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Executive Summary

A democratic economy:
- This report proposes a mutual, sectoral model of industrial development and rejects both ‘top down planning’ and ‘free market’ approaches.
- Our approach is based on the recognition that the economy is not a force ‘external’ to society, governed by its own set of abstract rules or laws. The form an economy takes is inevitably the result of political decision-making.
- Democracy must therefore extend to the economic sphere to ensure that the outcomes of these political decisions are aligned with the aspirations of the people.
- Government intervention in the economy is normal. This intervention must be led by democratic processes and directed towards the common good.
- Such an approach best utilises the skills, knowledge and experience of those working in each sector.
- It also recognises that much of the most effective innovation is employee-led.
- Encourages greater investment in research and development activities as a means of improving productivity.
- Is required to promote an ‘interconnected economy’, in which different sectors ‘grow up together’. This makes an economy in which domestic supply chains of goods and services are strong because different enterprises working in different sectors are able to supply each other with the advanced standard of goods and services needed.
- A good motto for this kind of industrial policy could be ‘no sector left behind’.
- Policies and actions should be integrated into a broader energy and environmental approach, which emphasises the need to address climate change.

The shortcomings of UK economic policy:
UK policy has been shaped by successive governments’ embrace of one form of economic ideology that favours the private sector over the public (generally known as neoliberalism), such that it has become:
- Too focussed on purely ‘macro’ approaches (actions which affect all parts of the economy simultaneously, such as manipulating interest rates (monetary policy) or cutting tax (fiscal policy)).
- Too narrowly focussed on GDP growth. Primarily concerned with increasing the size of the overall economy, it has favoured economies of scale and big businesses.
- Privileging the finance sector over other sectors. This has encouraged greater speculative activities as opposed to productive ones, turning the UK into a low productivity economy that is overly reliant on financial assets, with a major balance of trade deficit with the rest of the world.
- As a result the UK has neglected innovation, the provision of satisfying and highly paid employment, stable and thriving communities and environmental protection and enhancement. Instead there is an increasing precariousness to (low) paid employment through the increasing use of zero hours contracts and part-time work.
- Because of the representation of employees and trades unions these associations are particularly useful in providing space for the development of employee-led innovation.
- Sector associations can be set challenges, such as the identification of ‘smart specialisations’ within the industry or the development of export markets.
- Sector associations develop their own plans collectively. These can then be submitted to government as position papers that are received by the Scottish Government as guidelines for policy.
- The role of government (local and national) is to assess what is being recommended, test it against competing policy drivers, coordinate it with what other sector associations are asking for and seek to come up with a coherent plan which achieves as much as possible.

A sectoral approach:
- A modern and successful industrial policy requires a much more accurate reflection of the specialisms of each sector and which can differentiate different kinds of social and economic outcomes that might be sought.
These are associations for bringing together new ideas and challenging received wisdom. They are not talking shops, but a fundamentally different approach to policymaking, based on the democratic deliberation of all the main industry players in each sector.

Policy task list:

- It is important to be aware that Scotland simply does not have access to the economic policy tools that it would require to pursue a substantially different economic strategy. Most macroeconomic, regulatory, employment, social security, tax, immigration and trade powers remain reserved to Westminster and these will continue to be directed towards the wrong economic approaches for Scotland for the foreseeable future.

- However, there remains a substantial range of actions which can be taken in Scotland to help induce the right kind of economic transformation and these can be assembled into a 'toolkit' of powers which sector associations can draw on in developing their proposals.

- At the top level, it is possible to set out a series of key tasks which these tools should be used to achieve. Among them are: moving the balance in favour of independent businesses and manufacturing, promoting innovation throughout the economy, pursuing smart specialisation wherever possible, creating ‘anchoring’ strategies to keep native businesses in Scotland and securing long term finance.

Principles of an industrial policy:

- We identify three main aims of an industrial policy: to create and sustain high-wage, high quality jobs, to produce socially useful goods and services and to create sustainable industry sectors which achieve these two goals without social or environmental harm.

