UK Average	1.11%

The widely observed, and well documented, disconnect between academic innovation in Scotland and its resulting industrial application here – with opportunities all too often going to overseas competitors – reflects weak links between higher education and the business base. This is despite higher education R&D rates in Scotland being among the best in the world. There is obvious potential to improve industrial interaction with higher education, and addressing this is a major focus of nascent Innovation Centres such as the Advanced Forming Research Centre (AFRC).

Rates of investment in businesses in Scotland also lag behind nearly all other OECD economies. As a result, business capital stock levels also fall short, negatively affecting productivity performance.

Most manufacturing facilities in Scotland show under-investment in both modern plant and in the latest production engineering methods compared to competitors overseas. To match the rate of the top quartile of OECD countries, business investment in Scotland would need to be 90% higher, or increase by £10 billion.

Yet most businesses based in Scotland do not consider external funding. This raises questions about the extent of growth ambition, and the limits to growth placed on business by relying on internal funding alone. Poor competitiveness in productivity, innovation and capital investment also hinders the scope to drive up export sales and grow overall industrial production. Around 60% of Scottish SMEs trade only within Scotland. Scotland's exports are also highly concentrated - just 15 businesses account for 30% of all international exports, and 70 firms account for 50%.

Scotland's key international export markets remain Europe and the USA, with sales to emerging markets relatively low. Five industrial sectors account for almost 50% of exports.

There is real frustration among businesses about the lack of manufacturing support. The Scottish Government announced the creation of a Manufacturing Institute, yet no business plan has been published to show how this would operate and what economic impact it would have. The government should do this as a matter of urgency.

Unemployment and Underemployment

Labour has from its very beginnings been a party in favour of full employment. Official headline figures for employment and unemployment greatly understate the extent of real and long term unemployment in Scotland.

Many people of working age who want to work are not counted in the official register. If we consider only these people, the true Scottish unemployment rate is nearly double the 5% figure quoted by the SNP government: the real rate of unemployment in Scotland is more than 9% of the working age population. If we were to include those people working part time because they could not find a full-time job, or work on a temporary contract because they could not find a permanent job, the rate would be significantly higher again. [8]

The marked shift in employment in Scotland from manufacturing to services highlighted in TABLE 1 is a consequence of the narrowing of our economic base and an over dependence on certain key sectors.

While the SNP has spent the last decade in office promoting political sovereignty it has presided over an unprecedented loss of economic sovereignty (see TABLE 4).

TABLE 4

Foreign-owned enterprise share of total non-financial Gross Value Added by region and nation 2013 [9]

Nation or region	% of total non-financial sector GVA
Scotland	34.6%
West Midlands	30.8%
South East	30.5%
Wales	29.6%
North East	29.4%
London	27.3%
North West	25.9%
Northern Ireland	25.4%
East Midlands	25.2%
East of England	24.0%
Yorkshire and Humberside	22.2%
South West	20.9%
UK Average	27.5%

As a result, over a third of Scotland's economic base is now owned overseas. This is significantly higher than any other part of the UK including London.

Of course inward investment is to be encouraged and welcomed where it leads to high-quality sustainable employment. However, the growth of overseas ownership of the Scottish economy has not necessarily led to the creation of new assets or new employment.

All too often it has been the result of merger and acquisition activity, of privatisation and outsourcing, and a long term failure to build up and retain the indigenous ownership of medium and larger size businesses in Scotland. Scottish Labour believes we should consider different frameworks and ownership structures, such as those in Germany where management can be more collegiate, to learn from others' experiences.

Investment

Critical to the challenge of industrial expansion, new industrial development and the retention and growth of long-standing industries is the availability of long term capital that is patient for its investment return.

The Scottish Investment Bank's (SIB) role needs to be re-evaluated and consideration given both to its scale and scope. Its governors should be accountable through Ministers to the Scottish Parliament and should both reflect 50:50 gender representation and include participation from the trade union movement.

