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The Wrong Plan for Growth?

- Budget 2011, the Global Competitiveness Report and the dangers of formulating policy on a false premise

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1 Introduction

“Our country has to compete if we are going to create growth and jobs. Britain has fallen behind many others in the world in the last decade. We’ve dropped from 4th to 12th in the global competitiveness league”.

*“The most competitive tax system in the G20 is the first of our economic ambitions. The second is that Britain becomes the best place in Europe to start, finance and grow a business. **Again, let’s face facts: we are not that today.** In the last decade, countries like Germany, Denmark, Finland and the Netherlands have all overtaken us in the international rankings of competitiveness. That is not surprising when the total cost of regulation imposed on business since 1998 is almost £90bn a year”ⁱ.*

In announcing Budget 2011, George Osborne’s commitment to pursuing the cuts announced in the Spending Review was unequivocal. His statement demonstrated similar certainty in identifying the nature of, and solutions to, the UK’s economic challenges. As the quotes above testify, Mr Osborne believes that to achieve the coalition’s ambitions on growth and jobs, urgent and extensive action must be undertaken to cut business taxation and regulation.

The deregulatory, tax-cutting approach to economic development was apparent in the coalition partners’ 2010 manifestos and has been consistently reflected in Ministerial speeches since the coalition assumed officeⁱⁱ. The Budget announcements were trailed in the joint Treasury/BIS paper, ‘*The path to strong, sustainable and balanced growth*’ⁱⁱⁱ published alongside the Spending Review in October 2010:

“A new approach to growth requires a new attitude in Government. Government on its own cannot create growth. It is the decisions of business leaders, entrepreneurs and individual workers which build our economy. What the Government can do is provide the conditions for success to promote a new economic dynamism – harnessing our economic strengths, removing the barriers which prevent markets from supporting enterprise, and putting the private sector first when making decisions on tax, regulation and spending”^{iv}.

Neither Budget 2011 nor *'The path to strong, sustainable and balanced growth'* provided much evidence to support the contention that UK businesses are over-taxed and over-regulated^v. For instance, the Plan for Growth states that *'estimates put the cumulative cost to business of regulations introduced since 1998 at nearly £90bn a year'*^{vi}. The source for this figure is given as the Forum of Private Business's 'Get Britain Trading manifesto'. The same source is then drawn upon for the estimate that 'a typical small business spends 34 hours a month in dealing with red-tape'. This source – a small employer body with a very particular view of both economic development in general and the specific responsibilities employers have to their workforces, communities and environment – can hardly be described as neutral, trustworthy and credible. In short, this hardly constitutes a reliable evidence base on which to develop government policy.

The only source cited which at first glance appears to carry some weight, is the **World Economic Forum's Global Competitiveness Report**. It is on this league table that the UK has slipped from 4th to 12th^{vii}; it is on this 'international ranking of competitiveness' that the UK has been overtaken by Germany, Finland, Denmark and the Netherlands.

In our correspondence with the coalition Government, the STUC has raised serious concerns over the breadth and quality of evidence being used to support the tax-cutting, deregulatory approach to economic development. We have cited evidence from the OECD and World Bank in support of our view that the UK is neither over-regulated nor over-taxed and that an approach that focuses on these areas is likely to inflict significant damage on the UK's capacity to achieve long-term, sustainable GDP and employment growth.

In this paper, we pose a number of questions around the coalition's strategy and the evidence base being used to justify it:

- Is the UK over-taxed and over-regulated? What do the international economic institutions tell us?
- What is the World Economic Forum's Global Competitiveness Report and is it an appropriate evidence base on which to base government policy?
- Accepting that the GCR is indeed a credible measure of competitiveness, what does it tell us about the UK economy in 2011? Is the Chancellor right to use the GCR as evidence to support a tax-cutting, deregulatory agenda?

2 What does the international evidence tell us about Business tax and regulation in the UK?

In the STUC's submission to the 2011 Budget process we cited a range of evidence that contradicts the coalition's view on taxation and regulation.

The World Bank currently rates the UK 4th out of 183 countries in its Ease of Doing Business Rankings^{viii}; an index averaging each country's percentile rankings on 9 topics, made up of a variety of indicators, giving equal weight to each topic. For instance, the UK scores as follows:

- On 'starting a business' the UK ranks 17th out of 183 countries; Denmark ranks 27th, Finland 32nd, Netherlands 71st and Germany 88th; and,
- On 'paying taxes' – which considers both the level of business taxation and the administration required to comply – the UK ranks 16th; Denmark 13th, Netherlands 27th Finland 65th and Germany 88th. The United States ranks 62nd on this measure.

Tax

The '*paying taxes*' ranking assesses performance on a number of indicators including the '*total tax rate*'^{ix} which is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base. In computing the total tax rate, the actual tax payable is divided by commercial profit.