- Scotland must build on the strengths of existing regional development agencies, European partnership agreements, models of economic regeneration, R&I, human capital and natural resources to establish and retain globally competitive and sustainable SMEs founded on smart specialisation. To be a successful economy, Scotland must develop a ‘triple helix’ of clear partnership working and cooperation between enterprises, state organisations and R&D institutions, particularly universities.

- A good example of this kind of integration is ‘The Third Italy’, where SMEs cooperate over input activities such as research and development, training, marketing and advertising, but remain in competition over output activities. This enables small businesses to achieve what has been termed ‘cooperative economies of scale’, which enable the SMEs who are part of ‘the industrial district’ to compete in the global marketplace against multi-national competitors.

- Government use of private finance for public sector investment should be avoided where possible. It is too expensive and cedes control of the economy to parties which prioritise the extraction of wealth over industrial development. The Scottish Government should aim to increase investment levels to at least the EU average. A National Investment Bank should be established as the cornerstone of this investment strategy. Diversity in the banking sector should be developed through the foundation of local authority-owned banks and support for credit unions, drawing from the example of the German banking system.

- Economic decision-making should be democratised by developing forms of ownership and governance that radically decentralise decision-making to empower all groups in society. As far as possible without the devolution of employment law, this should include forms of industrial democracy which provide employees a stake in corporate decision-making (a government ‘kite-mark’ system could be established to incentivise this), as well as developing and supporting forms of democratic corporate ownership such as employee-owned firms, cooperatives and community owned businesses.

- Businesses should embrace corporate social responsibility which could draw on the experience of the 'social plan’ in the Netherlands. Such a social plan would establish the legal responsibility of businesses for their employees, the wider economy, society and the environment. Such a plan can be expected to reduce employee turnover, engender greater employee loyalty and engagement and result in greater productivity.

- Public investment in infrastructure should aim to facilitate economic development on the basis of meeting social and environmental need, and promote the accessibility of employment, healthcare, education, leisure and other essential services and activities.

- A tax system should ensure common benefit from common wealth and provide resources to fund institutions and services that give all of us an opportunity for a good life in a good society. A Land Value Tax as operated in Denmark is a good example of a tax which incentivises activities that are good for society and disincentivises things that are bad and is democratically accountable to local populations.

- The privatised energy regime in Scotland should be challenged by municipal energy companies and non-profits, on both the production and distribution side. Drawing upon best practice from Nordic and other experiences, energy should be based on diversity of ownership types that spread economic decision-making power and public participation.
• Work should enable a better work/life balance, avoiding excessive anti-social hours and offering satisfying job content. Central to improving the experience of work is empowering employees to shape their own working conditions.

• Tackling gender inequalities should be at the forefront of an industrial policy. Sector associations should be tasked with devising industry specific strategies, addressing issues like gender workplace segregation and gender pay inequality. Moving the emphasis away from narrow GDP measurements of progress should increase the likelihood of gendered issues, like unpaid care work and childcare costs, being accounted for. An approach based on the principle of 'no industry left behind' would see female dominated industries, which tend to be lower pay and not always 'high growth', prioritised more by economic development agencies.

• A Common Weal economy actively encourages democratic experimentation with the structure of enterprises and sectors, including open source and 'peer production' business methods. Such an approach would be greatly aided by a news media industry that more effectively supports the generation, availability and circulation of new economic ideas. To achieve this, Scotland could draw from the Swedish experience of public subsidies for print media. A more innovative approach could be the distribution of a 'citizenship news voucher.'
Introduction

An industrial policy cannot be a centralised, top-down plan for an entire economy written by theorists. An effective industrial policy can only be produced sector by sector, industry by industry, and must be based on all the talent that can be assembled. Nonetheless, some broad guidelines and principles can be established. This paper investigates and proposes such guidelines and principles. In doing so it seeks directly to challenge the orthodoxy that central management of a small number of economic ‘levers’ will ever maximise the potential of the economy. It rejects any simplistic measure of what economic success looks like, noting that in recent times the preferred model of economic growth has in many cases impacted negatively on society, prosperity and the environment.

For example, in some industry sectors the primary goal may indeed be to make the existing industry bigger. But in another the principle objective may be to make the existing industry more productive so that in time it can better compete and grow. In other sectors the best option may be to accept that long-term decline looks likely and seek to diversify. In yet another there may be a collective view that the best outcome may be for some kinds of economic activity to shrink and others grow. And there are industry sectors which don’t exist but could or should and if we want these to develop a whole range of goals will be involved before growth can even be considered.

