

British Government @ LSE lecture

Beyond the Budget

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It is an honour to be here at the London School of Economics today.

The LSE has been at the heart of debates on economic and social policy on these islands ever since its foundation. For example, your current work to develop a crowd-sourced constitution is a fantastic example of an initiative which is timely, innovative, and could have a lasting impact on public affairs.

But I want to start my remarks today by looking back to the legacy of one of your founders, Beatrice Webb. In 1909, Beatrice Webb wrote a famous minority report for a Royal Commission on the Poor Law. It's often seen as being one of the first descriptions of a modern welfare state. She spoke about her desire for everyone in society to have: "sufficient nourishment and training when young, a living wage when able-bodied, treatment when sick, and modest but secure livelihood when disabled or aged".

That vision is now more than 100 years old. It encapsulates the basic aspirations of any civilised society. But there is still work to do if that vision is to be realised in full. Indeed, I would argue that, in some areas, as a result of the current UK Government's economic policies, we have moved a bit further away from it in recent years.

On Wednesday, we will hear the final UK Government budget of this parliament. Today, I want to make three specific points which start with the budget, but go beyond it.

I want to talk about the lack of consultation and impact assessment which characterises UK budget decision-making and argue that in recent years this has led to decisions which have harmed our most vulnerable citizens and damaged jobs and growth.

Then I'll make a related point. Budgets often propose simplistic measures to deal with complex problems. I'll talk about the way in which short term posturing can often trump strategic thinking when difficult choices have to be made. And, finally, I'll suggest some different choices that could and, in my view, should be made in this week's budget.

But before I do any of that, it's maybe worth looking at budget day itself, and its place within Westminster as an institution.

There's been a lot of speculation in the newspapers recently that parliament may have to move from London, because the Palace of Westminster is in such a dilapidated condition. Its fabric is crumbling, some areas are prone to flooding, and other parts haven't been properly refurbished for generations.

But in my view, it's not just the building that needs to be overhauled. It's the institution itself - the House of Lords; the first past the post voting system; the culture, procedures and working practices of the current Parliament - all of them need to be overhauled.

The rituals of budget day are just one part of that, but they're an important part. For example, there's a very specific reason why we traditionally don't hear about the government's financial plans, until shortly before the start of the financial year.

It dates back to the 17th century. The Crown would ask Parliament for money and Parliament found that it could force the crown to economise by delaying its approval.

Whether this ancient tradition still makes sense today has been questioned for decades. In 1980 the Institute for Fiscal Studies commissioned a report on budgetary reform. It pointed out that the timing of the budget "means that the opportunity for financial appraisal both inside and outside parliament is very limited. In other countries budgets are consistently presented three months or so before they take effect."

The process UK governments follow now, as in 1980, allows virtually no time at all for proper deliberation or consultation. That problem is made worse by the way in which successive governments have approached the budget. Chancellors take pride in pulling rabbits out of the hat on budget day. Surprises are seen as a virtue. They help to create headlines and they can wrong-foot the opposition.

It's much more difficult for that to happen in Scotland. The Scottish Government has to publish a detailed draft budget each September, four months before the budget bill is laid before Parliament.

Indeed, I want to reflect on a particular aspect of the Scottish process which might be of particular interest just now, given the possibility of minority government following the election. I was the deputy leader of a minority Government for four years. I now lead a majority Government. And in case you're wondering, I should make it clear I prefer having a majority.

But there are some advantages to minority government. When we were in a minority, we could only win votes by winning arguments. Sometimes we had to compromise. That process can - and often did - lead to better budgets. At different times we won support from Labour on increasing apprenticeships; from the Greens on a home insulation scheme; from the Tories on regenerating town centres; and from the Liberal Democrats on college bursaries.

It involved a process of building consensus across a whole parliament - not just forcing decisions through using the power of the party whip.

And the point is this - the Scottish system lends itself to that, because there is time for negotiation to take place and Parliament is able to see and scrutinise the compromises which are made between the Draft Budget and the Budget Bill being put before Parliament.

