SUBMISSION FROM THE STUC

1 Introduction

1.1 It is highly unlikely that the economy will recover to any significant extent during Budget year 2013-2014. Most forecasts predict that growth will return in 2013 but not at a rate consistent with a substantial fall in unemployment. A range of domestic (fiscal consolidation, growing economic insecurity, falling real wages and household income, weak business and consumer confidence etc) and international factors (on-going problems in Eurozone, weakness in developing nations, potential for recession in US etc) will continue to combine to ensure that GDP and employment growth remain very weak. It is sobering to reflect that over four years since the start of the recession total output remains well below its pre-recession peak; manufacturing, construction and exports are not even close to achieving pre-recession levels.

1.2 The latest labour market and GDP statistics provide little cause for optimism:

- The Scottish economy contracted by 0.4% in the 2nd quarter of 2012 thereby extending the recession into its third quarter. The Scottish economy has contracted in 9 out of the last 16 quarters;
- The latest contraction was partially attributable to a decline of 2.2% in manufacturing. With growth of 1.9% in business and financial services there is little sign of the much vaunted ‘rebalancing’;
- Scottish unemployment rose by 7,000 to 222,000 in the three months to August 2012. Whilst clearly rising unemployment is worrying in and of itself, the STUC has consistently stressed throughout the course of the current slump that the headline unemployment statistics do not begin to tell the full story of what is happening in the labour market: full-time jobs have fallen by 100,000 and many of those that have been replaced at all, are now part-time and/or temporary insecure jobs. The Scottish Government estimates that over 240,000 people are ‘underemployed’ i.e. unable to work the hours they need in part-time or full-time jobs;
- Although the latest statistics show a welcome fall in the claimant count, youth unemployment remains much too high and, most worryingly, very long-term youth unemployment (18-24 year olds claiming JSA for over a year) continues to rise at a considerable pace – over 5% in the year to August 2012.

2 Scottish Budget

2.1 With the economy and labour market so fragile, it is important to be realistic about the potential of the Scottish Budget to boost growth *in the short-term*. The STUC believes that both the Scottish Government and its political opponents have been guilty of exaggerating the possibilities in this regard. Yes, it is important that measures are implemented that keep people in jobs and lead to new jobs being created but with monetary policy at the limits of its effectiveness, rapid fiscal consolidation and firms on investment strike, Scottish Government measures are unlikely to be hugely effective.

3 Areas of interest to the Committee

Whether the 2013-14 budget and the 3 year spending review contributes to sustainable economic growth within the next year and supports structural change in the long term?

3.1 It is not clear what is meant by ‘structural change’ in this context. Structural change could refer to many things: privatisation, deregulation, sectoral shifts (i.e. the ‘rebalancing’ from finance to manufacturing referred to above or the deliberate running down of polluting sectors for environmental reasons) leading to skills obsolescence/new skill demands, long-term spending reductions, growing the private sector as a proportion of all economic activity, growing the proportion of economic activity accounted for by SMEs etc.

3.2 Leaving aside the necessity for, or desirability of, structural change in the Scottish economy, it is not immediately clear that the Scottish Budget has a significant role to play in facilitating or supporting such change. Some structural change will inevitably result from global economic pressures and it may be that the Scottish Government’s main role is to plan for and react to this change (whilst hopefully trying to influence some of the less benign consequences of the global economy) rather than ‘supporting’ it.

3.3 In terms of the sectoral composition of the Scottish economy, significant reductions in DEL’s suggest a diminishing share of economic activity accounted for by the devolved state. However, the scale of the impact on total public spending to GDP ratio is uncertain: private sector activity is very weak and could remain so for some time and the share of reserved public spending will continue to be inflated by debt interest payments and the costs of paying for high unemployment.

3.4 We return below to whether the Budget is consistent with the Scottish Government’s Economic Strategy which at least in part promotes growth in sectors where Scotland is adjudged to have comparative advantage.

Whether and how the resources allocated in the Economy, Energy and Tourism Budget line will be applied effectively to assist economic recovery and long-term growth?

3.5 The STUC does not believe that the resources allocated in the EET Budget line can credibly be regarded as tools to boost economic recovery at this time. Indeed, it is probably damaging to conceive of them in this way. Yes, effective organisations such as Scottish Enterprise and HIE will always have an important role to play in supporting growing businesses but it is important that crucial longer-term investments are not threatened by switching resources to short-term measures of dubious value.