What this report seeks to do is to explain how Scotland can move towards an effective industrial policy. Firstly it explains the approach that we propose – a mutual, sectoral model of policy development. Then it explores the ‘task list’ – the key themes and policy approaches of those developing the sector strategies. Finally it looks at what we want to achieve for the overall economy using this approach and these tools.

“If we can’t increase the rate of manufacturing and export and improve productivity and innovation across all business sectors then we won’t achieve that high-pay economy.”

If Scotland cannot create an economy of high-pay, high-skill jobs then we will continue to suffer the damaging impact of a low-pay economy, such as social dislocation, the erosion of social mobility, and ever greater disparities in income and wealth and the impact this has on standards of living and health (Leitch, 2006; Whittaker, 2013; Wilkinson and Pickett, 2010). If we can’t increase the rate of manufacturing and export and improve productivity and innovation across all business sectors then we won’t achieve that high-pay economy. The ‘free market approach’ of setting a limited number of economy-wide market conditions that favour big enterprises and then allowing them to drive the economy has very clearly failed to achieve this.

A different approach is required. Economic management by a small elite pursuing a narrow and flawed ideology is unbalanced and wastes the much wider talent pool of any society (Cuthbert and Cuthbert, 2013). Instead we must have a mutual, collective and shared approach to working out how to improve all parts of our economy.

Now is the time for a proper industrial policy for Scotland. These are the approaches that will get us there.

What Is An Industrial Policy?

An industrial policy begins from the view that the economy is not in some way separate from wider society or its hopes and aspirations. It then follows that, in a democracy in which citizens have a say about the nature of the society in which they want to live, that democratic mandate must also embrace the economy. The prevailing view that the economy must be protected, isolated and immunised from democracy (the primary underlining principle of ‘free market economics’) must be challenged if we wish to create an economy that works for citizens rather than only for the largest economic enterprises in that economy. The domination of large economic power can easily be shown not only to impact negatively on factors which affect citizens (such as health, the environment and wages) but also on economic performance. For example, free market economics allowed the development of an economy which is universally regarded as unbalanced, over-reliant on a small number of volatile business sectors and exceptionally vulnerable to external economic shock. It has led to particularly poor performance in exporting, industrial production, and productivity generally. And it has demonstrated all the attributes of monopolisation of parts of the economy including profiteering, and outright corruption. All of these are the predictable outcomes of privileging speculative and unproductive financial activities ahead of productive industrial ones.

However, in making the case for an industrial policy it is unwise to take at face value that the above is the ‘natural result’ of ‘laissez-faire’ approaches to economic governance. In fact there is no action – or lack of action – which is a neutral position. Any action – or lack of action – will act to favour one form of economic activity or another. James Galbraith (2008) eloquently demonstrates how the US government has been captured by particular financial interests. In this context deregulating banks is not a neutral decision but an active choice to allow banks to play a speculative (and parasitical) role in the economy. Planning policy that liberalises out-of-town commercial development is a decision to allow high streets to decline (Friends of the Earth, 2006). The question is not ‘have we managed to achieve some imaginary state of policy neutrality?’. The question now is ‘have we favoured the right kind of economy in our economic decision-making?’. The answer is patently ‘no.’

It is also often argued that intervention in the economy is no longer allowed because of global free trade agreements.
This too is patently not the case as the bailout of the banking sector has shown. But while of course there are constraints to what an individual nation can do in a global market, almost every other European country takes a much more interventionist approach than the UK. For example, the UK’s investment to GDP ratio is among the lowest in the EU (EIB, 2013). So the question is not ‘can an industrial policy do everything?’ but ‘can an industrial policy do substantially more than we’re currently doing?’ To this the answer is undoubtedly ‘yes’. In fact, UK economic policy has been so focussed on purely ‘macro’ approaches (actions which are focussed on the economy as a whole, inflation-targeting monetary policy, and austerity fiscal policy, which is tailored to the misguided attempt to lower government debt) that a genuine sector-by-sector approach has not seriously been explored. An industrial, smart specialisation policy based on Scotland’s strengths, its globally recognised research, development and innovation, its universities and skills offers a brighter more sustainable future.