The SIB should become the industrial investment bank for Scotland, providing loans and equity shares, not as a last resort on the occasion of market failure, but as part of a much more proactive agent of economic change. Its function and capacity to act as a catalyst to stimulate investment from other sources should be strengthened.

At the 2017 General Election Labour pledged to create a National Investment Bank – which would ensure that its Scottish equivalent had £20 billion of capital to lend. However, the result doesn't mean the SIB should stand still. Scottish Labour believes the SIB can have a greater reach into local business communities. This could be done through utilising the resources of local financial institutions, Business Gateway, Scottish Enterprise and local government to ensure local opportunities are being maximised.

There are unrealised potential opportunities too in the use of occupational pension funds to make direct primary investment in infrastructure and industry.

One proposal worthy of examination is to consider Public Sector Pension Funds using their resources to establish a Scottish Public Provident Fund. In turn this could invest in local production and infrastructure, boost local supply chains and stimulate employment.

There are several methods of enabling this, from capitalising an expanded SIB described above, through to pension funds merging funds, or dedicating a proportion of their funds to support local investment opportunities.

Pension Funds' trustees have a duty is to ensure that the members' contributions provide for a safe and secure pension. We will consider whether there are untapped potential opportunities available to pension funds for investment in Scotland that would both provide the return on investment required and, at the same time, contribute to the delivery of infrastructure and jobs investment to support the modern economy.

Scotland is fortunate given its number of dynamic and innovative cities, from Inverness and Aberdeen in the north, to Glasgow and Edinburgh in the central belt. The geographic distribution of our cities means that there is a potential engine for economic growth in every corner of our country. Scotland needs to be in the best position to take advantage of that and local government also has a major role to play.

Councils have proven that 'City Deals', a recent innovation in the field of economic regeneration, are key to unlocking investment.

The first such City Deal in Scotland, the Glasgow and Clyde Valley City Deal, aims to support the creation of 29,000 jobs and secures £1 billion of Scottish and UK Government capital funding and will attract £3.3 billion of private sector investment to support major infrastructure investments. It was proposed by eight Labour local authorities across the Clyde valley working together to identify the region's ambitions and deliver the economic infrastructure to realise these.

The £370 million bond issue in Aberdeen is another instance where local government has led. It will be used to support £1 billion of capital investment in major projects in the city. This initiative opens up a new vehicle for generating funds for investment which can be driven by local government.

Central government therefore must be prepared to devolve power to those who know their communities best and are accountable to them – recognising they can work in partnership to deliver major economic change. But cities need support from the centre too. Appointing a dedicated Cities Minister would be a strong signal that driving growth through our cities is a priority for this government.

Innovative investment led growth will drive Labour's Industrial Strategy forward. Yet in Scotland investment in areas like research and development (R&D) lags significantly behind the rest of the UK.

The primary focus for public interventions then, should be to encourage the development of R&D activity supporting companies across Scotland. In Scotland expenditure on R&D is significantly below the UK average of 1.11% of GDP.

Given the level of R&D funding in the defence industries is disproportionately high compared to other sectors, these figures give very real cause for concern. We will work alongside companies to find the best ways of incentivising and encouraging this activity. Central government needs to consider the effectiveness of fiscal incentives to encourage research and development.

The "Catapult" innovation centres, which were set up by the last Labour government, have been successful in promoting innovation in industry.

These centres are aimed at "catapulting" innovation, research and development from higher education into commercial realisation and mass production. One of the most successful has been the Advanced Manufacturing Research Centre in Yorkshire.

The Catapults are a proven model to drive greater collaboration between industry and academia. They encourage industry to raise its game by creating a world class cluster of assets and a talent pool that it can readily tap into - if there is the will and accessibility to harness it. They also enable the pooling of resources that many SMEs can access which they otherwise they would not.

However, the Catapults cannot function in isolation. They need to be much more comprehensively integrated into the manufacturing sector in Scotland via the expansion of the Scottish Manufacturing Advisory Service (SMAS). In turn SMAS could be given the resources to carry out more intensive engagement with firms including the opportunity to undertake a full diagnostic of businesses and productivity. That way it will be better placed to identify what action is needed to deliver enhanced performance.