3.6 The STUC is convinced that the UK Coalition Government’s decision to scrap England’s Regional Development Agencies has benefitted Scotland significantly. Our discussions with colleagues in Scottish Government and its agencies and perhaps more importantly with our colleagues in the TUC’s regional offices lead us to conclude that inward investment in England has suffered greatly and that Scotland has been handed a discernible competitive advantage. The latest inward investment statistics seem to prove the point.

3.7 Therefore, at a time when the benefits of a properly resourced, effective enterprise network should be apparent to all, the STUC is concerned by the potential impact of:

- Real terms budget cuts for the enterprise bodies between now and 2014-15;
- Significant real terms budget cuts in the innovation and industries budget – cuts that will be implemented as research increasingly emphasises the crucial role of public support for innovation;
- The very significant efficiency savings being demanded of the Strategic Forum partners. The STUC 's main concern here is that the type of efficiency savings proposed in the Budget (greater collaboration and alignment, integrating and streamlining back-office and corporate services) will simply not be achievable. Pressure may therefore build to cut crucial employment enhancing investments.

3.8 As discussed with the Committee last year, the STUC believes the substantial spend currently allocated to the Small Business Bonus scheme would be much more effectively spent on effective business support for growing firms or innovation support mechanisms. Reallocating this spend to help address Scotland's most enduring structural failure – the failure of the financial sector to support growing, innovative businesses with patient, committed capital – would provide the greatest long term benefit.

Whether spending decisions within the economy, energy and tourism portfolio aligns with the Scottish Government's overarching purpose of increasing sustainable economic growth?

3.9 It is reasonable that the energy, as a key area of potential employment growth, should receive additional resources. However, again, it is worrying that wider business support activities – innovation and provision of patient capital – may well suffer as a result.

Consider what progress the Scottish Government is making in delivering its overarching purpose through its spending decisions with reference to the National Performance Framework (NPF) with specific regard to the economic growth, productivity, solidarity and sustainability purpose targets?

3.10 It is important to acknowledge the limits of the Scottish Government's ability to affect the targets below (which raises some questions about the wisdom of setting some of these targets in the first place). In an economy suffering a crisis of aggregate demand, a government that does not control macroeconomic policy or have the ability to deficit spend will only be able to affect the level of economic activity and employment at the margins.

To take the targets in turn:

- ***Sustainable Economic Growth*** *- To match the growth rate of the small independent EU countries by 2017*

The STUC was never convinced that this target was appropriate or based on a sound appraisal of economic potential in Scotland and other nations. It is entirely possible that this target will be achieved through growth collapsing in some of these other nations rather than a sustainable and substantial improvement in Scotland's long-term growth rate.

- ***Productivity*** *- To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017*

While raising the rate of productivity is a very legitimate aspiration, the timescale is very challenging given the long-term nature of many of the investments required to make a difference. The STUC is also continually exasperated by the narrow nature of the debate around productivity which eschews any consideration of how people are managed in the workplace.

Productivity has collapsed across the UK during the current slump; a consequence of the scale of the fall in output not being matched by a rise in unemployment. The positive view is that by keeping people in jobs current and future costs will be reduced. A more negative view is that many insecure jobs in low wage, low productivity sectors are being created with related consequences for the Scottish Government's target (as well as potentially profound impacts on individuals, families and communities).

- ***Solidarity*** *- To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017*

Given the importance of benefits and tax credits to the three lowest income deciles the prospects for achieving this target do not look encouraging. This is clearly not the fault of the Scottish Government and it is difficult to see how the Scottish Budget could make a tangible difference at time when Fraser of Allander estimate that £2bn will be stripped from the Scottish economy in benefit cuts alone by 2015.

- ***Cohesion*** *- To narrow the gap in participation between Scotland's best and worst performing regions by 2017*

The STUC has not managed to complete a proper analysis with reference to employment and ILO unemployment and inactivity rates. However, the claimant count, which is more accurate and up to date does suggest that the slump has only further embedded regional inequalities. A table showing the position at the start of the recession and again in August this year is attached at Annex A. It shows that the worst performing areas (highest claimant count) in 2008 remain the worst performing areas now although other areas have registered steeper increases in the claimant count.

- ***Sustainability*** *- To reduce Greenhouse Gas emissions by 80 per cent by 2050*

The STUC supports this important and stretching target and was therefore surprised to hear the Cabinet Secretary frame his Budget announcement as supporting the 'relentless pursuit of economic growth'. It is difficult to reconcile this target with such a narrow view of economic development. The STUC's scepticism is increased by the Scottish Government's proposal in the Better Regulation Bill to hand environmental (and other) regulators a statutory duty to 'promote economic growth' alongside their core function.