Doing anything similar at Westminster would require substantial changes to how budgets are put together - most importantly, perhaps, it would require a different, far more consensual approach. I think that would be beneficial and, who knows, it might be one of the benefits of a period of minority government following the General Election.

Because the current UK budget process - in my view - simply doesn't lead to the best decisions. First, it has all the hallmarks of Westminster culture at its worst - closed, top-down, unnecessarily adversarial – all of which helps to alienate people from the process of politics.

Secondly, and more importantly, it seems to make poor decisions more likely. The obvious example is 2012. Or, to use the official title, the omnishambles budget. A tax cut for everyone earning £150,000 was widely and rightly condemned. Taxes on charities and church repairs didn't seem to have been thought through. The temperature at which pasties were sold became a matter of national debate. And in Scotland, we had to explain that what you called the pasty tax was actually the bridie tax! The process for setting out the UK finances became a running farce.

2012 was unusual, but the big problem is – it wasn't that unusual. Gordon Brown's stealth taxes or Labour's ill thought out announcement in 2007 of the decision to abolish the 10p rate of tax provide other examples. Even after those budgets were published, it took days for people to understand what they actually meant. If you regularly make changes to complex tax systems without prior consultation, then every budget has the potential to become a shambles. It's a recurring feature, not a one-off flaw.

So, in my view, the current UK budget process needs to be made much more open. Complete transparency won't always be possible. But in the overwhelming majority of cases, better consultation would lead to better decisions. In particular, the budget should be opened up to proper scrutiny in terms of its impacts on equality.

An important part of the Scottish Government's budget process is that we are advised throughout the year by an Equality Budget Advisory Group. When we produce our draft budget in September, we also publish a detailed Equality Budget Statement.

The UK Government claims to do equality impact assessments - but they have been significantly downgraded in recent years. The Prime Minister described them as 'bureaucratic nonsense'. Perhaps that's why the one that accompanied the 2013 spending review contained just 5 pages of text.

And, of course, when you look at the detail of this UK Government's budgets, it is clear that equality impacts have not had much of an effect on its spending decisions.

This government's cuts have had the biggest impact on those on the lowest incomes. Many measures have also hit disabled people hard. In Scotland, 80% of the households who would have been affected by the bedroom tax, but for our action to mitigate it, included a disabled person. The House of Commons Library found last year that the Coalition's tax and benefit changes have affected women almost four times more than men.

With equality budgeting, you still have to take tough decisions to make the books balance. It doesn't absolutely guarantee fairness – but it does make it more likely. And in particular, it becomes much harder to arrive at and implement the sorts of decisions we've seen in the UK in recent years, when the most vulnerable have undoubtedly borne the heaviest burden.

In fact, the basic principle behind equality budgeting applies to most areas of policy-making. You get better decisions with better consultation.

I've already referred to the 2012 budget. But in many ways, there's an even more relevant example from 2011. Four years ago, the UK Government increased the supplementary charge - an additional tax on the profits of North Sea oil and gas operators. It meant that for some older fields in the North Sea, the marginal tax rate became 81%.

There was no prior consultation, and the impact was almost immediate. New projects were put at risk. 4 years on, with a lower oil price, and high taxes, companies aren't investing in exploration.

We're in danger of seeing fields prematurely abandoned – with long term consequences for jobs and the balance of trade.

The Scottish Government is now asking the UK Government to take steps in this budget to encourage investment – partly to reverse the mistakes it made four years ago.

You know, we have known for five decades now about the wealth of oil and gas beneath our seas. But no UK Government has ever had a proper plan for stewarding this resource. We need a long-term outlook to maximise recovery of our oil and gas reserves; we have to engage in proper consultation with industry and others; and we must promote the technologies which will help us move to a low carbon future. Surprise budget day tax rises do none of that. They simply damage the confidence of industry and harm our long-term interests.

The lack of meaningful consultation on budgets contributes to another problem – the fact that the culture of the UK Parliament often limits debate on genuinely complex issues.

For example, the Scottish Government has today published statistics on severe poverty. They show that more than half of all children - and more than 40% of working age adults - who live in severe poverty in Scotland, live in households where at least one person is in work.