Currently the onus is very much on companies to engage with the Catapult network and many are not aware of the opportunities it offers - we need to do much more to incentivise firms in Scotland to raise levels of investment in R&D as a percentage of turnover - the Catapults are only one - albeit vital - part of that challenge.

The Catapult Centre at Inchinnan in Renfrewshire remains at a formative stage, but already shows great promise. Its aim is to establish and build manufacturing capacity with a focus on forming and forging technologies into a wider range of manufacturing processes, increasing their applications across a variety of sectors.

The Catapults should also put apprentice training at the heart of what they do – the apprentice training school at Rotherham's AMRC would be a creditable model to emulate at the new Scottish Manufacturing Institute.

Scotland's eight innovation centres show the extent to which public funding and investment is playing a role in attempting to both stimulate innovation and initiate economic growth. Not only through direct investment via the Scottish Funding Council but indirectly too.

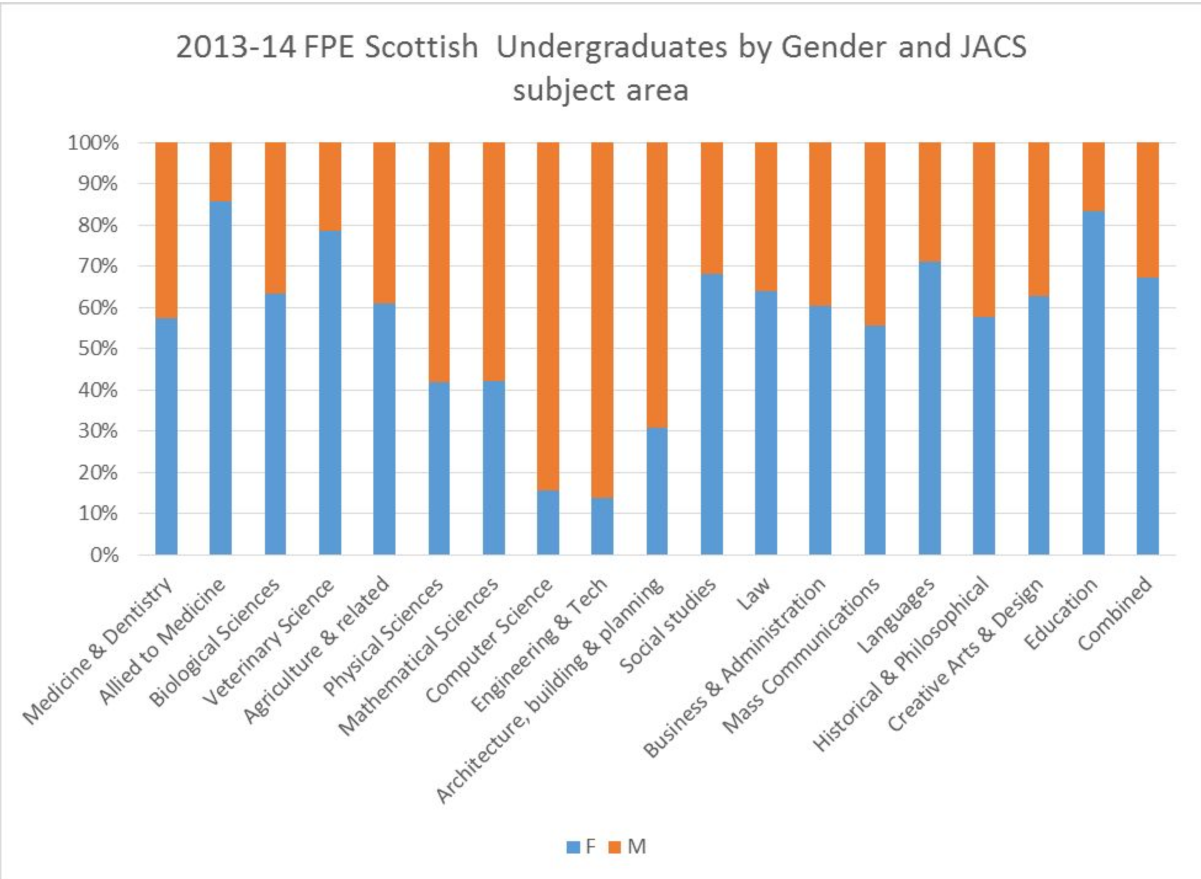
One example is The Centre for Sensor and Imaging Systems in Glasgow, which is developing technology for applications in public transport, street lighting, social housing and defence.