On this measure, the UK's rate of 37.3% is less than the OECD average of 43%. Only New Zealand, Canada, Switzerland, Iceland and Ireland have lower rates. The great exporting nations of Germany (48.2%), Japan (48.6%) and Sweden (54.6%) all have substantially higher rates. The rates for the other nations cited by the Chancellor are Denmark 29.2%, Finland 44.6% and the Netherlands 40.5%.

Another complaint from the business community is that the time taken to comply with taxation responsibilities represents another unnecessary 'burden on business'. However, once again, the evidence^x seems to show that the UK regime is less onerous in this respect: the time taken for businesses to comply with tax responsibilities in the UK is 110 hours a year. This compares favourably to the OECD average (199hrs), Denmark (135 hrs), Netherlands (134 hrs), Germany (215 hrs) and Finland (243 hours). US businesses take 187 hours a year to comply with their tax responsibilities.

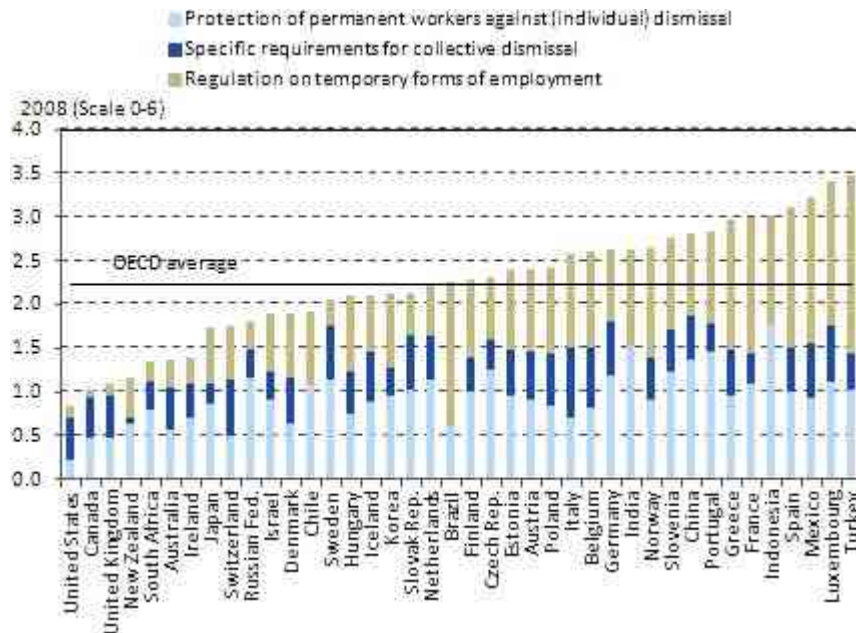
On headline rates of corporation and small business tax rates, the UK rate is slightly higher than the OECD^{xi} average. However, the average is reduced by the very low rates in Ireland, Iceland and the EU accession states. The UK's combined corporate income tax rate of 28% is lower than that of the US (39.21%), Spain (30%), France (34.43%), Germany (30.18%), Australia (30%), Japan (39.54%), Belgium (33.99%) and New Zealand (30%). The coalition Government's commitment to reducing the headline rate to 24% over the course of this Parliament will take the UK rate below that of Austria, Sweden, Denmark, Finland and Norway.

Employment protection

The OECD's indicators of employment protection measure the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts.

Employment Protection in 2008 in OECD and selected non-OECD countries^{xii}

Scale from 0 (least stringent) to 6 (most restrictive)



The levels of employment protection afforded to UK workers are therefore well below the OECD average and below all the countries cited by the Chancellor as having improved their competitiveness. Germany which is widely perceived to have 'reformed' its labour market retains levels of employment protection well above the OECD average and far above UK levels.

Product market regulation

The OECD also publishes Indicators of Product Market Regulation; a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. The indicators cover formal regulations in the following areas: state control of business enterprises; legal and administrative barriers to entrepreneurship; barriers to international trade and investment.

The OECD's analysis^{xiii} of product market regulation 2008 found that, out of the 37 countries studied; **only the United States regulated its product markets less stringently than the UK**. The UK product market (score 0.842) was assessed as less stringently regulated than Netherlands (0.969), Denmark (1.057), Finland (1.188) and Germany (1.328).

On the *'barriers to entrepreneurship'* sub-indicator^{xiv} the UK again outscored the Chancellor's competitiveness enhancing nations: UK (0.824), Netherlands (0.871), and Denmark (1.15). Germany (1.315) and Finland (1.36).

