

The economic impact of the Fiscal Consolidation within Scotland: 2011-2015

Grant Allan and Kim Swales

Fraser of Allander Institute,
Department of Economics,
University of Strathclyde

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Outline

- UK fiscal consolidation
- Detail direct impact on expenditure in Scotland
- Model characteristics
- Results
- Update...

UK fiscal consolidation

	£, billion
Tax	29.8
Spending	80.5
Investment	17.0
Current spending	63.5
Debt Interest	10.0
Benefits	17.7
Public Services	35.7
Total	110.3

Source: HM Treasury (2010b) via Crawford (2010)

Scottish fiscal consolidation

	<i>2011-2</i>	<i>2012-3</i>	<i>2013-4</i>	<i>2014-5</i>
Resource DEL	545.1	756.4	1156.5	1632.1
Capital DEL	866.0	913.3	1221.2	1188.0
Welfare	139.2	404.9	786.4	1004.2
Total	1550.3	2074.6	3164.1	3824.3

Cumulative expenditure shock, £million, 2006 prices



About the expenditure shocks...

- Different time pattern for the three expenditure streams
- Different sectoral pattern for each stream
- Limitations
 - Only covering demand-side exogenous impacts
 - Some public expenditure in Scotland not covered
 - Don't incorporate UK-wide tax changes

Model issues

- AMOS is not a forecasting model
- Structure such that it cannot generate 100% “crowding in”.
- Finance is passive in the model
- Myopic
- Single-region

Resource DEL

% changes from base	2011/2	2012/13	2013/14	2014/15	Long run
GDP	-0.22	-0.31	-0.47	-0.66	-0.67
Consumption	-0.38	-0.50	-0.75	-1.04	-0.97
Investment	-0.32	-0.30	-0.41	-0.53	-0.23
Exports	0.32	0.44	0.69	0.99	0.98
Imports	-0.82	-0.98	-1.45	-1.98	-1.64
Nominal (before-tax) wages	-0.59	-0.78	-1.17	-1.63	-1.53
Real (take-home) wages	-0.36	-0.48	-0.72	-1.01	-0.97
Consumer Price Index	-0.23	-0.30	-0.45	-0.62	-0.56
Unemployment rate (%)	3.10	4.12	6.16	8.51	8.14
Employment	-0.34	-0.46	-0.68	-0.95	-0.90

