European and External Relations Committee
The EU referendum and its implications for Scotland
Written submission the STUC

1 Introduction

1.1 The STUC supported a Remain position in the EU referendum on the basis that the economic and social interests of Scotland’s workers are best protected through continuing membership of the European Union. The STUC also registered intense scepticism over the economic ‘arguments’ presented in support of Brexit during the campaign, which ranged from the unreasonably optimistic to the brazenly dishonest. No credible authority has ever offered a coherent and compelling case as to why the Scottish economy would flourish under a hard Brexit scenario. Soft Brexit options (e.g. EEA) may at this juncture appear relatively attractive, but these will inevitably entail significant economic damage and a huge loss of political influence for no economic or social gain.

1.2 The overwhelming consensus among serious economists is that Brexit will be significantly detrimental to the UK and Scotland’s long-term economic interests. It is worth noting that, in relation to a politically contentious matter such as Brexit, such a consensus is quite unprecedented. The short to medium term effects are somewhat more contentious, although here too the consensus forecast was negative.

1.3 It will be the autumn before official GDP and labour market data begin to quantify the immediate impact of the referendum vote. Initial survey data seemed to suggest that the short-term impact may be at the more pessimistic end of the forecast spectrum. The UK PMI and survey evidence, which shows a record collapse in business confidence, is broadly consistent with the FoA’s recent post Brexit survey of Scottish businesses. However, Claimant Count data for July suggest that there has been no immediate Brexit induced dip in the labour market and July retail spending data registered an increase.

1.4 The latest GDP data published on 20 July show that the Scottish economy flat-lined in Q1 2016 and grew by only 0.6% over the year to Q1. Therefore, the immediate negative impact of Brexit falls on a Scottish economy already weakened by the crisis in the offshore sector and unnecessary ongoing UK imposed austerity. While we don’t anticipate a contraction of the length and severity of the 2008-09 ‘Great Recession’, the economic impact is unlikely to be negligible. There is a danger that an understandable focus on the short-term consequences might begin to obscure the prospect of significant long-term damage to the Scottish economy i.e. if a technical recession is avoided this year, some might claim that the damage due to Brexit has been limited/negligible. This will be hugely complacent and premature.

2 Brexit options and uncertainty

2.1 There is no clarity over when the UK Government will invoke Article 50 or its preferred approach to Brexit i.e. will it pursue a ‘hard Brexit’ by completely withdrawing from the single market, thereby dispensing with any obligations to uphold the four freedoms or will it try to negotiate a ‘soft Brexit’, which will allow
some degree of access to the single market? A soft Brexit type model is likely to be based on membership of the European Economic Area (EEA) – the ‘Norway option’. It is widely accepted that retaining access to the single market will, like Norway, oblige the UK to retain both free movement of people and a financial contribution to the EU, whilst having no direct influence in designing and implementing the rules by which the single market operates.

2.2 Of course there must be profound questions over the viability of an outcome that is clearly at odds with the reasons many people voted to Leave: it would mean retention of free movement of people and an ongoing contribution to the EU Budget. It is difficult to reconcile such a scenario with the Leave campaign ‘taking back control’ trope. Therefore, EEA does not currently look politically feasible.

2.3 Other options for future trade with the EU are a negotiated bilateral agreement like those of Switzerland, Turkey or Canada, or membership of the WTO (the UK’s current membership is through the EU and the process, whereby it would become an individual member is likely to be complex and difficult) without any specific agreement with the EU.

2.4 With ongoing uncertainty over the timing and nature of Brexit, it is difficult to offer a detailed assessment of what the future holds for the Scottish economy.

3 Could Brexit have positive outcomes?

3.1 In as much as Leave managed to articulate an economic case for Brexit, it focused on the potential positive impact on the public finances (the now infamous Leave campaign claim that £350m a week would be saved on leaving the EU) and the benefits accruing from the assumed removal of Brussels imposed ‘red-tape’.