Summary

The STUC is aware of no credible international comparative work that contradicts the evidence cited above. The UK is, on any measure, a lightly regulated economy. The story is not quite so clear cut on taxation where there are layers of complexity around the effective as compared to the nominal rate of corporation tax as well as the ability of corporations to avoid and evade substantial proportions of their taxation responsibilities. However, ***the credible international comparative data does not support the proposition that UK companies are rendered 'uncompetitive' due to high levels of taxation.*** More than that, it is manifestly the case that businesses in the nations where manufacturing continues to account for a higher proportion of GDP supporting a balance of trade surplus, pay higher rates of taxation than the UK. Growth in manufacturing is an explicit aim of the coalition Government.

3 The World Economic Forum's Global Competitiveness Report 2010-2011

The **World Economic Forum's Global Competitiveness Report 2010-2011**^{xv} (henceforth referred to as the GCR) is the flagship report of the WEF's Centre for Global Competitiveness and Performance which produces a number of research studies that *'truly mirror the increased integration and complexity of the world economy'*.

The WEF has been producing competitiveness reports for over three decades and since 2005 has based its competitiveness analysis on the **Global Competitiveness Index (GCI)**; *'a highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness'*^{xvi}.

For the purposes of the report, competitiveness is defined as *'the set of institutions, policies and factors that determine the level of productivity of a country'*^{xvii}. Given that there are *'many determinants driving productivity and competitiveness'* the GCI is compiled using a *'weighted average of many different components, each measuring a different aspect of competitiveness'*. These are grouped into 12 **pillars** of economic competitiveness:

1. Institutions
2. Infrastructure
3. Macroeconomic environment
4. Health and primary education
5. Higher education and training
6. Goods market efficiency
7. Labour market efficiency
8. Financial market development
9. Technological readiness
10. Market-size
11. Business sophistication
12. Innovation

Scores are – quite correctly - weighted depending on each nation’s stage of development (*‘the best way for Rwanda to improve its competitiveness is not the same as the best way for Germany’*)^{xviii}. A country’s score for each pillar is derived from its scores across a number of distinct **indicators** i.e. the institutions pillar consists of 21 separate indicators ranging from ‘Property Rights’ to ‘strength of consumer protection’.

The **GCI** is developed using data drawn from two sources^{xix}:

- international organisations/national sources; and,
- the WEF’s Executive Opinion Survey. **It is important to bear in mind that the scoring of many of the GCI indicators (e.g. *Wastefulness of Government Spending*) is dependent only on the answers of business executives to a single question.**

The WEF’s Centre for Global Competitiveness and Performance works closely with a network of over 150 partner Institutes that administer the Executive Opinion Survey in their respective countries. These are chosen for their *‘capacity to reach out to leading business executives as well as their understanding of the national business operating environment’*. The Partner Institutes’ are *‘for the most part, recognised economics departments of national universities, independent research institutes or business organisations’*^{xx}.

4 What does the 2010-11 GCI tell us about the UK economy’s ‘competitiveness’ challenges?

The 2010-11 GCI scores the UK 12th out of 139 countries; this represents an improvement on 2009-10’s ranking of 13th.

Global Competitiveness Index 2010-2011 rankings^{xxi}

| Country | Rank | Score | ‘09-10 Rank |
|----------------|-------------|--------------|--------------------|
| Switzerland | 1 | 5.63 | 1 |
| Sweden | 2 | 5.56 | 4 |
| Singapore | 3 | 5.48 | 3 |
| United States | 4 | 5.43 | 2 |
| Germany | 5 | 5.39 | 7 |
| Japan | 6 | 5.37 | 8 |
| Finland | 7 | 5.37 | 6 |
| Netherlands | 8 | 5.33 | 10 |
| Denmark | 9 | 5.32 | 5 |
| Canada | 10 | 5.3 | 9 |
| Hong Kong SAR | 11 | 5.3 | 11 |
| United Kingdom | 12 | 5.25 | 13 |
| Taiwan | 13 | 5.21 | 12 |
| Norway | 14 | 5.14 | 14 |
| France | 15 | 5.13 | 16 |

Perhaps surprisingly for a measure of ‘competitiveness’, the BRIC countries do not perform well: China is 27th, India 51st, Brazil 58th and Russia 63rd.

Although the GCR is 501 pages long, it is actually extremely light on analysis which runs only to some 30 pages. The rest of the GCR comprises of the GCI and supporting data tables for each indicator.

In order to assess whether the Chancellor is correct to argue that it is necessary for the UK to cut business taxes and deregulate to improve competitiveness, the following analysis compares the UK’s GCI scores across a range of indicators with the nations identified by the Chancellor as having improved their competitiveness over recent years: Germany, Finland, Denmark and the Netherlands. For the purposes of this analysis, these nations are referred to as the **Competitiveness Enhancing Nations** or **CECs**. A number of other nations are introduced into the analysis to illuminate issues/problems around each competitiveness pillar.

