What is the outlook for the Scottish economy over the next three years and what are the major risks?

The Scottish economy officially left recession in the last quarter of 2009 and yet, two years later, there is still little prospect of a sustainable demand led recovery taking root anytime soon. The STUC’s assessment is that, over the next three years, the Scottish economy is likely to stagnate with unemployment remaining high.

**Growth:** The Scottish economy grew by just 0.1% over Q2 2011, the last quarter under report. Cumulative Scottish GDP growth over the last 4 quarters (0.5%, -0.6%, 0.2% & 0.1%) has been just 0.2%; far below the level necessary to keep employment steady let alone eat into the growing numbers of long-term unemployed in Scotland. Current research suggests that it will be 2015 before UK GDP returns to its pre-crisis level.

The factors conflating to ensure that growth is highly likely to remain well below trend over this period include: public spending cuts, falling household incomes/weak consumer confidence, business investment well below OBR estimates (this is not just a result of the Eurozone crisis – also attributable to spare capacity, a lack of bank finance and a shortage of profitable investment opportunities), weakness in key export markets and continuing weakness/uncertainty in the global economy.

**Employment:** much has been made of 1) the low levels of unemployment since the recession relative to what might have been anticipated given the fall in output; and 2) the performance of the Scottish labour market relative to the rest of the UK.

The debate on the first point will continue but the most convincing explanation is that employers have been able to retain generally acceptable levels of profitability and therefore are less likely to make staff redundant. On the second point, the STUC has throughout the recession and beyond focused on the absolute state of the Scottish labour market rather than comparisons with the rest of the UK. This was true when performance in Scotland poor relative to the rest of the UK (l2009/10) and remains the case now.

The fact of the matter is that the Scottish labour market is not performing well. Key negative trends include:

- **Underemployment:** the great untold story of the recession and its aftermath is the rise in ‘underemployment’ – people working part-time when they desire and need full-time jobs. The Scottish Government recently estimated that 190,500 people in Scotland were underemployed at the end of 2010;

- **Youth unemployment** which continues to hover around 20%;
• **Women’s unemployment**: there has been a rise in female JSA claimants of 20% over the past year compared to 2% amongst male claimants as public sector job losses and welfare reform measures take their toll;

• **Long-term unemployment**: long-term unemployment continues to edge up across all age groups in Scotland. The longer the economy stagnates, the greater the increase in ‘structural’ unemployment.

The STUC recently published a measure of **Scotland’s full-time employment deficit** which estimates the number of people looking for full-time work (unemployed, underemployed and ‘economically inactive looking for work’) to be around 470,000 or a rate of 17.25%. There are currently 10 JSA claimants for every full time JC+ notified vacancy in Scotland; the ratio is much higher in some local authority areas.

**Has Scottish Government adopted the most appropriate priorities in this budget for the year ahead and over the period to 2015 – particularly in the division of resources between social programmes and investment in education and infrastructure?**

The STUC appreciates that hard decisions and trade-offs were always going to be necessary in a spending review rendered especially difficult by the UK Government’s dangerously irresponsible austerity programme. There is much in the Budget that the STUC can endorse: the ongoing commitment to no compulsory redundancies, the Public Health Levy, the focus on capital investment and the switch to preventative spending.

However, although the STUC accepts that difficult decisions had to be made, we are disappointed at the poor choices made by the Scottish Government in some areas. Once again significant sums will be wasted on the Small Business Bonus Scheme; scarce resources which could have a much greater impact in other areas such as funding for the Scottish Investment Bank or broadband infrastructure. The regressive Council Tax freeze continues to provoke job losses and service cuts and is singularly ineffective as an economic stimulus. There is nothing in this Budget to assist hard pressed public sector workers currently suffering from pay freezes and increased pensions contributions.

The STUC is unsure what the Committee means by ‘social programmes’ in the Scottish context. In the current circumstances, the Scottish Government is correct to act creatively in funding infrastructure but the significant cut in further education budgets is a concern.

**The budgets of the Enterprise Agencies have enjoyed some degree of protection – is this appropriate and how should the Enterprise Agencies focus their resources to promote recovery and growth?**

It is important emphasise that the enterprise agencies cannot ‘promote recovery’ to any meaningful extent and their actions and investments are only one among many factors contributing to long-term growth. The economy is facing a serious deficiency
in aggregate demand; a deficiency manifested in high unemployment and the failure of the economy to return to anything approaching pre-recession levels of output. In liquidity trap conditions, the massive monetary response to crisis – interest rates at 0.5% for over two years and two rounds of quantitative easing eventually totalling £275bn - has had, as many predicted, very limited success. The STUC believes that if years of stagnation with all the associated human misery and economic waste are to be avoided, a strong fiscal response at UK level is necessary to supplement the on-going monetary intervention.

Scotland’s economic development institutions have often suffered from hugely unrealistic expectations as to their ability to influence the economy in the short to medium term. Not only are SE and HIE unable to influence short-run growth, it is important to note that the necessary fiscal and monetary levers reside only at UK level with the Treasury and Bank of England respectively.

