DRAFT BUDGET 2014-15

SUBMISSION FROM THE STUC

Introduction

Official data have confirmed an improvement in GDP growth over the first half of 2013 with surveys indicating that growth for the year is likely to be significantly above OBR forecast. Latest statistics also confirm an improvement in the Scottish labour market through 2013 with survey returns suggesting that this is likely to persist for the remainder of the year.

The STUC is sceptical about the extent, nature and sustainability of this nascent recovery. Little progress has been made in delivering the UK Coalition Government's plans for 'rebalancing' (in both regional and sectoral terms). Growth is being driven by the consumer and a falling savings ratio not, as was anticipated, business investment and net exports. While real wages continue to fall at a rate unprecedented in the modern era, people are borrowing more to maintain their current standard of living. There seems little prospect of stronger GDP growth feeding through into rising living standards in the short term.

In this context, the STUC would stress once again the need to be realistic about what the Scottish Budget 2014-15 might achieve in terms of supporting economic recovery.

Current state of the economy and labour market

This submission will not dwell on recent growth data which will be familiar to members of the Committee. Suffice to say that the Scottish economy grew at a rate above that for the UK as a whole in Q3 2012 and Q1 2013 and for the year to Q1 as a whole. It should however be stressed that output in Scotland has not even recovered its pre-recession level. Despite optimistic assessments of recent quarterly data the same is true for exports. Business investment is nowhere near recovering pre-recession levels. It must also be remembered that the UK's recovery is weak in both historical and comparative terms.

The casual observer could be forgiven for thinking that the labour market is recovering rapidly given that the political response to the monthly ONS statistics revolves almost exclusively around headline employment and unemployment rates and levels. This is simply not the case.

A full five years after the start of the recession:

- Scotland's current employment rate is still 4.7% below its pre-recession peak and only 1.7% above the trough of summer 2010;
- Scotland's unemployment rate remains 3.2% higher than the low of summer 2008 and only 1.7% below the peak of summer 2010;
- In July 2013, the claimant count remained 83% above its pre-recession level;

- The latest credible (2013 Q1) estimate for the underemployment rate in Scotland is 9%;
- Very long-term unemployment (as measured by those claiming JSA for over two years) continues to rise at a rapid rate; 78% in year to July;
- Latest official data show that there are now 127,000 fewer full-time jobs in Scotland than before the recession (a decline of 6.7%) and 63,000 more part-time jobs (an increase of 10.1%);
- Since 2008 there has been an 11.4% increase in self-employment with evidence suggesting the new cohort of self-employed are working fewer hours and earning less;
- Youth unemployment remains stubbornly high: the ILO unemployment rate for 16-24 year olds of 20.5% fell by only 0.9% in the year to March 2013; and,
- Women continue to be disproportionately affected by current trends: in the year to Apr-June 2013 male unemployment fell by 12.9%; female employment by only 1%.

Perhaps the most important statistics in terms of gauging the strength of the recovery is the fall in real wages: 8.1% since 2009. Whilst this helps to explain both the higher than anticipated levels of both employment and underemployment, it also emphasises that a recovery currently founded on a falling savings ratio is very likely to run out of steam.

One of the Committee's areas of interest is whether job gains in the private sector are compensating for job losses in the public sector. Answering this question depends on the period under consideration (since start of recession? last year under report?) and what is mean by 'compensating' in this context.

The latest reliable figures show that for the year to Q1 2013, private sector job gains (over 60,000) comfortably outstripped public sector jobs losses (8,300). However, this is the only recent period where this was the case. It is more illuminating to consider the changes over a longer period:

- From its peak in 2009, public sector employment (excluding financial institutions) has fallen by 52,000 or 8.6%. Full-time equivalent employment has fallen by 51,300 to 499,500;
- From its peak in 2008, private sector employment (including financial institutions) has fallen by 5,000 or 0.3%.

So in terms of total jobs it is clear that private sector job growth has not compensated for the loss of public sector jobs although the lag between the public/private jobs figures (2013 Q1) and the Labour Force Survey (latest figures Apr-June 2013) should be noted.

Of course, the headline jobs figures do not reveal the full picture: if private sector job gains fully compensated for loss of public sector jobs then the new jobs created would be similar in terms of hours, wages, pensions and terms and conditions. All the indications are that this is simply not happening.