Taken together the centres (which also include Construction Scotland IC, the Digital Health and Care Institute, Industrial Biotechnology IC, Oil and Gas IC, Scottish Aquaculture IC, Stratified Medicine and The Data Lab) constitute very significant levels of funding by the public sector.

The full success of these will be judged by the amount of match funding leveraged from the private sector. Scottish Labour believes that after five years of operation it is timely for a full evaluation of the impact of these Innovation Centres to be undertaken. This will help to identify and roll-out best practice and ensure that jobs, environmental and export opportunities are fully realised.

A robust Industrial Strategy also requires continued investment in Scotland's education system at all levels, to produce a well-educated and technologically advanced workforce. Industry and government need to work better together to ensure we have the right workforce planning arrangements, vocational training and skillsets available. This forward looking planning with industry will avoid all too persistent skill shortages at many levels of industry.

TABLE 5



A thought piece by Universities Scotland on Science, Technology, Engineering and Maths (STEM) Education in Scotland [10] identified that 42% of employers in Scotland prefer STEM-qualified graduates but 22% said they had found difficulty recruiting staff with STEM expertise. There is clearly a need to invest in STEM subjects and to encourage female students to study STEM subjects up to and beyond higher level – they are significantly under-represented as TABLE 5 shows.

Without doubt Scotland's skills shortage is affecting growth. The challenge for government is to match skills with the current and future predicted areas of shortages, to encourage those with transferable skills to find new areas of employment and to create modern apprenticeships which will close the skills gap.

Productivity Gap and the Production Gap

In a recent speech to the Institute for Public Policy Research, Kezia Dugdale set out Scottish Labour's thinking on a post-Brexit Scottish economy.

It included the case for examining the devolution of employment law and health and safety competency from the European Union and the UK to Scotland. This envisages minimum standards being set at a UK level upon which the Scottish Parliament could build if it chose. For instance, the Scottish Parliament could offer a £10 real living wage as Labour has pledged, without waiting for Westminster to do so.

This would also open up the possibility of considering measures like the managed reduction of working time with no loss of earnings, improving health and safety standards, developing a better work-life balance, enhancing equalities legislation and boosting productivity.

Too many people experience long working hours, job monotony, management by stress and over-work. The EU Working Time Directive, a health and safety measure aimed at limiting the length of the working week to 48 hours, is subject to a UK opt-out.

As a result, across the UK there are 3.35 million people working over 48 hours per week - over a quarter of a million of these workers are in Scotland (15.5% of all full-time employees). [11]

With these new powers a UK or Scottish Government could consider ending current opt-outs which fail to deliver on our ambition for an inclusive economy. This would potentially benefit thousands of workers across the country, in particular under-pressure NHS staff.

One of the primary causes of lagging productivity is a lagging investment in plant and technology including automation. The fast rate of technological change and its commercial exploitation mean that businesses which once may have taken two years to get from idea to market, may now take two weeks.

The impact of digital technological developments is being felt in long established sectors of industry as well as newer emergent ones.

Of course automation may bring with it the prospect of jobless growth or job shedding growth. Scottish Labour is committed to full employment and we believe that this should be a guiding principle for the Scottish Government and in turn its agencies. So at the very least we want to halt the decline of manufacturing industry and plan for a job-rich reindustrialisation of the Scottish economy.