Each of the GCR’s pillars is now considered in turn. References are not provided for each indicator – all the following information is directly extracted from the GCI data tables which can be found between pages 365-494 of the report.

Pillar 1 Institutions

As would be expected, those indicators relating to the protection of property rights demonstrate strong performance by advanced developed nations and poor performance from less politically stable, less developed nations or those perceived to be hostile to the interests of mobile capital. Switzerland ranks highest on the *Property Rights* indicator and Zimbabwe & Venezuela come last.

On the *Property Rights* and *Intellectual Property Protection* indicators, the UK ranks highly (17th out of 139 countries on each indicator) but worse than the CEC’s. The pattern is similar across a number of other indicators such as the *Diversion of Public Funds* (only Germany ranking below UK but all relatively high) and a real divergence only appears on the *Public Trust of Politicians* indicator with the UK ranking well below (55th) the CEC’s.

Then two indicators which appear to back the Coalitions case:

Wastefulness of Government Spending

[1=extremely wasteful; 7=highly efficient in providing necessary goods and services. Mean score 3.4]

| <i>Country</i> | <i>Rank</i> | <i>Score</i> |
|----------------|-------------|--------------|
| Finland | 14 | 4.9 |
| Denmark | 16 | 4.6 |
| Netherlands | 17 | 4.6 |
| Germany | 33 | 4 |
| UK | 72 | 3.2 |

Burden of Government Regulation

[1=extremely burdensome; 7=not burdensome at all] 2009-10. Mean 3.3]

| Country | Rank | Score |
|----------------|-------------|--------------|
| Germany | 92 | 3 |
| UK | 89 | 3.1 |
| Netherlands | 77 | 3.1 |
| Denmark | 26 | 3.8 |
| Finland | 10 | 4.3 |

At first glance these scores appear to provide strong evidence to support the Coalition's view that 1) there is much waste in UK government expenditure and 2) the UK is over-regulated. However, a number of points should be borne in mind:

- These rankings were compiled only on the basis of the responses of business executives to the questions, '*How would you rate the composition of Government Spending in your country?*' and '*How burdensome is it for businesses in your country to comply with governmental administrative requirements (e.g. permits, regulations, reporting)?*'
- There is a striking divergence between this index and the detailed quantitative analysis undertaken by OECD, World bank and others cited earlier; and,
- Some of the world's poorest nations perform very well on these measures. For instance, Rwanda (3rd), Georgia (4th) and the Gambia (5th) all rank in the top 5 of least regulated countries. This is hardly news to the STUC but may serve as a revelation to those who appear to assume that low regulation equals economic success.

The UK also ranks below (but high relative to the index as a whole) the CEC's on a range of other indicators such as Ethical Behaviour of Firms, Strength of Auditing and Reporting Standards, Efficacy of Corporate Boards and Protection of Minority Shareholders' Interests.

Pillar 2 Infrastructure

Given the UK's longstanding public and private investment deficit, it is hardly surprising that the UK ranks below the CEC's (although no lower than 35th overall) on all the following indicators:

- Quality of overall infrastructure;
- Quality of roads;
- Quality of railroad infrastructure;
- Quality of port infrastructure;
- Quality of air transport infrastructure; and,
- Quality of Electricity Supply.

Pillar 3 Macroeconomic indicators

The UK ranks below all the CECs on the *Budget Balance* (current account deficit) indicator although it ranks above Germany and the Netherlands on *Government Debt*. The data for the *Inflation*, *Country Credit Rating* and *Interest Rate Spread* indicators relates to 2009 – which renders these indicators essentially meaningless given the nature and pace of events in the global economy over the past two years.

Pillar 4 Health and Primary Education

A number of indicators such as *Business Impact of Malaria and TB*, *Malaria and TB Incidence* are not relevant to this discussion although it is interesting that businesses in the UK seem to be much more worried about the future impact of HIV/Aids despite the prevalence of the disease being broadly similar across UK and CEC nations.

Infant Mortality is higher in the UK than the CECs but *Life Expectancy* is higher in the UK than in Finland and Denmark.

The UK ranks below Finland, Netherlands and Denmark on *Quality of Primary Education* but higher than Germany. It should be noted that this indicator is again compiled using data extrapolated from a single question to business executives.

Pillar 5 Higher education and training

The UK ranks below all the CEC's except Germany on *Tertiary Education Enrolment Rate* indicator.

On both the *Quality of the Educational System* and *Quality of Math and Science Education* indicators the UK ranks below all the CEC's. The same is true on *Extent of Staff Training*. All these indicators are again compiled using data from a single question posed to business executives.