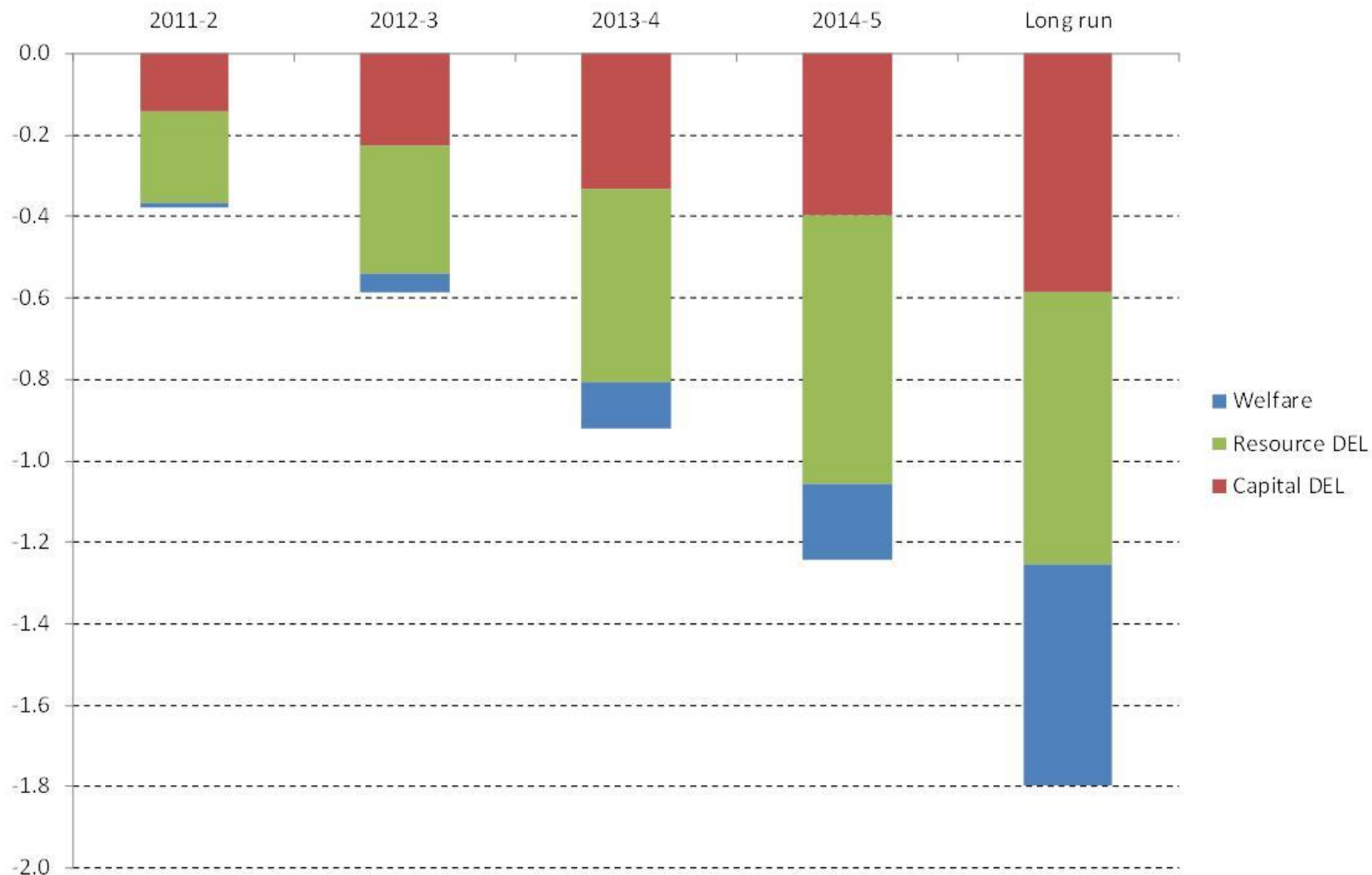
Capital DEL

% changes from base	2011/2	2012/13	2013/14	2014/15	Long run
GDP	-0.14	-0.23	-0.33	-0.40	-0.58
Consumption	-0.30	-0.34	-0.47	-0.49	-0.58
Investment	-7.23	-7.49	-9.95	-9.55	-9.29
Exports	0.74	0.76	1.02	0.96	0.86
Imports	-0.89	-0.91	-1.20	-1.15	-1.12
Nominal (before-tax) wages	-0.47	-0.54	-0.74	-0.77	-0.85
Real (take-home) wages	-0.23	-0.28	-0.40	-0.43	-0.53
Consumer Price Index	-0.23	-0.26	-0.34	-0.34	-0.32
Unemployment rate (%)	2.03	2.48	3.44	3.68	4.57
Employment	-0.23	-0.28	-0.38	-0.41	-0.51

Welfare expenditure

% changes from base	2011/2	2012/13	2013/14	2014/15	Long run
GDP	-0.01	-0.05	-0.11	-0.19	-0.54
Consumption	-0.21	-0.67	-1.32	-1.72	-2.00
Investment	-0.13	-0.40	-0.77	-0.97	-0.83
Exports	0.12	0.36	0.71	0.90	0.72
Imports	-0.12	-0.37	-0.71	-0.89	-0.89
Nominal (before-tax) wages	-0.10	-0.31	-0.60	-0.74	-0.71
Real (take-home) wages	-0.02	-0.06	-0.14	-0.21	-0.45
Consumer Price Index	-0.08	-0.25	-0.46	-0.53	-0.27
Unemployment rate (%)	0.16	0.56	1.22	1.83	3.85
Employment	-0.02	-0.06	-0.14	-0.20	-0.43