Committee Questions

How has the Scottish Government's budget over the years 2012-13 and 2013-14 supported these core areas of interest?
Given prevailing macroeconomic circumstances – especially the rapid and deep fiscal consolidation being pursued at UK level - the STUC has consistently registered scepticism over the ability of the Scottish Government to influence growth and employment over this period.

As STUC argued in its submission to the Committee last year…*'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*'.

The STUC shares very similar 'areas of interest' to the Committee and believes that the Scottish Government should be doing all it can to, for instance, improve access to finance and pursue procurement reform in ways that genuinely support long-term economic development. However, given pressure on resources, it is important once again to be realistic about what might be achieved regarding access to finance. Improving the economic impact of public procurement is not fundamentally about more resources although additional investment in professional skills will be necessary.

The STUC has voiced concerns to the Committee about the contradictions inherent in the Scottish Government's strategy and target regime. For instance we argued in last year's submission 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'*. We would anticipate next year's budget again sidestepping 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.

What progress has the Scottish Government made in delivering its overarching purpose - focus Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth - through its spending decisions over the last two years and in relation to NPF targets and indicators?
As per above response, the impact of the Scottish Government's spending decisions will have exerted marginal impact on the rate of economic growth in Scotland over the past two years.

The situation with regard to individual targets and indicators is more complex: again, it is unlikely that the purpose targets will have been affected to any significant extent. Some progress may have been made towards specific national indicators although it is likely that areas where the Scottish Government may have achieved some progress will have been undermined by other factors e.g. progress towards 'improving the skill profile of the population' may have been achieved through, for instance, investment in MA's. But any progress will be limited as the skills of the long-term unemployed atrophy and structural changes increase the number of low skilled jobs.

Is the NPF an effective method of measuring performance and are sufficient resources being allocated to track progress against the targets and indicators?
Although comfortable with the general approach provided by the NPF and appreciative of the Scottish Government's ongoing commitment to improving its design, the STUC does have some concerns:

- <u>Purpose targets</u>: as we argued in our submission to the Committee last year, there are pros and cons to setting such ambitious purpose targets. Whilst it is good to be ambitious about the future of the Scottish economy the fact of the matter is that meeting these targets will depend more on the state of the global economy than any policy implemented at national level. Even if we accept that national governments can affect long-run growth through policy (and this is highly contentious), doing so in a small open economy like Scotland over the target timescales is near impossible.

- <u>National indicators</u>: these are partial and incomplete and some have little practical relevance. Some are contradictory. For instance it is wrong to assume that increasing the number of businesses will have the impact on growth, productivity and innovation assumed in the NPF. Indeed, it is reasonable to argue that achieving progress towards this indicator might have precisely the opposite effect.

  Similarly, whilst the STUC has long argued that a rise in net exports would be good for the economy, the target associated with this indicator is, to put it mildly, optimistic. The low level of exports is more to do with industrial structure than a failure of Government to support exporting firms. Setting targets that have little credibility hardly helps goals to be realised.

  Given the impact on individuals is well evidenced, it is surprising and disappointing that no indicator is included that refers in any way to the quality of employment. Much work has been undertaken at home and abroad which could be built on in this regard.

- <u>National outcomes</u>: on outcome does refer to 'more and better jobs' but the analysis of the influences on this outcome and Government's role in improving matter verges on the puerile.

- <u>Measuring progress</u>: the measurement regime, while understandably designed to emphasise progress, lacks sophistication and credibility. For instance, the ‘increasing the number of businesses’ indicator simply shows the number of registered firms per 10,000 adults. The benefits/disbenefits of any change in this level are simply assumed.

Nevertheless, as noted above, the STUC does recognise that the Scottish Government is strongly committed to an ongoing programme to improve the design of the NPF. We look forward to working with the Scottish Government on this important matter. For instance, at our last meeting with the First Minister we suggested including a commitment to raising real wages and real household disposable incomes as better measures of national prosperity.

How should resources allocated to the economy, energy and tourism portfolio in the draft 2014-15 budget be applied to support these core areas of interest and NPF targets and indicators and achieve long-term economic growth?/ What alternative spend would you propose to better support each core area of interest and from what area should such resources be diverted?

Again, and in advance of the draft budget being published, the STUC would reiterate the arguments made to the Committee last year. 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.

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.