The UK ranks higher on *Quality Management of Schools* than all the CEC's and above Germany on *Internet Access In Schools*.

Pillar 6 Goods Market Efficiency

Now things get really interesting...

The UK ranks highly (8th) on the *Intensity of Local Competition* indicator (only CEC to score higher is Germany 2 – Finland is way down the list at 52nd) and *Extent of Market Dominance* (10th – Germany and Netherlands are 1st and 6th respectively). The UK ranks below the CEC's on *Effectiveness of Anti-monopoly Policy* but is still high on the overall index at number 8.

The Index then turns to a couple of indicators which seem to provide a strong challenge to the coalition's analysis:

Extent and effect of local taxation (local meaning national in this context)
 What impact does the level of taxes have on incentives to work or invest?
 [1=significantly limits incentives, 7=has no impact on incentives. Mean 3.6]

| Country | Rank | Score |
|----------------|-------------|--------------|
| Denmark | 130 | 2.6 |
| Finland | 114 | 3 |
| United Kingdom | 95 | 3.2 |
| Germany | 90 | 3.3 |
| Netherlands | 59 | 3.7 |

Here's some selected others:

| Overall GCI Rank | Country | Local taxation Rank | Score |
|-------------------------|----------------|----------------------------|--------------|
| 2 | Sweden | 110 | 3 |
| 8 | Japan | 102 | 3.1 |
| 4 | United States | 71 | 3.5 |
| 14 | Norway | 64 | 3.6 |

Total Tax rate

This variable is a combination of profit tax (% of profits), labour tax and contribution (% of profits) and other taxes (% of profits) Source World Bank Ease of Doing Business 2010

| Country | Rank | Score |
|----------------|-------------|--------------|
| Denmark | 27 | 29.2 |
| UK | 54 | 35.9 |
| Netherlands | 65 | 39.3 |
| Germany | 84 | 44.9 |
| Finland | 93 | 47.7 |

Here's some selected others...

| Overall Rank | Country | TTR Rank | Score |
|---------------------|----------------|-----------------|--------------|
| 31 | Iceland | 19 | 25 |
| 29 | Ireland | 22 | 26.5 |
| 14 | Norway | 72 | 41.6 |
| 4 | United States | 89 | 46.3 |
| 2 | Sweden | 108 | 54.6 |
| 8 | Japan | 111 | 55.7 |

The coalition has also argued that the UK has to make it much easier to start a business. The following indicators suggest that the process is already relatively easy in the UK:

Number of procedures to start a business

The number of procedures for the UK and CEC's are as follows: Finland (3), Denmark (4), Netherlands (6), UK (6) and Germany (9). The number of procedures in the UK is the same as the United States and Switzerland which is, remember, the most competitive country in the world according to the GCI.

Time required to start a business

The time required to start a business in the UK and CEC's is as follows: Denmark (6 days), Netherlands (10 days), UK (13 days), Finland (14 days) and Germany (16 days). In Switzerland, the most competitive country in the world, it takes 20 days and in Sweden, the second most competitive country in the world it takes 15 days.

The UK is also a more open economy than the CEC's as the following rankings confirm:

- *Prevalence of trade barriers* – the UK (21) ranks above Netherlands (22), Denmark (31) and Germany (36) but below Finland (8). The UK is a much more open economy than the US (67);
- *Prevalence of Foreign Ownership* – the UK (7) ranks above all the CECs: Finland (23), Netherlands (27), Germany (36) and Denmark (44). The US is ranked 47th;
- *Business Impact of Rules on FDI* - the UK (14) ranks far higher than the CECs: Netherlands (38), Finland (41), Germany (63) and Denmark (78). Switzerland – the most competitive country in the world is 26th. The United States is 77th.

Interestingly, the UK (44) ranks well below the CECs on the *Degree of Customer Orientation* (i.e. how well do companies treat customers) indicator: Denmark (7), Germany (11), Finland (25) and Netherlands (28).

The UK ranks above all the CEC's on the *Buyer Sophistication* indicator.

Pillar 7 Labour market Efficiency

The coalition believes that labour market regulation is a particular problem in the UK:

“But speak to businesses and they’ll say something else: that the balance of rights is tilted far too much in favour of employees over employers. They say it’s become far too difficult to hire and fire workers, and far too easy for those workers to make unscrupulous claims against them”.^{xxii} David Cameron

Does the GCI provide evidence to show that the UK has an over-regulated labour market compared to the CECs? The following indicators are revealing:

Flexibility of wage determination

How are wages set in your country? [1=by a centralised bargaining system; 7=up to each individual company]

| Country | Rank | Score |
|----------------|-------------|--------------|
| UK | 20 | 5.7 |
| Denmark | 107 | 4.5 |
| Netherlands | 129 | 3.4 |
| Finland | 132 | 3.1 |
| Germany | 136 | 2.9 |