It is our firm view that productive capacity and productivity could benefit from an enhanced Scottish Manufacturing Advisory Service (SMAS) which included workforce and trade union engagement in the workplace.

Industrial and productivity growth could also benefit from the encouragement of inter-company collaboration between networks of small and medium size enterprises working with SMAS, where relevant, and Innovation and Catapult Centres where appropriate, to transfer knowledge, research and development.

Marketing, training, product design and finance could be sourced on a co-operative basis along the lines of the successful Modena model which has helped retain and grow the Italian garment industry. The idea of real or virtual industrial clusters is one we support.

There is an important role here for both regional and sectoral institutions and for Chambers of Commerce to promote and maximise the benefits of co-operation and collaboration.

To take one further international example, the Finnish marine engineering cluster is an example of best practice for high levels of inter-company collaboration and of shared development of technology and processes.

Scottish industry would also benefit from greater collaboration and benchmarking of best practice, and an expanded SMAS can be the active agent for this.

Regional Policy

Over the last two decades, regional industrial policy in the United Kingdom has largely been devolved to the nations and regions or centralised at the level of the European Union. The EU referendum result opens up the debate about the future of national and regional policy.

Last year, 2015/16, the Scottish Government only spent £17 million on Regional Selective Assistance to support jobs and industry, as TABLE 6 shows that compares to £57.8 million the year before, £35 million in 2011/12 and £92.4 million in 2006/7, the last time Labour was in power. A renaissance of regional policy built upon investment, including the renewal of the Scottish Investment Bank, is essential.

The SIB's interventions should be designed to help with restructuring, up to and including rescues. Scottish Labour will consider the SIB's investment rules and protocols to ensure taxpayers secure value for their support.

TABLE 6

Regional Selective Assistance Awards Scotland [12]

Year	Regional Selective Assistance Awards
2015-16	£17.1m
2014-15	£57.8m
2013-14	£52.5m
2012-13	£43.3m
2011-12	£35.7m
2010-11	£52.1m
2009-10	£53.4m
2008-09	£52.1m
2007-08	£87.4m
2006-07	£92.4m

Scottish Labour does not see industrial policy as simply a Scottish Government responsibility. Support for industrial restructuring and development can also come through local initiatives with local government given an enhanced role in their local economies alongside, the private sector, trade unions, voluntary and independent sectors working together with national and local economic agencies.

As TABLE 7 on the next page shows, while public investment in Scotland is higher than the UK average, no least as a result of the Barnett Formula, business investment is significantly lower and needs to be boosted. Again the SIB has a big role to play.

TABLE 7

Comparator between UK and Scotland's Business Investment and Gross Fixed Capital Formation [13]

UK (2005 -2016) (£M) UK

Year	Business Investment	Total Gross Fixed Capital Formation	Business Investment as % of GDP	Total as % of GDP
2007	144,485	276,323	9.4%	18.0%
2008	148,786	271,152	9.5%	17.3%
2009	128,385	236,583	8.4%	15.6%
2010	134,719	245,687	8.6%	15.6%
2011	143,635	255,231	8.8%	15.7%
2012	156,247	266,761	9.3%	15.9%
2013	162,326	280,224	9.3%	16.1%
2014	169,254	302,495	9.3%	16.6%
2015	180,163	317,056	9.6%	16.9%
2016	174,548	310,816	9.4%	16.7%

Scotland (2005 -2016) (£M) Scotland

Year	Business Investment	Total Gross Fixed Capital Formation	Business Investment as % of GDP	Total as % of GDP
2007	10,150	21,822	8.3%	17.8%
2008	9,717	20,283	7.7%	16.0%
2009	9,265	19,234	7.4%	15.4%
2010	8,914	20,013	7.1%	16.0%
2011	9,908	20,778	7.7%	16.0%
2012	10,063	20,253	7.6%	15.3%
2013	10,751	22,536	7.7%	16.2%
2014	10,902	23,271	7.6%	16.2%
2015	12,388	26,063	8.5%	17.8%
2016	11,571	26,446	7.7%	17.7%

Public Procurement

The public sector in Scotland spends over £10 billion per annum on public procurement. For too long the priority of public procurement has been cost reduction and cost avoidance, which has led to the outsourcing of goods and services.