Any serious attempt to tackle inequality therefore has to focus hard on in-work poverty. It's a major reason why the Scottish Government pays the living wage to all our staff, and encourages other companies to do so. And it's why we're developing a Scottish business pledge to encourage good employment practice as part of good business practice.

As the Resolution Foundation and others have pointed out, the work allowance is the measure which makes the biggest difference to many working people on low incomes. For those of us with well-paying jobs the work allowance is something we might be unfamiliar with. But for anyone who relies on employment support or housing benefit or is entitled to the new Universal Credit it is more important than the tax rates we all pay so much attention to.

The work allowance determines when people entering work start to have their benefits reduced. It's often set at a very low level. For a lone parent with housing costs, for example, it's currently just over £3,000 a year. After that point, benefits start to be withdrawn. For people on universal credit, £65 of benefit is lost for every £100 of post-allowance salary.

Now, of course, there needs to be some sort of deduction rate, or tapering system, in order to make work pay while also keeping the benefits bill manageable. There are some really difficult trade-offs in all of this.

But that complexity is part of the problem, and perhaps part of the reason that it's easier for Chancellors to ignore it and concentrate on simpler measures instead - even if they are less effective. Take the personal tax allowance, for example - a lot of attention is paid to the fact that people begin paying 20% income tax at £10,000 a year. And that's right – the personal allowance is important. But we pay far less attention to the fact that a working single parent faces a 65% deduction rate when they earn just over £3,000 a year.

And actually, if you receive universal credit, and pay income tax, a £600 increase to the personal allowance in the coming budget- which I'm certainly not arguing against- would boost your income by £42. But the same increase to the work allowance would boost your income by £390.

That's why the current UK Government policy of freezing work allowances is so misguided. It effectively cuts the benefits of workers on low incomes.

So the Scottish Government is calling, today, on the UK Government to announce, in this week's budget, a significant increase in the work allowance to help ensure that those in work have a better chance of lifting themselves and their families out of poverty.

Basic rate taxpayers would still see their allowances rise. But there would be even larger gains for people who are on the lowest incomes. It's a moderate, proportionate response to the question of how we genuinely improve incentives to work.

But when the budget is so focussed on headline grabbing surprises and simplistic measures such as policies rarely make it into the Chancellor's red box.

There's a third and final area I want to touch on in discussing some of the specific spending choices the UK Government makes.

The defence budget is currently under strain. We've heard discontent from Government backbench politicians in recent weeks and most recently rumours of discontent amongst senior military personnel. Service personnel numbers have reduced significantly in recent years. Cuts have been made in important areas. For example, we no longer have an airborne maritime patrol capability. When reports were received last November of a Russian submarine patrolling to the west of Scotland, the UK had to call on aircraft from France, America and Canada. The nearest patrol vessel was in the South of England.

So it's interesting to consider, in that context, the UK Government's priorities. Now, let me make clear, first and foremost, that I disagree with renewing the Trident nuclear missile system on principle - I think nuclear weapons are morally wrong. And I don't believe Trident has strategic value. It doesn't prevent conflicts between nuclear and non-nuclear states; and it's almost impossible to imagine the circumstances in which it could ever be used. But in addition to those moral and strategic arguments, it has become increasingly clear that Trident, and the renewal of Trident, is financially unjustifiable.

The Trident Commission last year calculated that the equivalent annual cost of a new Trident system will be almost £3bn. Cash costs will peak at £4bn in the mid 2020s. In total, renewing Trident will cost around £100bn, at 2012 prices, over the next 35 years.

To be clear, my party believes that this money should be invested in health and education instead. But even if you look just at the defence budget, Trident will place huge pressures on spending.

It will take up almost a tenth of the UK's annual defence budget – and around a quarter of the capital budget for the period from 2018 to 2030. As the Trident Commission itself said, "Important defence projects currently in the pipeline will surely suffer delay or cancellation."

You can already see those pressures in some of the choices the UK Government has made. We don't have the aircraft to patrol our own waters. And UK military and defence civilian personnel have reduced by 28% in the last 14 years.

