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The new Tory government, delegated powers, poverty and levelling up

The intensions of the new government will be more fully revealed when it makes its financial statement on 17 November. Commentary so far indicates the priority will be to cut spending commitments and to scrap virtually all those announced by the previous administration. This is likely to include scrapping existing tax cuts (Corporation Tax, Income Tax) and to limit the increase in military spending. The new government is likely to increase tax income by not raising tax bands in line with inflation (in particular this will trap more lower paid earners) and to increase benefits in line with incomes and not prices. It will rigidly control all spending budgets – including those for local government and most services such as education – fully exposing all social services to inflation cuts (likely to be still in double figures well into 2023). When the existing scheme to limit household energy costs ends in March, a new scheme is likely to be on a smaller scale and partially financed by windfall taxes on energy companies. Overall, the objective will be to convince markets that the Exchequer will very significantly reduce the additional £40B deficit incurred since Covid. The new government will seek to crack down on wage claims and has expressly supported further restrictions on strike action. The fracking ban will be reimposed.

The cuts announced for England will be exported into the already highly exposed Scottish budget (partially excepting income tax banding). Gove has rejoined the government with a responsibility for levelling up. He will lack funds, and most major projects, apart from those already underway, are likely to be abandoned. There are as yet no indications as to how far the restructuring of English local government might be maintained or abandoned and of its implications for City-Regions in Scotland. In terms of legislation the Procurement Bill will proceed through parliament this session. The Scottish Government opposes this in line with its UK Withdrawal from the European Community (Continuity) (Scotland) Act – unlike the Welsh government which sees some opportunities for community wealth building as a result of a relaxation of EU tendering regulations.

The Westminster government will give priority to resolving its dispute with the EU on the Northern Ireland protocol. New legislation will be required. Northern Ireland elections will be triggered if the Assembly does not meet by 28 October.

EU immobilised by policy differences

The EU Council meeting on 21 October failed to resolve any key issues – particularly on a common approach to energy prices or to overcome rapidly worsening differentials in financial stability across the EU. Working parties were established to continue discussion and issues of contention referred to the EU Commission.

The gravity of the problems facing the EU are revealed by the widening exposure of the weaker countries (Greece, Italy – not to speak of Romania) to cripplingly high costs for managing their debts. Germany also is in difficulties. Its export economy is in fast decline (Q2 2022 GDP growth on 1.7 percent as against 4.2 in France) – although it still possesses a better resource base to meet immediate problems and has established its own separate scheme for energy subsidies.

	Government Debt as per cent GDP	Oct 21 cost of borrowing	Oct 22
France	112.8%	1.0%	2.7%
Germany	68.6	0.2	2.3
Italy	150.3	2.1	4.2
Greece	194.5	1.1	4.7
Britain	94.9	0.9	3.2

Scottish Government's economic case for independence

The Scottish government published its economic case for independence 'Building a New Scotland' earlier this month (October).

It repeats the main arguments of the 2018 Growth Commission Report. Scotland should aim to re-join the EU at the earliest opportunity and thereby secure access to markets, labour and investment. With oil prices currently at record prices and with the expansion of renewables, it argues that the size of the annual deficit will not be far outside the EU limit – even though the ballooning of UK borrowing since 2018 and Covid will mean that national debt will be even further beyond the 60 percent EU target than it was before. For currency it again proposes the immediate use of sterling followed by a transition to a Scottish currency as a platform for entering the euro. Its plans for industrial growth again largely reflect those of 2018: lowering corporation tax and other taxes on business to attract corporate investment from overseas. It talks generally of a more interventionist role for the Scottish government but not of comprehensive public ownership – even in areas such as energy where it is manifestly required.

The Institute for Fiscal Studies published a critique on 17 October questioning the report's assumptions about continuing high levels of oil revenue. It noted that the post-Covid levels of inherited national debt will be high and disproportionate – and require expenditure cuts over a ten year period. Leaving the UK and joining the EU is also likely to reduce the value and volume of trade – with over 60 percent of Scottish exports currently going south of the border.