The people who pay the real price of this are the workers in these enterprises and those who receive a lower quality of goods or services because price is the driving force behind contract awards.

We believe procurement needs to have – at its core – the duty to create and sustain high quality jobs, improve terms and conditions, produce high quality goods and services, create apprenticeships and pay at least the living wage. The public sector should not be rewarding companies and organisations that engage in blacklisting, operate zero-hours contracts, pay below Living Wage levels and other illegal or immoral employment practices.

As the current system is price-led the opportunity to plan and maximise benefits to local supply chains is often missed. A new approach to procurement post-Brexit is needed which seeks to enhance local jobs, skills and production.

However, intelligence on procurement is poor and statistical data on the Scottish economy is sub-standard. With the existing powers of the Scottish Parliament this is bad enough, with the new powers, especially on taxation, this is wholly unacceptable.

If we are to meet the industrial challenge we face we need reliable, contemporaneous economic evidence in the public domain and much better visibility of supply chains.

We will look again at public procurement and public funding to ensure that companies of sufficient scale, which receive public contracts or support, make firm commitments to jobs, apprenticeships, employment practice, industrial relations, gender pay and maximising the local supply chain. Importantly we want any commitment to be monitored and evaluated.

Data and Digital

Innovation is vital to Scotland's future economic prosperity and social well-being, which is why the data industry has even been described as "Scotland's new oil".

More than 100,000 people currently work in the digital technology sector in Scotland, with 86,000 of those in financial services. Edinburgh is, outside of London, the biggest financial services sector in the UK. Scotland, again outside of London, turns out the most Fintech-related graduates in the UK.

Financial technology – Fintech – is innovation across financial services, such as e-banking, payment technologies, crowdfunding and currencies like Bitcoin. It is transforming our relationship with money. In May, Scotland's first Fintech business accelerator hub was launched at the RBS HQ with the aim of becoming a centre of excellence.

At the heart of the growth in digital tech jobs is a workforce skilled in computer coding. Coding skills gives individuals the ability build websites and see them go live.

The influx in apps and mobile platforms to keep pace with consumer demand means that in years to come, skills in mobile technology are likely to be essential.

So more needs to be done if Scotland is to benefit from any potential opportunities in this area post-Brexit, and to meet the hoped for £20 billion target of the value of data to the economy.

According to Tech Nation 2016, there are 101,397 digital tech economy jobs in Scotland, with figures from CodeClan suggesting 11,000 new positions are being created every year.

In Glasgow alone, demand for professionals trained in mobile technology rose by 75% in 2014.

IT experts have previously warned Scottish businesses may struggle to fill crucial IT roles in the future if the growing digital skills gap is not addressed. As more sectors of the economy embrace new technologies, there has never been a greater demand for experienced computer programmers.

Edinburgh is currently benefiting from the expansion of digital businesses - the data tech sector accounts for one in eight businesses – but it needs to act more as a gateway to the development of an expanded digital tech sector across Scotland. Which means that the government must keep to its pledge of increased digital connectivity throughout the country.

There is no room for complacency as this is a sector which changes rapidly. Scottish Financial Enterprise has already launched a Fintech strategy group and has said there needs to be a network of data tech businesses throughout Scotland.

However, there is a current skills shortage of people able to do this. The establishment of CodeClan, Scotland's first accredited digital skills academy, has created a new opportunity for adults to retrain but more needs to be done in schools and colleges to equip young people for this job marketplace.

A number of councils have already made coding part of the primary curriculum to begin to tackle this issue but much more needs to be done across the education system. And raising the numbers of women in the industry will also be a challenge as recent estimates say men make up 80% of the sector.

The beefing up of the SIB could also ensure investment in new ambitious start-ups in the Fintech and data industries – as many seek capital in London and abroad in order to grow.