3.2 Neither argument seems remotely credible. The £350m claim has been thoroughly debunked by genuine experts; the consensus among economists and organisations with real knowledge of the public finances is that the impact will be significantly negative. Analysis by the NIESR strongly suggests that lower income households are likely to bear the brunt of any additional fiscal consolidation.

3.3 The red-tape argument is of the type regularly invoked by lobbyists and commentators strong on rhetoric, but poorly acquainted with the relevant evidence. The UK – and by extension Scottish – economies are among the least stringently regulated economies in the developed world and there is no dividend to be gained from pursuing a model based on further dilution of important protections for workers, consumers, communities and the environment. Indeed, the downside of hyper deregulation has been thoroughly exposed over recent years. The ability of the Scottish Government to pursue its policy of ‘inclusive growth’ would be seriously diluted in the context of further labour and product market deregulation.

3.4 Another school of thought argues that free of EU constraints (e.g. state-aid requirements), Government intervention in the economy could be extended and improved through more robust and creative use of instruments like public procurement. This argument is something of a straw man – other nations manage to pursue more effective policy within the EU and possible outcomes (e.g. Norway
option or bilateral trade agreement) would leave in place many of the same constraints.

4 Trade and investment

4.1 All the Brexit scenarios listed above would reduce the UK's access to wider global markets. Leaving the EU means the UK will no longer benefit from the EU's Free Trade Agreements (FTAs) with third countries. To maintain what the UK currently has through the EU would involve renegotiating new trade arrangements with the EU and over 50 other countries.

4.2 All potential Brexit scenarios are likely to damage, potentially seriously damage, Scottish trade and investment which will have negative effects for jobs, household incomes, productivity and innovation.

4.3 The fall in sterling's value happened, because a lot of people staking a lot of money believe that the UK economy will suffer because of Brexit and that interest rates will remain lower for longer. A lower pound also means that the price of imports will increase contributing to rising inflation. Yet it is widely assumed that the fall in the value of sterling – some 11% on a trade weighted basis – will prove beneficial to UK exporters. However, experience from the 2007-09 devaluation suggests that impact may be disappointing. Scottish exports tend to be higher value and less price sensitive than in the past and some goods exports are the end result of global supply chains; components become more expensive as sterling falls. The July inflation report showed an immediate uptick in factory costs. Exporters also need to continue to invest in facilities and innovation to remain competitive. If the survey evidence is correct and Brexit leads to an investment freeze, the fall in the pound is unlikely to be sufficient to boost exports.

4.4 Tourism will almost certainly see a significant benefit - because holidays to Scotland become cheaper for foreign visitors - from a weaker pound, but it is complacent to assume that total exports will experience rapid growth.

4.5 Scotland's success in attracting Foreign Direct Investment (FDI) has probably been overstated in recent years, as the survey evidence often quoted by Scottish Ministers is based on the number not the value of new projects. FDI figures also treat the purchase of Scottish owned firms by foreign buyers as FDI, even if there is no new additional investment. However, over the longer term, FDI has been an important source of new employment in Scotland and has also contributed significantly to productivity growth. One factor making Scotland an attractive location is the access it has hitherto offered to the European single market. If this is lost, it is reasonable to assume that FDI will decline if not disappear. In the short term, the fall in the value of sterling will make it easier for foreign buyers to purchase UK firms as was witnessed recently by the sale of ARM.

4.6 There are also serious concerns over the capacity of the UK Government in the area of international trade; the UK hasn't had to negotiate trade deals since it joined the EU with a concomitant loss of skills and tacit knowledge. Furthermore, there will be an asymmetry of bargaining power in the negotiation of new FTAs. For example, despite the STUC's and others' serious concerns over the negotiation of TTIP, the scale and political make-up of the EU provides something of a bulwark
against the lobbying power of large US multinationals, particularly in the pharmaceutical and services sectors, whose priorities are to open up public services and replace centralised procurement regimes (e.g. NHS) with markets rigged by restrictive and litigious patent regimes. Given the chasm in trade negotiating expertise, the scale of the partners and the politics of the UK Government likely to be charged with negotiating new FTAs especially with the US, it can be inferred that the problems experienced with TTIP are likely to be significantly magnified.