The STUC supports protection of SE and HIE’s budgets in this spending review and broadly supports the plans presented in the submissions of both organisations to the Committee. Both have already lost a considerable amount of resources over the past few years and we would be seriously concerned if their budgets were to be reduced further. The STUC strongly believes that the type of investments made by SE and HIE in renewables, growing companies, innovation, workforce development and internationalisation are vitally important to long run sustainable growth in Scotland.

Resources for Renewable Energy projects to be spent through SE and HIE have been substantially increased – how can these resources be most effectively deployed?

Close collaboration between the Scottish Energy Advisory Board, the Scottish Government, enterprise agencies, SDS and others has created a positive environment for major energy investment. Scottish Enterprise’s submission helpfully maps out recent successes.

The STUC believes that support provided by the enterprise agencies should continue to be guided by the National Renewables Infrastructure Plan (N-RIP) and it is encouraging that SE is reiterating that a key criteria for approval of allocations is the ‘impact that the project will make on the development of a Scottish based manufacturing supply chain for the offshore wind sector’. A key objective of renewables development must be to increase the level of manufacturing output and employment across Scotland.

However, the scale of job creation in some of Scotland’s fragile remote regional economies – for instance Caithness and the Western Isles – has been disappointing to date. Improving local infrastructure, such as stage 2 at Scrabster harbour, will be essential in ensuring that jobs flow to areas where the need is greatest. Investments in skills such as the recently opened engineering facility at North Highland College are also essential. Embedding strong local supply chains has to remain a key priority of this work.
Resources available to VisitScotland have been increased – is this appropriate and how should they be applied?

The Tourism sector is correctly identified as a priority sector in the Government Economic Strategy and it is therefore appropriate that it is supported as such. The STUC would strongly recommend that additional resources are devoted to improving the quality and sustainability of employment in the sector. Tourism has hardly been an exemplar in areas such as pay, job security and career progression, skills investment, employee engagement and leadership and management.

This sector, through the Scottish Tourism Group, does not currently engage with its workforce. Clearly, ‘leaders’ within this industry believe that the development and implementation of strategy is something that is done to workers rather than something over which workers should feel a sense of ownership and common purpose.

Will the continued reduction in spending on social housing investment frustrate attempts to reduce fuel poverty by slowing the rate of improvement in the housing stock?

Yes. Improving Scotland’s housing stock is an efficient way in which to tackle fuel poverty and also helps to meet a number of other important social objectives such as creating jobs and improving the stock of skills.

How will fuel poverty be affected by increased reliance on relatively expensive renewable energy?

The way this question is posed risks missing the point: the way the electricity market is currently organised inevitably leads to poor social outcomes. The market has failed to deliver sufficient investment in generating capacity or affordable supplies to the consumer. The tendency of the regulator Ofgem to regulate on the basis of narrow economic efficiency has hardly helped.

Massive investment is required to replace ageing capacity and, as things are currently organised, the cost will inevitably be shouldered by the consumer. Bills will rise whether the new investment is in renewables, nuclear or cleaner coal. Therefore, blaming renewables for increasing fuel poverty is erroneous.

Business rates are to be increased in line with inflation – will this represent an increased burden on business and will it affect business performance in general and how will the tobacco and alcohol levy affect the retail sector in particular?

The STUC has, for some years now, been exasperated by the public debate on business taxation. Any new taxation measure is inevitably labelled a ‘burden on business’ by employer organisations and too many media commentators. None appear willing or able to engage in a mature debate about the taxation framework in Scotland or the UK.
The STUC considers the Public Health Levy to be a reasonable and proportionate measure to raise revenue at a time when the block grant is being cut. We have already heard many arguments against the Levy but none of them are convincing.

In debates such as these, sometimes it is necessary to state the obvious: retail is not exposed to foreign competition. Yes, it is possible if extremely unlikely that large retailers might decide not to invest in Scotland if they decide the Levy’s impact on profitability is too great. However, that consumer demand would still have to be satisfied. In this context it is worth remembering that Waitrose and Sainsbury’s both announced major investments in Scotland last year during a period when the 2011-12 Budget included measures to tax large retail properties at a higher rate.

One STUC affiliated trade union has reserved its position on the Levy until the detail has been published.

*It is assumed that over the period to 2015 economic growth will deliver significantly increased rates income. Is this realistic in the light of economic prospects?*

For the reasons outlined at the start of this submission, the STUC believes that the Scottish Government’s projections on economic growth are optimistic. However, we agree with the Scottish Government’s view that inflation will fall – potentially significantly – over this period.

*What are the implications of the shift of some £200m pa in revenue spend to capital – both for investment and services and for economic growth?*

Whilst it is a reasonable aspiration to boost capital spending at this moment in time, it is impossible to answer this question without being in full possession of the detail. There is unlikely to be an impact on short-term growth given that demand is being shifted rather than increased; the impact on long-term growth will depend on the quality of the capital investment.

STUC
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