Making sure Scotland is ready and equipped for a constantly changing data and digital industry should be at the forefront of any Industrial Strategy. Meeting demand hinges on the fast rollout of next generation broadband, an investment infrastructure and the provision of a highly skilled workforce. The appointment of a dedicated Minister for Innovation is something the Scottish Government should consider.

Automation

The ability for machines to carry out seemingly complex tasks without supervision or input is developing at an exponential rate. There is a growing body of evidence that we are approaching another industrial revolution and developments in a number of different but associated technologies are converging to make automation possible in activities and industries that hitherto have been exclusively the domain of skilled workers.

Furthermore, the digitisation of the economy whereby the value of a product is increasingly derived from the software and code involved rather than the physical cost of manufacturing the product presents both a challenge and an opportunity. For example, a typical premium-class car has as many as 100 microprocessors and operates on more than 100 million lines of software code—more than it takes to fly a fighter jet. Our research shows that the cost of electronic parts as a percentage of the total vehicle cost is expected to rise to 40% in 2015, compared with 20 percent in 2004. [14]

The challenge for Labour is to ensure that working people benefit from this industrial revolution.

Technology allows more efficient, effective methods of producing and delivering existing and new products and services. It will also allow our society to become less dependent on “time as work” and more on “output as work” releasing workers to enjoy and participate more in family and community life.

We need to ensure our economy and our people are equipped to maximise the benefits technology brings. The opportunities and the threats are fundamental to the way society considers work itself. Our challenge is to ensure the lives of working people are improved and they gain more not less control over their time and incomes.

Rebalancing the economy

In our view too much economic power rests in too few hands. Scottish Labour wants to see a rebalancing of the economy with more investment for the sustainable development of our economic base. We also want to see more inclusive decision-making.

Sectoral bargaining and planning in key parts of the economy make sense. There are some existing structures which could be developed from the Agricultural Wages Board model to the Sector Skills Councils and industry leadership groups of Skills Development Scotland. A balance of larger employers, SMEs, trade unions augmented by appropriate educational interests could give a sectoral approach great impetus and the right focus.

Scottish Labour would consider placing Co-operative Development Scotland (CDS) on a statutory footing with the instruments of investment needed to grow the co-operative option: particularly employee-owned businesses. We will also investigate the possibility of introducing an enhanced “Marcora Law” which would enable workers the right to buy an enterprise when it is up for sale, threatened with closure.

Much as with the Land Reform Act, a public common good fund could be developed. This would provide a major boost to the co-operative ownership option in Scotland which, despite being the place where the Fenwick weavers started it all, and is where Robert Owen wrote “A New View of Society” today has a lamentably small worker-co-operative sector.

CDS is active in developing succession plans for owners looking to exit their businesses and we should consider promoting employee ownership as a desirable choice that does not destroy value.

The introduction of legislative, investment and technical assistance for this would help even in a small way to stem the loss of local ownership and local jobs by anchoring business in their local community.

In all of this better planning and rebalancing of the economy, the injustice of gender inequality must also be addressed. Women are further away from economic decision making, are still are on the wrong side of a persistent gender pay gap and are under represented both in the public and corporate realm. Support for women in enterprise is still weak, and this will need to be given a new priority if the economy is to deliver for all.

Labour established the Highlands and Islands Development Board and later the Scottish Development Agency. We support a properly resourced and locally controlled Highlands and Islands Enterprise, and can see the merit in establishing an agency with the same social duty in the South of Scotland.

The underfunding of Scottish Enterprise and Highlands and Islands Enterprise over the last decade remains a source of deep concern. At the very point when the economy has been depressed by the impact of the global financial crash and now faces further challenges as a result of Brexit these agencies need more power and resources not less. Jobs and the economy are Labour's first priority in our approach to Brexit.