Rigidity of Employment

Index on a 0-100(worst) scale; source World Bank ease of doing business

| Country | Rank | Score |
|----------------|-------------|--------------|
| Denmark | 10 | 7 |
| UK | 18 | 10 |
| Finland | 104 | 41 |
| Germany | 108 | 42 |
| Netherlands | 108 | 42 |

Hiring and Firing Practices

[1=impeded by regulations; 7=flexibly determined by employers]

| Country | Rank | Score |
|----------------|-------------|--------------|
| Denmark | 3 | 5.8 |
| UK | 49 | 4.2 |
| Finland | 73 | 3.9 |
| Netherlands | 113 | 3.2 |
| Germany | 133 | 2.7 |

Redundancy Costs

Costs in weeks of salary

| Country | Rank | Score |
|----------------|-------------|--------------|
| Denmark | 1 | 0 |
| Netherlands | 29 | 17 |
| UK | 40 | 22 |
| Finland | 48 | 26 |
| Germany | 98 | 69 |

Pay and Productivity

[1=not related to worker productivity; 7=strongly related]

| Country | Rank | Score |
|----------------|-------------|--------------|
| UK | 25 | 4.5 |
| Denmark | 27 | 4.5 |
| Germany | 43 | 4.3 |
| Finland | 69 | 3.9 |
| Netherlands | 74 | 3.9 |

Brain Drain

[1= the best and brightest normally leave; 7= there are many opportunities]

| Country | Rank | Score |
|----------------|-------------|--------------|
| UK | 10 | 5.2 |
| Netherlands | 11 | 5.2 |
| Finland | 20 | 4.8 |
| Denmark | 23 | 4.8 |
| Germany | 31 | 4.5 |

Female Participation in Labour Force

Source ILO

| Country | Rank | Score |
|----------------|-------------|--------------|
| Finland | 9 | 0.96 |
| Denmark | 19 | 0.92 |
| Netherlands | 42 | 0.86 |
| Germany | 44 | 0.85 |
| UK | 47 | 0.85 |

It is appropriate to pause here for a moment to state what the index is revealing:

- Wages are much more flexibly determined in the UK than in the CECs;
- The UK labour market is slightly less flexible than the Danish labour market but significantly more flexible than the German, Dutch and Finnish labour markets; Sweden, the second most competitive country in the world ranks at 90 and Norway at 113;
- It is much easier to hire and fire in the UK compared to Germany, Finland and the Netherlands; and again, Sweden (128) and Norway (123);
- Pay is much more related to productivity in the UK than in the CECs;
- Workers are more likely to leave the CEC's due to lack of opportunity than they are in the UK; but,
- Female participation in the labour force is lower in the UK than in the CEC's.

Pillar 8 Financial markets Development

As could be anticipated, the UK sails through these indicators, scoring higher than all the CEC's on *Availability of Financial Services* and *Financing through Local Equity Market*. Only Finland scores better on *Availability of Financial Services* and *Restriction on Capital Flows*. However the UK scores poorly on *Ease of Access to Loans* and, hardly surprisingly, on both *Soundness of Banks and Regulation of Security Exchanges*.

Pillar 9 Technological Readiness

The UK and CEC's are quite closely clustered across the *Availability of latest technologies*, *Firm-level technology absorption*, *Internet Users*, *Broadband Internet Subscriptions* and *Internet Bandwidth* indicators. The rankings diverge only on the *FDI and technology transfer* indicator where the UK outperforms the CECs: UK (17), Netherlands (33), Denmark (43), Germany (85) and Finland (93).

Pillar 10 Market Size

Again, the story this indicator tells is predictable: UK ranks just below Germany on the *Domestic Market Size*, *Foreign Market Size* and *GDP* indicators.

Equally predictably, the UK (99) comes last on *Imports as a percentage of GDP*: Netherlands (30), Denmark (68), Germany (81) and Finland (85). On *Exports as a percentage of GDP* the story is very similar: Netherlands ranks 19th; Denmark 45th; Germany 62nd; Finland 72nd and UK 90th. However, it's worth noting that the world's biggest economies score poorly on this indicator: China ranks 88th; Japan 129th and US 131st.