As politicians in Westminster argue over meeting NATO's target of spending 2 percent of GDP on defence, they regularly forget to mention that they are planning to spend £100 billion on weapons of mass destruction that we're never going to use. It makes no sense. We're buying a status symbol in place of a strategy.

And of course, what makes all of this even worse is the wider public spending context. Trident renewal just like the public spending cuts favoured by the Westminster parties is not really fundamentally questioned.

I made a speech here in London last month about the unprecedented cuts to public spending that the UK Government is planning in the next Parliament. I pointed out that these spending cuts aren't just bad for many individuals – although they are - they're also damaging for the economy as a whole.

Manufacturing across the UK is still below pre-recession levels. So is productivity, and so is GDP per head. The current account deficit – a key measure of trade and income flows with the rest of the world - is worse than at any previous point in the UK's history.

And as the LSE's Centre for Economic Performance reported last week, UK government cuts reduced our economic growth by at least 1% during the first two years of this parliament. That low and unequal growth is the major reason why the government has missed its own deficit reduction targets by a total of £150 billion.

That's why the Scottish Government has set out an alternative approach – one based on limiting real terms spending growth to 0.5% a year. That policy - of very modest spending increases instead of cuts - would still see the debt and deficit reduce as a proportion of national income in every year from 2016-17; but it would also free up an additional £180 billion across the UK over the next parliament. That money could be used to invest in infrastructure and innovation, protect the public services we all depend on and ease the pressure on the most vulnerable in our society.

By offering an alternative to the austerity agenda, we can ensure that fiscal consolidation is consistent with a wider vision of society - a society which strives to become more equal, as part of becoming more prosperous and fiscally sustainable.

It's a vision consistent with the words of Beatrice Webb. Just before the passage I quoted earlier, she spoke of "securing a national minimum of civilised life, open to all alike, of both sexes and all classes".

It's an ambition all of us can sign up to. But in order to achieve it, we don't just need new policies, we need a new approach.

I've reflected a lot on the referendum campaign in the last few months. As you might have noticed, I've sort of had to reflect on it – it didn't quite go the way I would have chosen! But, that aside, there seem to me to be two hugely positive things which came out of that referendum.

The first is that we got to ask ourselves some fundamental questions – what sort of Scotland do we want to create, and how can we create it?

And the second thing was that the process of asking those questions unleashed a sense of enthusiasm and engagement – from both sides of the debate - which, regardless of the outcome, will serve Scotland well for decades to come.

But there's a final point which is also worth making. During the referendum campaign, we were in Scotland repeatedly told by the Westminster politicians that Scotland was an equal and valued member of the United Kingdom - that, contrary to how many of us feel, our voice did matter within the Westminster system. So don't be at all surprised, if the the SNP, the Scottish Government - indeed Scotland as a whole - now starts to take those Westminster politicians at their word. We have clear and constructive views on many aspects of UK policy which affect Scotland deeply – views which we know are often shared by many people elsewhere in the UK. And we intend to bring those ideas forward in a positive spirit.

So we will argue for different tax and spending decisions – this morning, I've used the examples of oil and gas, the work allowance and Trident.

We will argue for a moderate approach to deficit reduction – one which doesn't penalise the vulnerable and hold back economic growth.

And we will - crucially if we get the chance - bring to bear our hard earned experience of government - including of successful minority government - in arguing for a different, better way of doing things.

Budgets should take equality impacts seriously and use consultation much more effectively. Politicians should all be a bit more open to compromise, complexity and even doubt. Policy-making as a whole needs to move a bit further from the arcane rituals of the Commons and a bit closer to the model of the crowd-sourced constitution. None of this is easy – neither my party nor my Government has all of the answers – but we know we need to try and we do want to be part of that effort.

And if we get the opportunity, we intend to be a constructive voice in the months and years ahead. We won't just serve Scotland's interests -though we will most certainly do that. But we will seek do more than that - we will also seek to play our part in bringing about positive, long-lasting and progressive change right across the UK.

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