

SCOTLAND'S ECONOMIC FUTURE POST-2014

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Executive Summary

Common Weal

The Jimmy Reid Foundation's Common Weal project looks at where policy approaches have been used to achieve successful social and economic outcomes and then seeks to adapt those policy approaches for a Scottish context. The project currently consists of 50 reports and papers by academics and policy experts. Much of this work is focussed on economic issues and issues relevant to economic development appear in many papers. Some of the most relevant papers are on industrial policy, economic options, energy, housing, welfare, new industry development, natural resources, industrial democracy, procurement, tax, poverty, international trade, education, banking, investment and public finance, land reform, food and gender.

Approach

All of this work points to the benefits of moving away from a laissez faire, conflict-driven, macro-focussed approach to economic development:

- Policy decisions are never 'neutral' but always tend to favour one kind of economy or another. Policy now favours overseas corporations ahead of indigenous independent businesses. Economic policy should be clear about what kind of economy it is seeking to achieve and how policy will favour that kind of economy.
- Most enterprises working in an industry sector have more interests in common than competitive differences. There should be a shift in policy emphasis from stepping back and encouraging the competitive element and towards focussing on the mutual element where interests coincide.
- Concentrating only on a small number of economy-wide policy tools such as interest or tax rates fails to reflect the widely different needs of different industry sectors. Rather than seeking 'magic bullets' that 'fix' the whole economy in one go we must take approaches which focus sector by sector and actively build the conditions needed for success in each.

We should state clearly the kind of economy we hope to create through policy, work actively to encourage that economy, look at the economy sector by sector and seek to build mutual approaches which help all the payers in that industry sector. This approach is best understood as an industrial policy.

Aims

Given Scotland's levels of education, history of innovation, natural resources and geostrategic position we should be a high-skill, high-pay, high-productivity, high-investment, high-innovation economy. We're not. The rationale for why it is so important that we make the transition to that kind of economy is made across all of our reports – it is not (in the first instance) high tax but high pay which is key to everything from supporting public services to reducing the cost of welfare. The aims of an industrial policy are as follows:

- We should move from being a low-pay economy to being a high-pay economy by

- diversifying the economy out of low-pay, low-productivity sectors and into high-pay, high-productivity sectors (particularly manufacturing)
- We should seek a much more balanced economy with many more medium-sized enterprises, more competitive independent businesses, more diversity in enterprise type with more mutual and cooperative businesses and in particular with a much higher proportion of the economy owned in Scotland
 - We should promote a high-investment economy and significantly rebalance the economy in favour of manufacturing
 - We should seek 'smart specialisation' wherever we can – developing specialisations where Scotland's high-skill workforce and research and development make us competitive in export markets
 - We should seek innovation at every level in the economy, much of which will be the employee innovation which transforms enterprises outside the high-tech sector
 - We should develop promising new industry sectors, particularly those with high-value manufacturing potential
 - We should pursue 'anchoring strategies' which keep developing business in Scotland and protect them against equity sales which export jobs and intellectual assets
 - We should base more of the economy on effective and responsible exploitation of natural resources, particularly land and renewables
 - We should seek to improve every single sector of the Scottish economy however routine or 'boring' it is considered and not only focus on the new and high-tech end of the economy
 - We should take the experience of work more seriously, working towards industrial democracy, fairer working hours, participative governance and more investment in staff development

Methods

There are many proposals for methods which can be used to encourage and support the kind of transformation proposed above. Here there are three worth highlighting:

- It is imperative that we stimulate investment in the economy. Across the UK as a whole current net rates of investment are less than zero – in both the public and private sectors our infrastructure is declining faster than we're maintaining it, never mind improve it. We need a national investment strategy to reverse this situation.
- Economic policy must become a sector-by-sector practice and it is the industry sectors themselves that must lead in developing that policy. Industry sector forums should engage directly with government in policy development without the need for intermediaries.
- To create momentum we need to initiate economic stimulus. Borrowing prudently against future revenue can enable a rapid programme of housebuilding and energy technology manufacture which can create many thousands of high-quality jobs quickly.

Tools

There are many policy tools which can be used to achieve the above aims. The following list is only an illustrative example and the approaches suggested in brackets are only a few suggestions:

- Monetary Policy (long-term finance, export, stabilise finance sector)
- Fiscal policy (equalising tax burden, targeted incentives, VAT reduction for marginal

- industries)
- Finance and investment (national investment bank, special vehicles for collective national and community borrowing)
- Natural resource management (fishing, oil and gas, land, renewables, sea bed, food, whisky and forestry)
- Competition Policy (reducing takeovers, anchoring enterprises, maintaining diversity)
- Market development (procurement, export support, local sourcing)
- Economic development agencies (set diversification goals, more mutual approaches)
- Innovation, R&D and universities (better use of research, incentives, conditions of licensing, employee innovation)
- Regulation (stability of finance sector, reduce monopolistic practices, encourage high-value activity)
- Industrial democracy (improve productivity and innovation, anchor businesses through governance)
- Education, training and skills (sector forums lead skills plans, more bespoke collaboration, focus on engineering, maths, computing and design)
- Social security (encourage high-wage economy, Citizens' Income to boost local enterprise)
- Diversification (policy of whole-sector diversification via diversification agencies)

Constitutional impact

The economic aims and goals outlined above should be Scotland's economic aims and goals irrespective of the outcome of the referendum. The Jimmy Reid Foundation is not aligned to any political party and will seek to influence policy towards these economic priorities in whichever constitutional situation we end up in. Some of the approaches outlined above can be enacted now; some can't. It is certainly the case that the large majority of the individual policy experts involved in developing the Common Weal work see Scottish independence as offering much more by way of opportunity than threat. While there are many reasons for this, three stand out:

- At the UK level there is little evidence of any shift away from a low-wage, high-inequality economic strategy; Scotland would be pursuing policies within a UK which is pursuing policies that moved in the opposite direction.
- Many of the key powers needed to start this transformation are simply not available, even under the proposals for greater devolution. Full borrowing powers, control of welfare and energy, full responsibility for tax and the ability to pursue an entirely separate housing policy are examples of some of the key powers Scotland simply wouldn't have.
- In 2008 the UK economy suffered much more than most advanced economies from the global financial crisis. This is because the UK was particularly vulnerable to external economic shock as a result of its unbalanced economy and the exposure of its banking sector. None of these structural weaknesses have been adequately addressed. The UK is now in a situation where it remains highly vulnerable to a further economic shock but without the fiscal capacity to respond. All the banking risk, no change in the economic imbalance and no money left for a bail-out.

There would of course be turbulence and some risk resulting from independence such as increased borrowing costs and potential capital flight if currency changes. However, these risks have probably been overstated and are largely temporary rather than structural. If an

independent Scotland pursued the right policies borrowing costs would quickly reduce and any lost capital would be likely to return.

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March 2014