Pillar 11 Business Sophistication

The UK performs reasonably well compared to the CECs across the range of these indicators:

| Business Sophistication Indicator | Rank | | | | |
|--|-------------|----------------|--------------------|----------------|----------------|
| | UK | Germany | Netherlands | Denmark | Finland |
| Local Supplier Quantity | 23 | 3 | 12 | 38 | 80 |
| Local Supplier Quality | 30 | 3 | 8 | 13 | 19 |
| State of Cluster Development | 10 | 12 | 19 | 20 | 9 |
| Nature of Competitive Advantage | 9 | 3 | 8 | 6 | 4 |
| Value chain breadth | 11 | 1 | 7 | 8 | 9 |
| Control of international distribution | 19 | 2 | 11 | 16 | 25 |
| Production process sophistication | 17 | 2 | 6 | 12 | 5 |
| Extent of marketing | 4 | 7 | 5 | 11 | 29 |
| Willingness to delegate authority | 16 | 9 | 4 | 3 | 6 |

Pillar 12 Innovation

Across the range of these indicators the UK ranks poorly compared to the CECs although the gap tends not to be hugely significant and the UK performs reasonably in terms of the index as a whole:

| Innovation | | | | | |
|--|---------|----|-------------|---------|---------|
| Indicator | Rank | | | | |
| | Germany | UK | Netherlands | Denmark | Finland |
| Capacity for Innovation | 1 | 15 | 10 | 9 | 5 |
| Quality of scientific research institutions | 6 | 3 | 9 | 12 | 13 |
| Company R&D spend | 3 | 14 | 15 | 7 | 5 |
| University-industry R&D collaboration | 9 | 4 | 11 | 8 | 3 |
| Government procurement of advanced tech products | 32 | 53 | 24 | 9 | 5 |
| Availability of scientists and engineers | 27 | 29 | 22 | 19 | 1 |
| Utility patents per million pop. | 9 | 20 | 13 | 15 | 6 |

Conclusions

“This conflation of measures and outcomes reaches extreme form in the measurement of national ‘competitiveness’. There are, amusingly, two competitive surveys of competitiveness. One is published by the World Economic Forum (organisers of the Davos Conference) the other by IMD, a Swiss Business School. These rankings receive extensive media attention and are representative of the opinions of business people and sympathetic economists on which they are based”. John Kay, The Truth about Markets^{xxiii}

The STUC does not accept that the World Economic Forum’s Global Competitiveness Report is an appropriate evidence base upon which to build a viable growth strategy. Business executives are hardly likely to offer a neutral, considered response to a question such as, ‘*how burdensome is it for your businesses in your country to comply with governmental administrative requirements?*’ And yet the data gathered in response to this question is explicitly referenced in the coalition’s Plan for Growth.

It is also striking that the GCI ranks for UK developed in response to this qualitative survey are so at odds with the more detailed research conducted by the World Bank and OECD. Perhaps this simply reflects a different ideological outlook from business executives on issues such as the role of government in the economy? It should be noted that we are told nothing about the business executives in the UK who responded to the survey.

However, if we are to accept for the sake of argument, that the survey does tell us something valuable about the concept of competitiveness, then it appears that the Government is learning all the wrong lessons:

- According to the GCI, the UK is clearly not over-taxed compared to the countries cited by the Chancellor: Germany, Finland, Denmark and the Netherlands;
- According to the GCI, the UK clearly has a much more flexible labour market than Germany, Finland and the Netherlands. The Danish labour market might be more flexible but it is also much more secure, which is why its singular system is described as 'flexicurity'. The STUC considers it unlikely that the benefits provided to redundant workers in Denmark will be on offer to UK workers anytime soon;
- The GCI pillar on which UK performance is poorest compared to the CECs is Infrastructure – an approach that focused on this competitive disadvantage would look very different from the one offered in the Government's Plan for Growth. Of course, the Government is currently slashing capital investment. Although it has sought to protect 'growth enhancing' infrastructure, the levels of investment remain weak compared to other nations; and,
- Although there have been some reforms to the labour and taxation systems, none of the CECs has pursued a 'competitiveness' first agenda based on tax cutting and deregulation. Neither have Switzerland or Sweden - the most competitive countries in the world according to the index. Sweden, a relatively high tax, high regulation economy is competitive because it invests in its people, research and infrastructure.

A Plan for Growth that sought to learn the lessons of the Global Competitiveness Report could look something like this:

- Increase corporation tax to bring the UK in line with the mean for the CECs and high competitiveness countries like Sweden;
- The additional tax take should be devoted to improving transport and communications infrastructure in order to provide a direct boost to industry and increase the long-term capacity to grow; such investments would also assist in breaking down the regional disparities which understandably concern the Chancellor. Of course, many would argue that now is the correct time to bring forward capital investment from future years given the very low cost of borrowing and low prices due to spare capacity in the construction sector;
- Meanwhile there should be a focus on improving the UK's performance in other areas where the CECs perform better and which will exert considerable influence over the UK's long-term performance on sustainable growth and job creation: innovation, corporate governance, skills training and intelligent procurement (to boost innovation). There should also be a review to ascertain the long-term economic impact of leaving UK companies considerably more open to foreign takeover than is the case in the CECs; and,
- Similarly, given the coalition's concerns over happiness and social mobility as well as fairness and sustainable growth, there should be a review of the UK's flexible labour market to ascertain its impact on these areas. The economic success of the CECs (as noted above Denmark's flexicurity system makes it something of a special case)

despite having much more rigid labour markets challenges prevailing UK orthodoxy that flexible labour markets are a necessary condition for competitiveness.