Towards Sustainable Development

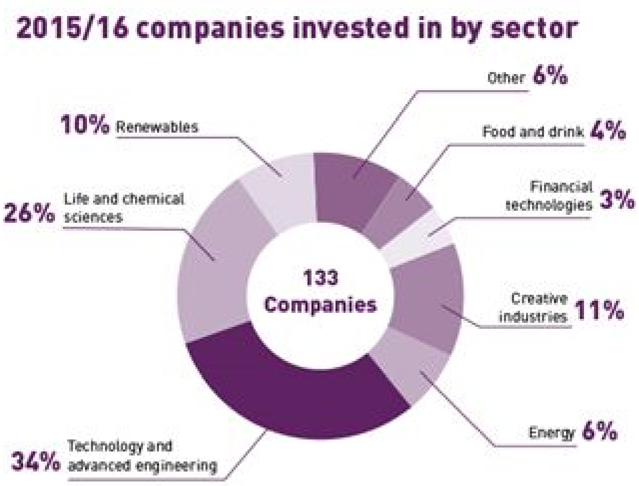
We have known for many years there would be growth in renewable energy generation. But typically, onshore wind farms constructed and operational right across Scotland over the past 20 years, have been supplied using technology, manufacturing capacity, and even labour, sourced overseas.

The opportunity to build up local supply chains has been squandered. We need to better understand the demands of the future economy – where growth will come from and respond accordingly by investing in education and training, research and development and manufacturing capacity on a planned basis.

Scottish Labour has the vision that Scotland could become the "green enterprise centre" of Europe. That includes the planned development of oil and gas decommissioning technology and production: onshore and offshore. It means considering how the burgeoning market for low emission vehicles can be met – including public transport.

As CHART 1 illustrates the SIBs investment in renewables – at £9.85 million in five community and five marine renewable projects [16] demonstrates the need for a dramatic uplift in indigenous investment support for renewable energy projects if Scotland is to be serious about our ambitions in this area. But there is another challenge.

CHART 1 SIB investment in companies by sector Annual Review 2016 [15]



The European Investment Bank has invested in some of the larger renewable energy projects in Scotland. With the UK's departure from the EU, access to this investment fund may be at risk.

Similarly, the wrong-headed Conservative government proposal to privatise the Edinburgh-based Green Investment Bank may also impair access to investment funding: albeit that there have been complaints that the Bank has not closed the investment gap for smaller green companies.

These changes point to further reasons why the Scottish Investment Bank must be expanded. So that it can be flexible in supporting SMEs as well as larger companies, taking equities in Scottish industry and business particularly those which represent the green and hi-tech industries of the future.

Conclusion

Neither the Conservatives nor the SNP have a coherent Industrial Strategy. As a result, Scotland's economy is declining. Closures continue. Research is undertaken but development opportunities and in turn production, and the jobs that it could generate, are lost.

Targeted industrial and fiscal policies will stimulate investment, innovation and jobs in public and commercial services and manufacturing supply chains. We need an economy in which proactive government is seen as a supporter of sustainable industrial development, not a brake upon it. Public as well as private enterprise has a part to play in building a full employment society and nourishing and so developing our industrial base. Scottish Labour will work in partnership with all interested in growing our economy.

Decline and deindustrialisation is not inevitable. We must act to support the re-industrialisation of Scotland. It must extend beyond defensive interventions, and more importantly, equip people with skills; equip our industries with innovation; and encourage investment, to adapt to a fast changing and increasingly interdependent world.

For instance, a software development and coding apprenticeship path needs developed to help Scotland's young people get the skills they need. Barriers preventing young people, especially girls, from entering science, technology, engineering and mathematics studies and careers, must be removed. We need to inspire a new generation of world-leading scientists and innovators to give our country the skills we all need to succeed.

The Scottish Government already has the powers to set Scotland on a different course to steer an effective industrial policy with a strategy that gives us the best chance possible of being at the cutting edge of the fourth industrial revolution: creating new industrial jobs, supporting local firms, boosting new production and raising productivity.

We need a Scottish Government with a plan for jobs and economic development, instead of one which sits back and leaves it entirely to the market. It is time for real change.

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