

POLICY INSTITUTE

Scotland's Economy

New Points of Departure

Introduction

Bill Jamieson

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Whatever else devolution has brought to Scotland, it has failed to trigger a sustained improvement in her economy or a sense of uplift for her people. Scotland's GDP performance continues to lag that of the rest of the UK - as do the statistics. But no matter: strategy documents, task forces and initiatives abound. Three enterprise ministers have come and gone. A fourth is struggling to make an impact.

The key strategy document *Smart Successful Scotland* has been a lamentable failure. Its authors cannot point to one single, tangible success or achievement for which it can claim responsibility over its four-year existence. The document itself - a particularly raddled example of the deathly bureaucratic buzzword prose that has spread like a fungus across so many Scottish Executive publications - was incomprehensible to anyone running a business or hoping to start one. It has now been "refreshed". In truth, it is not documents like these that need "refreshing". It's the economy they purport to sustain - and which they are choking to death.

However, there are two upward shooting graphs for which the Scottish Executive can claim full and exclusive credit. Both help to explain why our economic performance is so drained of energy and vitality. The first is the relentless rise in public expenditure, predicated on a belief that the more 'Scandinavian' we are on levels of public expenditure, the healthier, better educated and successful Scotland will be. The opposite is the truth. 'Identifiable' public spending in Scotland soared 27 per cent in the five years to 2001-02. Yet on a whole range of social measures it has devastatingly failed to pay a social dividend. On heart disease, obesity, suicide, smoking-related diseases, alcoholism, drugs, mental illness, crime and general life satisfaction, Scotland continues to register appalling scores¹.

Yet this spending without results - this obsession with quantity of input over effective result continues apace, and it is set to carry on rising over the next four years. The cumulative expenditure total for which the Executive will be responsible in the four years to 2007-08 is in excess of £100 billion. This staggering sum will help sustain and finance a government and public sector salariat in danger of exhausting its boundless imagination to fiddle and its neurotic obsession with regulatory minutiae.

¹ The Scots May be Brave, but They Are Neither Healthy nor Happy, Bell and Blanchlower, Scotecon, 2004.

The real terms increase of public expenditure in Scotland (3.8 per cent in 2005-06 and 3.9 per cent in 2006-07) are far in excess of any envisaged increase in Scottish economic output. But the Executive is relieved of any responsibility for raising the money that it spends so liberally. Indeed, such expenditure increases are only made possible by the continued regular arrival of the Barnett formula money trains from HM Treasury. In the words of a prominent independent Scottish economic commentator, "That lack of economic discipline seems to me to result in a growth of public expenditure which is not justified by Scotland's economic performance."²

The other relentless rise has been in council tax, and a level of business rates 17 per cent higher than the rest of the UK. This has gone to help fuel an unsparing rise in the number of full-time equivalent staff working for Scottish local authorities. Between September 2002 and September 2003 alone, the increase came to 4,663 or a rate of recruitment of 13 extra staff a day. Yet the quality of many public services has deteriorated, while the remit of local authority regulation, intervention and planning grows apace. There is nothing wrong in hiring more social workers and welfare staff. But they are financed by taxes on individuals and on profitable businesses. Rather than devolution giving Scotland a competitive edge and springboarding new business and investment, the grim reality is that, largely due to a political elite that claims to have Scotland's economy as its top priority, a high tax, high regulation regime is bearing down on new business, expansion and enterprise.

Devolution has not brought economic uplift. Instead, Scotland abroad has become the butt of jokes about a parliament building ten times over budget and four years late. It is one of the worst examples of public sector procurement failure. A deadly blow has been dealt to the mantra that 'government knows best'.

Yet the devolution show carries on. With a few honourable exceptions, a self-regarding political elite in the Holyrood Bubble continues to bow low before the temple of 'big government is best' and to applaud the emperor with no clothes.