The STUC accepts that the GCR can be used to tell many different narratives; but the one we have settled on above is, on the basis of the evidence provided, much more compelling than the Chancellor's.

The STUC does not believe that a plan for growth based on deregulation and tax cuts is necessary or desirable; we believe instead that such an approach will undermine the type of investments – in people, infrastructure and research – required if the UK is to address its genuine competitive disadvantages. This paper concludes by repeating some key points made to the Chancellor in the STUC's 2011 Budget Submission:

- The international evidence on regulation and taxation provides no support for the contention, ubiquitous in the Scottish policy debate, that economic success in the globalised economy is dependent on low regulation and low business taxation. Some of the poorest nations in the world have the least regulation. Countries which are recovering strongly from the financial crisis induced recession have levels of regulation and business taxation far in excess of the UK. Resisting, not joining the race to the bottom, appears to be the way forward for the UK economy;
- The evidence strongly suggests that the coalition government has its priorities very wrong if it believes further undermining of employment legislation is the path to economic dynamism. The UK labour market is already very lightly regulated in comparison to our international competitors. Countries where debt is lower and exports higher as a proportion of GDP, and where manufacturing remains strong, often have comparatively high levels of employment protection. Of course, these countries tend to invest more in skills, employee engagement (Germany's system of co-determination for example) and leadership and management thereby facilitating 'high-road' approaches to productivity growth;
- Although a longer consideration of the causes and effects of growing income and wealth inequality is not appropriate in this paper, there is a strong correlation between labour market deregulation and the falling proportion of wages as a proportion of GDP and the higher proportion of GDP accounted for by profits. It will be impossible to realise the coalition government's ambition of building an economy with strong demand but less reliant on debt if wages continue to fall; and,
- Deregulating product markets may appease those with a strong theoretical and/or ideological approach to economic development but it does not guarantee economic success. It is no accident that the UK and US, the most lightly regulated product markets in the developed world were at the epicentre of the global financial crisis.

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ⁱ Budget Statement 2011

ⁱⁱ It should also be noted that the Tory and Liberal Democrat manifestos for the 2011 Scottish Parliament elections reflect a similar obsession with cutting red-tape which is slightly disconcerting given that the Scottish Government has only a minor locus in regulating businesses. In the interests of fairness, both the Labour and SNP manifestos reflect similar attitudes in not to the same extent.

ⁱⁱⁱ <http://www.bis.gov.uk/assets/biscore/corporate/docs/p/10-1296-path-to-strong-sustainable-and-balanced-growth.pdf>

^{iv} Ibid pg 3

^v For instance, the Plan for Growth states that 'estimates put the cumulative cost to business of regulations introduced since 1998 at nearly £90bn a year'. The source for this figure is given as the Forum of Private Business's 'Get Britain Trading manifesto. The same source is drawn upon for the estimate that 'a typical small business spends 34 hours a month in dealing with red-tape'.

^{vi} Pg 6, The Plan For Growth, Treasury/BIS March 2011

^{vii} The Chancellor refers to the UK slipping from 4th to 12th in the Budget statement. The 'Path to strong, sustainable and balanced growth' paper notes that the UK slipped from 7th to 13th between 1997 and 2009-10.

^{viii} <http://www.doingbusiness.org/rankings>

^{ix} <http://www.doingbusiness.org/data/exploretopics/paying-taxes>

^x Ibid

^{xi} <http://www.oecd.org/dataoecd/26/56/33717459.xls>

^{xii}

http://www.oecd.org/document/11/0,3746,en_2649_37457_42695243_1_1_1_37457,00.html

^{xiii} <http://stats.oecd.org/Index.aspx?DataSetCode=PMR>

^{xiv} <http://stats.oecd.org/Index.aspx?DataSetCode=PMR>

^{xv} <http://www.weforum.org/issues/global-competitiveness>

^{xvi} Ibid pg 4

^{xvii} Ibid pg 4

^{xviii} Ibid pg 9

^{xix} Ibid pg 57

^{xx} Ibid pg 58

^{xxi} Ibid pg 15 – the data from this table is taken directly from the full GCI table on pg 15

^{xxii} <http://www.number10.gov.uk/news/statements-and-articles/2011/01/the-employers-charter-driving-growth-and-supporting-business-59580>

^{xxiii} Pg 310, The Truth about Markets, John Kay, Penguin 2003