The Scottish Parliament
Pàrlamaid na h-Alba

FINANCE COMMITTEE

AGENDA

26th Meeting, 2012 (Session 4)

Wednesday 24 October 2012

The Committee will meet at 10.00 am in Committee Room 3.

1. **Decision on taking business in private:** The Committee will decide whether to take items 3, 4 and 5 in private.

2. **Draft Budget Scrutiny 2013-14:** The Committee will take evidence from—

   Professor John Kay.

3. **Freedom of Information (Amendment) (Scotland) Bill:** The Committee will consider a draft Stage 1 report.

4. **Aquaculture and Fisheries (Scotland) Bill:** The Committee will consider its approach to the Financial Memorandum of the Aquaculture and Fisheries (Scotland) Bill.

5. **High Hedges (Scotland) Bill:** The Committee will consider its approach to the Financial Memorandum of the High Hedges (Scotland) Bill.

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The papers for this meeting are as follows—

Agenda item 2

Paper by the clerk	FI/S4/12/26/1

Agenda item 3

PRIVATE PAPER	FI/S4/12/26/2 (P)

Agenda item 4

PRIVATE PAPER	FI/S4/12/26/3 (P)

Agenda item 5

PRIVATE PAPER	FI/S4/12/26/4 (P)

Finance Committee

26th Meeting, 2012 (Session 4), Wednesday 24 October 2012

Scrutiny of the draft budget for 2013-14

Introduction

1. The Scottish Government published its draft budget for 2013-14 on 20 September 2012. Members have already been provided with a hard copy version.

2. The Committee will take oral evidence from Professor John Kay who has submitted the attached briefing note. A short biog is attached

Jim Johnston
Clerk to the Finance Committee

Biography

John Kay is one of Britain's leading economists. His interests focus on the relationships between economics and business. His career has spanned academic work and think tanks, business schools, company directorships, consultancies and investment companies. For more details of John's biography, see the About section.

John Kay chaired the Review of UK Equity Markets and Long-Term Decision-Making which reported to the Secretary of State for Business, Innovation and Skills on the 23rd July 2012. He is a visiting Professor of Economics at the London School of Economics, a Fellow of St John's College, Oxford. He is a Fellow of the British Academy, a Fellow of the Royal Society of Edinburgh. He is a director of several public companies and contributes a weekly column to the *Financial Times*. He is the author of many books, including *The Truth about Markets* (2003) and *The Long and the Short of It: finance and investment for normally intelligent people who are not in the industry* (2009) and his latest book, *Obliquity* was published by Profile Books in March 2010. Some of his most influential, recent work has been on banking regulation, and you can read about his vision for the sector in his 2009 essay, *Narrow Banking*.

Briefing note

The committee wishes to assess the extent to which budget priorities address the Scottish government objective of promoting sustainable economic growth. My objective in this note is to describe the elements of a framework for that assessment.

My starting point is that the growth of the Scottish economy is the product of the performance of Scottish business. Government can support business in three broad ways

- by the provision of supportive infrastructure (including not just physical infrastructure but also social structure, e.g. by education/policies which help voters develop appropriate skills).
- by financial sector specific support.
- through local policies, both of a macroeconomic kind (where the overall stance is expansionary or contractionary) and of a microeconomic nature (the design of a policy).

Physical infrastructure issues mainly concern transport, telecommunications and other utilities (gas, electric, water etc.). Issues the committee might want to consider – include

- to what extent is transport expenditure directed towards improvements which promote growth, rather to those that offer direct consumer benefit?

- to what extent do transport improvements direct activity from one area to another, as distinct from increasing activity as a whole.
- is public support for expansion of broadband access an effective use of public money?
- is energy policy (which needs to be considered both in a Scottish context and the context of Scotland's role in a UK energy system) sufficient to ensure supply security?

In relation to social infrastructure, two key issues in my view are

- is the balance between different components of education expenditure, especially between higher education and the rest , the most appropriate for a sustainable growth strategy?
- is the development of affordable and sound housing adequate to support Scotland's economic development needs?

My view of the appropriate industrial strategy for Scotland is that it should be based on the principle that small countries succeed in the world economy by exporting narrow specialisations on a global scale. The core principal – which I believe is recognised in general policy – is, despite the common disparagement of the phrase, to 'pick winners' i.e. to identify sectors in which Scotland has a genuine competitive advantage, and to promote those. It is important that there should be no wishful thinking here: the emphasis should be on sectors that are winners, not on ones that we would like to be winners. The principal items on such a list are financial services (despite obvious setbacks), energy support services premium food and drink, and possibly life sciences. The committee (which may of course have a different view as to what such a list might contain) should – be asking, on a specific sector by sector basis, how the budget is relevant to the advancement of these industries.

The Scottish government has limited levers in fiscal policy. Its macroeconomic influence is essentially confined to the effects of allocate and reallocate with an overall budget total and the primary policy tool here is relevant only to short term recovery issues, principally in the ability to focus expenditure on employment intensive, recession hit activities, notably construction. At the microeconomic level, it appears to me there has been some inclination to use the few instruments available to the Scottish government to favour consumers over business. This is not necessarily undesirable. or inimical to growth: it should be recognised that all taxes are, ultimately paid by people. The ideal business tax is one whose impact is largely exported; the worst business tax is one which falls on export activities and simply damages competitiveness. In between are those taxes which fall primarily on domestic economic activity, which are effectively an additional indirect tax on Scottish consumers, but may have effects on the conduct or behaviour of business in the process.