5 Scotland's economic strategy

5.1 The latest iteration of the Scottish Government’s economic strategy published early last year is based on the ‘twin pillars’ of competitiveness and tackling inequality. Brexit is likely to diminish the chances of progress in both areas. As discussed above, a negative hit to trade and investment will lower employment and productivity and innovation growth. Key Scottish sectors, particularly Tourism and Food and Drink have been heavily reliant on EU nationals to meet labour demand. Basic social protections secured through EU membership are unlikely to be replaced or strengthened by the UK Government, thereby undermining the tackling inequality strand. Although progress has been limited to date, the EU is also better placed to pursue effective approaches to anti-trust and tax evasion and is already pursuing a number of multinationals in this respect.

5.2 European Structural and Investment Funds, including the European Social Fund, have been instrumental in the regeneration of some of Scotland’s most economically challenged communities and in supporting many of the socially and economically disadvantaged to acquire the skills necessary to enter and progress in the labour market. While it is likely that this will remain a priority for the use of funds repatriated from the EU, it is less likely, given competing demands and powerful vested interests, that the current level of investment will be maintained.

6 An independent Scotland in the EU

6.1 The referendum result has inevitably provoked a renewed discussion over Scotland’s constitutional future with the First Minister raising the prospect of a second independence referendum. The STUC has not speculated on possible future scenarios in this submission, given the immediate issues Brexit poses for Scottish workers.

6.2 However, it is important to acknowledge that, although Brexit may have made the political case for independence more attractive for many people, the economic issues are, if anything, more complex. If and when the Scottish Government chooses to hold a new referendum, the STUC will of course engage thoroughly on the social, macroeconomic and industrial implications of Scotland being an independent nation within the EU.

7 Specific trade union concerns

7.1 An initial round of consultation with our member unions has identified some key early concerns, such as rising insecurity amongst EU nationals currently living and working in Scotland – this is an issue across the economy, but particularly acute in health, higher education (which is also suffering from uncertainty around access to
research funding, participation in EU initiatives and status of EU students), where 16% of the workforce are EU nationals, and the performing arts. There are also growing fears over jobs and investment in industries reliant on the home market for revenues. Workers in central government services are likely to see significant work intensification, due to the administrative pressures generated by Brexit.

7.2 Again, it must be stressed that it is difficult for the STUC and individual unions to gauge the impact on jobs and working lives until there’s clarity on the timing and nature of the UK Government’s approach.

7.3 At a meeting on 12 July, the STUC presented the First Minister with the following suggestions for action to help address the impact of the Brexit vote:

- The Scottish Government (in conjunction with other Devolved Administrations and London) should urge the new Prime Minister/Chancellor to abandon austerity to allow investment in public services and to boost domestic demand;
- The Scottish Government should intensify its commitment to Fair Work and progressive workplace practices and the positive role of unions in improving economic resilience and productivity;
- The Scottish Government should work with the Fair Work Convention to develop collective bargaining arrangements in sectors characterised by ‘vulnerable’ employment;
- The Scottish Government should launch with the STUC and its affiliates an initiative to support migrant workers living and working in Scotland, to ensure full access to employment rights and organise workplaces with a high density of migrant workers;
- The Scottish Government should accelerate plans for investment in social housing;
- The Scottish Government should take immediate action to establish investment plans, determined by employers and unions, for sectors most likely to be affected by Brexit;
- The Scottish Government should oppose any proposal from the UK Government to cut Corporation Tax;
- The Scottish Government should continue to press the UK Government for a commitment that all existing EU citizens can continue to live, study and work in the UK without restriction;
- The Scottish Government should press the UK Government to remain a signatory to the European Convention on Human Rights and to retain the Human Rights Act; and
- The Scottish Government should provide sufficient resources for the civil service to enable it to deal with the extensive demands of pre-Brexit negotiations, the implementation of the Scotland Act and the Programme for Government.