Outside the Bubble, few dare to speak out for fear of being howled down as anti Scotland or anti Scottish. Yet it is Scotland that has been let down and it is Scotland's future

² Tony Mackay, Media Release, October 6 2004

that is being betrayed. The Bubble People cannot see that there is anything seriously wrong with the mediocrity that they impose as standard. When the public complains, the failure of policy imagination is laid bare: a rush to set up yet another regulatory quango. The Scotland outside of this Bubble, the real Scotland of free voluntary institutions, of real firms, real jobs and real enterprise, is having the life squeezed out of it.

So entrenched is the Bubble establishment that many have given up any hope of change and are getting out while they can. The coalition for its part, backed by a self-interested *administrate* growing in size and resource with every new legislative session, views Scandinavian levels of tax and spend less as a summit than as a base. It swallows as radiant and revealing truth earnest Executive brochures on Scottish economic statistics that singularly fail to tell the truth about our economy, or why we are under-performing the rest of the UK or why the population is shrinking. Mediocrity of outcome simply triggers the cry for more money-fuel. Thus it regards every new peak in the public spending-to-GDP ratio not as a cause for concern, still less a limit, but rather a reminder of that greater failure of Big Government to conquer and eliminate the remaining, shrinking percentage that dares to stubbornly remain outwith its control.

The truth is that devolution has overwhelmingly favoured the political and public administrative strata in Scotland, as it always would. That is the only 'priority' that really matters. But the law of diminishing returns is setting in. Inside the Bubble it is assumed that those outside are broadly contented and if not, then the problem is surely not one of policy failure, but one that flows from an inadequate (and, of course, under-resourced) public relations strategy to communicate the Executive's high purposes and achievements with sufficient fervour. As for the Westminster money trains, these will keep on rolling. The *administrate* will walk on money rainbows reaching to the sky and the Apples of Eternal Youth will keep paying for Valhalla. Won't they?

But outside, this is not playing well. People are starting to ask where all the money is going. A growing disillusion is evident. In the elections to the Scottish parliament last year, less than 50 per cent of the electors turned out to vote. And there are signs aplenty of growing pressures on the UK public finances. The Barnett Formula cannot be counted on to deliver ever more money. Thus, however remote change may seem, a dark and uncomfortable truth is emerging: the *status quo* is not an option.

To meet the challenge of change it is necessary to set out a clear critique of what is going wrong and to develop a set of alternative policies. This is what the Policy Institute aims to do. The following papers address some of the weaknesses in the economic realm discussed above. **Professor Donald MacRae** in ***The Tim'rous Beastie*** analyses Scotland's economic performance and highlights our problems of low productivity, investment, R&D spending and new business formation. **Adam Bruce and Tom Miers** in ***Scotland's Hidden Tax Cutting Powers*** advocate lower taxes as a way of boosting growth. They point out that the Executive's powers in this regard are much greater than is usually recognised.

George Kerevan and Gavin Don look at the functions of Scotland's main economic agency in ***The Voyages of The Starship Enterprise***, and suggest how its powers and budget could be used more effectively. ***Financing Our Future*** by **Ross Leckie** examines the importance of Scotland's financial sector. In doing so, it makes recommendations to the Executive with wider applications on issues such as regulation, transport infrastructure, tax and corporate law.

The vital issue of land use planning is the topic of ***The Planning Famine*** by **Professor Sir Donald Mackay**. He exposes the huge economic and social costs of our current planning laws, and suggests how we can reform them. Finally, we end with a note of warning about the misuse of economic data. ***Fantasy Jobs*** by **Alan Peacock and David Simpson** suggests that economic policy may be distorted by inaccurate use of employment data to promote various industries.

All these papers are edited to be short, entertaining and informative for the reader. They are designed to promote new ideas and provoke debate about Scotland's underperforming economy. Each is separately available free to download from www.policyinstitute.info. They give facts, figures and analysis. But above all, they give hope.

Bill Jamieson, Director, December 2004.