Gross domestic product, % changes from base



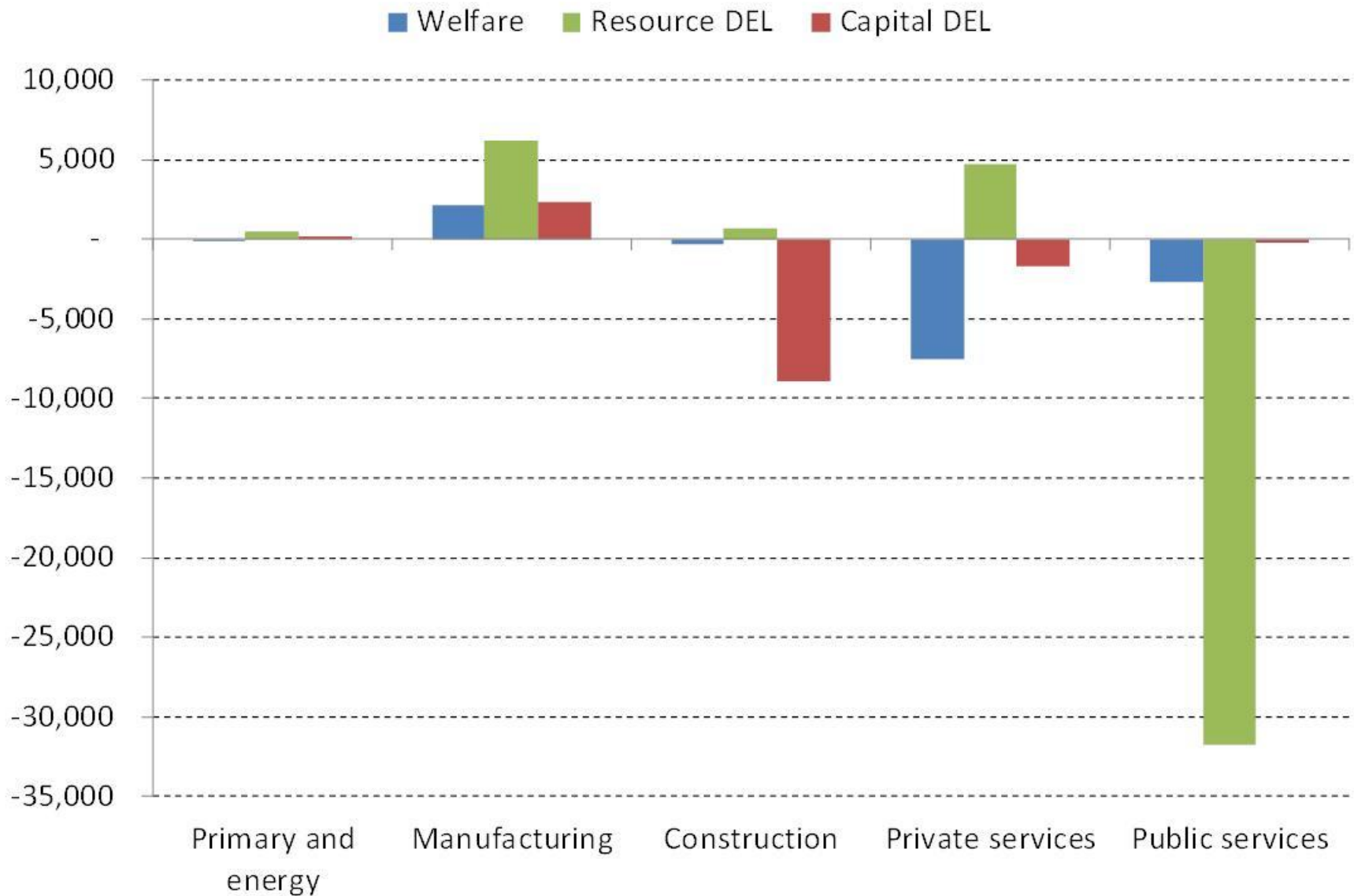
Employment, % changes from base



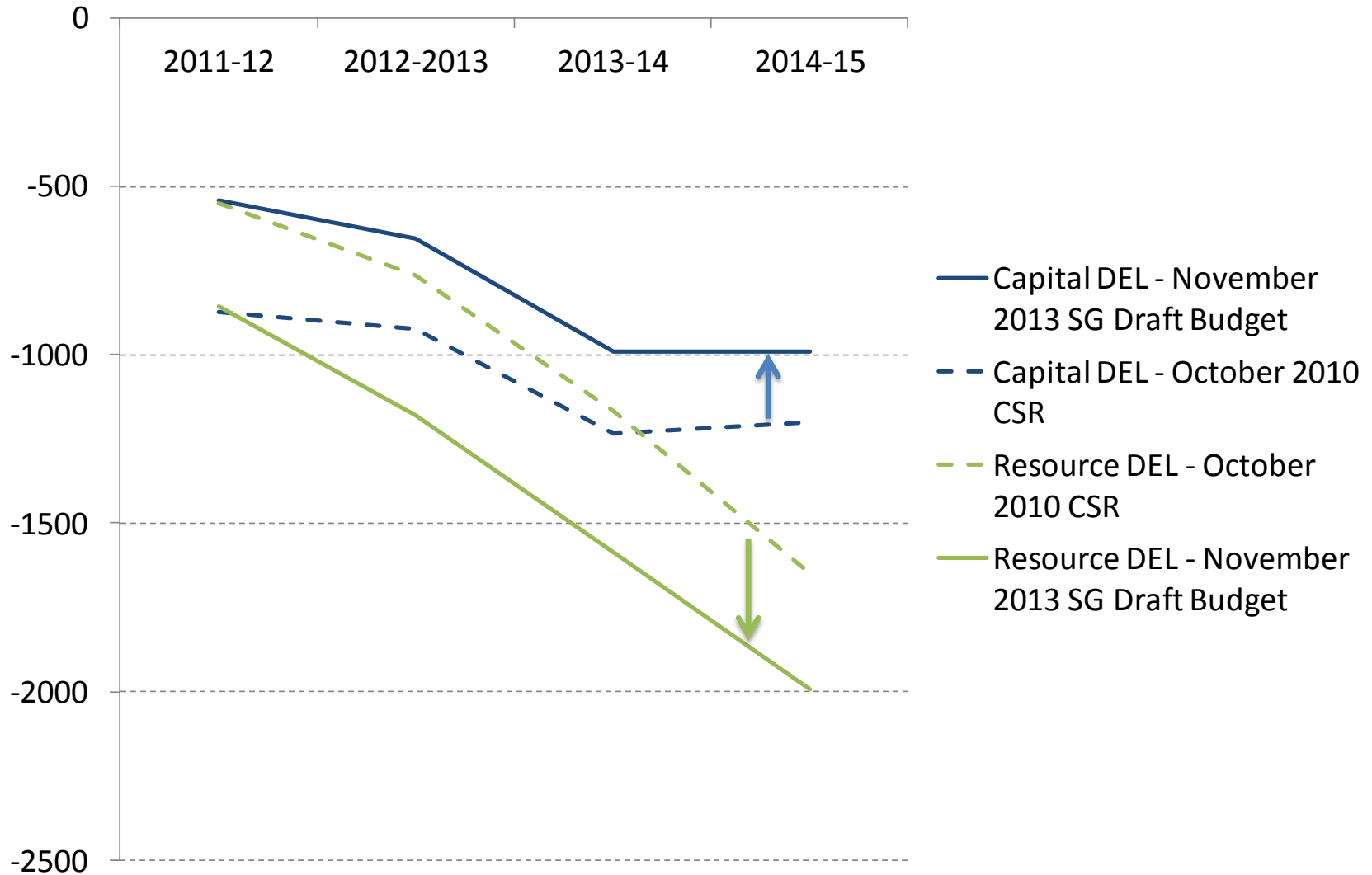
Long-run sectoral employment effects

- There is always a positive impact for Manufacturing (exports)
- Resource DEL has a very big negative effect on public sectors but positive impacts on all other sectors
- Capital DEL and welfare expenditure has very small or negative impacts on all non-manufacturing sectors.

Long-run sectoral employment changes, absolute



An update...



An update...

- SG has switched funds from Revenue to Capital DEL
- Our results suggest GDP/shock ratio greater for Capital than Resource spending
 - Capital DEL = 0.439
 - Resource DEL = 0.367

Thank you

Grant Allan

grant.j.allan@strath.ac.uk

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