Clearly meeting this target demands significant structural change in the Scottish economy. It is not clear how this Budget or spending review or indeed the policy framework supports such a shift.

Planned expenditure on renewable energy and fuel poverty and the impact of this expenditure on meeting the Climate Change (Scotland) Act 2009 targets

3.11 As mentioned above it is appropriate that energy receives additional resources for both economic development and environmental reasons. Realising Scotland's potential in renewables will create quality jobs – hopefully a significant number will be in fragile peripheral economies in Western isles, Caithness etc – provide export opportunities and contribute to emissions reduction. However, much more is required to address fuel poverty and meet the Climate Change targets; major modal shift in transport is but one factor.

The impact of the 2013-14 budget and the 3 year spending review allocations within the economy, energy and tourism portfolio on tackling poverty.

3.12 The links between this spend and tackling poverty are not exactly made obvious in the Budget; indeed, there is still some distance to travel if the Scottish Government's economic growth and poverty strategies are to be properly aligned. One example, is the claim made in the 'Supporting Recovery and Delivering Sustainable Growth' paper published in September 2012 which states:

> *"the Procurement Reform Bill…will ensure that community benefit clauses are included in all new major public sector contracts and that public contracts do more to boost jobs and the Scottish economy*".

3.13 Unfortunately, the consultation on the Bill, which closes in November, proposes nothing of the kind. Instead, on community benefit clauses, it offers only the very weak proposal,

> *"To ensure that public procurement spending supports the creation of new training and employment opportunities, we propose to make it a requirement that those awarding major contracts must consider including community benefits clauses and publish, with the contract notice, a statement of their approach to delivering these benefits through the contract or the reason why the contract is not considered suitable for inclusion of community benefit clauses".*

3.14 The STUC has argued for some time that there is a fundamental disconnect within an economic strategy that aims to reconcile what is euphemistically called a ‘supportive business environment’ with laudable social objectives. Unfortunately, this draft Budget is not the first document to sidestep the difficult decisions and trade-offs (between business and collective prosperity, between growth and sustainability, between profit and wages etc) inherent in such a strategy.

STUC
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Annex A

The figures below are a breakdown of Local Authority of those claiming benefits in March 2008 compared to those claiming in August 2012

local authority	March 2008 number	rate	August 2012 number	rate	% increase 08-12
Aberdeen City	1,680	1.2	3,381	2.2	101.3
Aberdeenshire	1,143	0.7	2,142	1.3	87.4
Angus	1,234	1.8	2,413	3.5	95.5
Argyll and Bute	1,202	2.1	1,740	3.1	44.8
Clackmannanshire	822	2.5	1,812	5.5	120.4
Dumfries & Galloway	2,038	2.2	3,454	3.8	69.5
Dundee City	3,298	3.5	6,140	6.5	86.2
East Ayrshire	2,523	3.2	5,007	6.4	98.5
East Dunbartonshire	881	1.3	1,811	2.7	105.6
East Lothian	702	1.2	1,963	3.2	179.6
East Renfrewshire	609	1.1	1,402	2.5	130.2
Edinburgh, City of	5,544	1.7	11,383	3.3	105.3
Eilean Siar	385	2.4	525	3.3	36.4
Falkirk	2,088	2.1	4,570	4.6	118.9
Fife	6,246	2.7	11,149	4.7	78.5
Glasgow City	14,290	3.5	25,261	6.1	76.8
Highland	2,419	1.7	3,788	2.7	56.6
Inverclyde	1,891	3.6	3,021	5.9	59.8
Midlothian	851	1.6	2,174	4.2	155.5
Moray	1,040	1.9	1,398	2.5	34.4
North Ayrshire	3,305	3.8	6,031	7.0	82.5
North Lanarkshire	5,292	2.5	12,491	5.8	136.0
Orkney Islands	115	0.9	183	1.4	59.1
Perth and Kinross	1,008	1.1	2,214	2.4	119.6
Renfrewshire	2,653	2.4	5,585	5.0	110.5
Scottish Borders	954	1.4	2,099	3.0	120.0
Shetland Islands	128	0.9	215	1.5	68.0
South Ayrshire	1,697	2.4	3,169	6	86.7
South Lanarkshire	3,970	2.0	9,513	4.7	139.6
Stirling	882	1.5	1,968	3.4	123.1
West Dunbartonshire	2,025	3.4	3,855	6.5	90.4
West Lothian	2,334	2.1	4,385	3.9	87.9
Scotland	75,249	2.2	146,242	4.3	94.3