Finally, do industrial policies work? Are they not massively risky as governments try to second-guess an economy which is fundamentally unknowable? This has been the argument used by free market economists against the use of an industrial policy. It has two major flaws.

“If there is one thing that has become clear since the economic crash of 2008, it is much more dangerous to leave the economy in the sole hands of individual industry sectors to self-regulate.”

Firstly, it fails to reflect the reality as experienced (Chang, 2007). All governments play a role in the economy (Stiglitz, 1996), and therefore have some form of industrial policy whether reactive or proactive. The reactive industrial policy prevalent in developed economies is to prop up commercial banks at any cost and protect ‘special interest’ parts of the private sector at times of crisis, like oil and gas. Much better is a pro-active approach which embraces the fact that markets need government intervention and therefore plot a long-term strategy for doing so most effectively. This strategy can account for prospective industries that require intensive government support at the initial stage, as well as for managing the decline of older industries so that they are capable of diversifying.

And secondly, if there is one thing that has become clear since the economic crash of 2008, it is much more dangerous to leave the economy in the sole hands of individual industry sectors to self-regulate, which are not only unable to take an accurate view of their own sector and its impact on the wider economy but don’t even seek to. The assumption that only profit-maximising industries working in their own interests can create a healthy economy is clearly flawed (UNCTAD, 2012).

When properly organised and embedded in economic activity, industrial policies are effective. If Scotland is content to continue with an unproductive, low-pay economy, doing nothing would be an effective strategy. If we want a high-pay, productive economy we must accept the need for a democratic intervention.

Why do we need a sector focus?

Of course the UK has used some policy approaches which are tailored to individual industry sectors, especially speculative finance, but generally even these have to work towards a single, crude national objective – GDP growth at almost any cost. The case study example of why this national target is fatally flawed is the effect that it has had on high streets. The assumption that growth of any sort is the ultimate goal drives a view that any enterprise which is likely to at least appear to create more growth should always be favoured. There may be industry sectors where this approach works, but it is certainly not true of local trade. Out-of-town supermarket developments or large-scale shopping mall development in cities may appear to offer short-term growth (particularly when the economic case is made in the form of extensive political lobbying) but they have had a devastating impact on independent businesses and local trade and in some cases have had an equally devastating impact on the towns in which we live (Friends of the Earth, 2006). Is an economic approach which harms most businesses, harms our social infrastructure, harms local trade and removes revenue from local economies really the approach we want to take?

In large volume exporting/manufacturing sectors the ‘economies of scale’ argument may make sense. In small volume local retail it does not. We need to have an economic policy which is capable of a much more accurate reflection of the particular circumstances of each sector and which can differentiate different kinds of social and economic outcomes we might seek.

Another reason a sectoral approach to industrial policy is needed is to balance the ‘shiny things’ view of future economic development. Often policy-makers are attracted to narratives that propose exciting new high-tech industry sectors or emphasise the rapid growth of industries that are thrusting and dominant. The former can distract people into an over-eager hunt for the ‘next big thing’; the latter can lead to the dangerous fetishisation of fashionable sectors as we saw with the virtual deification of the financial services sector in the late 1990s and 2000s.

“Where Nordic countries have been much more effective than the UK in economic development is to take a really focussed look at all parts of their economy to see if it is possible to improve innovation, productivity and performance in any or all of them.”

In reality a very large proportion of the economy is neither new nor ‘shiny’ but no less essential and in fact responsible...
for much of our national wealth and many of our jobs. The local garage that repairs your car, the local shop where you get many of your day-to-day bits and pieces, the public sector staff who keep streets clean and roads open, housebuilding and so on. Whilst industries dominated by global monopolies and oligopolies have the financial muscle to fund their own large scale R & D, crucially important but smaller scale innovation is neglected (Keep, 2013). Again, this is in part a result of what innovation in the UK has come to mean. It is usually taken to mean ‘scientists in a laboratory with test tubes’. In fact much of the most effective innovation takes the form of ‘if we change the delivery route we could fit in an extra three deliveries per day’. That last form of process innovation is always sector-specific and often enterprise-specific – and it is almost always driven by employee innovation (ibid).

Where Nordic countries have been much more effective than the UK in economic development is to take a really focussed look at all parts of their economy to see if it is possible to improve innovation, productivity and performance in any or all of them. To take one example: because the Nordic countries in the 1970s focussed on what was then an entirely routine and unfashionable timber industry to explore not what it was but what it could be it has now developed that industry into one of the world’s leading advanced material manufacturing sectors. No parallel process happened in the UK. This process achieves ‘smart specialisation’, the ability to identify where there are real opportunities for industries to become better through specialisation in areas where they have competitive advantages.

The current model rather assumes that quality comes from quantity: the more economy we have (typically understood as ‘the bigger the GDP’) the better it must be. An effective industrial policy approach would assume that quantity comes from quality – that by supporting industry sectors to be better they can grow sustainably and deliver better outcomes. No part of our economy should be ‘too ordinary, too routine, too boring’ to be the focus of national attempts to improve all corners of our economy.

Finally, a sectoral approach is needed if we are to build a more coherent economy. One of the strengths of Nordic economies is their interconnectedness – but also their consistent level of development. The Nordic countries went through a process where all the different parts of the economy developed in parallel. This meant that they all ‘grew up together’ and that the economy was dominated by industries which were at similar levels of sophistication. This made an economy in which domestic supply chains of goods and services were strong because different enterprises working in different sectors were able to supply the advanced level of goods and services each other needed. The UK economy has such differential levels of business sophistication that it is much harder to create that interconnectedness which strengthens and secures the economy overall. Scotland, with its dependence on branch plants of multinational enterprises, has been unable to benefit from cluster policies or sophisticated supply chains.

If there is a motto for an industrial policy in Scotland perhaps it should be ‘no sector left behind’. But this cannot be achieved at the macro level.

How would an industrial policy be developed?

A number of the Nordic countries have developed varying models of sector associations. These are structures which enable all the main players in an industry sector to work collectively to create conditions which benefit them all. Much like the current Business Improvement Districts in Scotland, voluntary structures could be put in place with Scottish Government Support to facilitate collective endeavours which would be of mutual benefit. Rather than starting by seeing all these individual players as in permanent conflict (employee versus employer, business versus business, region versus region), this sees the first, large part of their interests as coinciding. Take, for example, food production; it is easy to get into a situation where strategy for the food production industry would assume that policy can’t ‘take sides’ in conflicts between large farms and small, specialist producers or between producers and retailers or between retailers pursuing the same procurement contracts, etc. However, it is also easy to see that all the domestic players benefit from creating a market that comfortably absorbs both bulk and specialist provision; that both retailers and producers benefit from a fair price which sustains long-term supply chains; that domestic businesses competing for procurement contracts benefit from contracts which are sized right and can be won without undue bureaucracy.

Markets can be effective, but long before reaching the market competition element of the economy there is much that can be done mutually to make the whole industry more effective. That’s what sector associations are for – to get beyond the fear of public policy practitioners who believe (correctly) that ‘remote control’ won’t work, not by inaction but by creating structures in which mutually-supported action can be designed.

“The Finnish system is often cited as particularly effective. Here a biotechnology sector association will have as equal members multinationals, small and medium-sized industries, supply chain industries, employee representatives and trade unions, universities and research experts, vocational education providers, teachers and school curriculum developers and more.”

The Finnish system is often cited as particularly effective. Here a biotechnology sector association will have as equal
members multinationals, small and medium-sized industries, supply chain industries, employee representatives and trade unions, universities and research experts, vocational education providers, teachers and school curriculum developers and more (Rouvinen, 1999). This means, for example, that those teaching biology at school can have their teaching informed by the latest developments in the industry or those providing vocational training are able to speak to smaller businesses and not just dominant industry players. This can raise the performance and capacity of all the contributors to an industry sector.

It is particularly important to emphasise here the industry players who are often not properly involved in developing economic policy. Perhaps in the UK in particular, the workforce (either as individuals or through trade unions) are often seen as a barrier to better performance rather than an enhancing influence. It is this failure to recognise the ground-level expertise of employees which is one of the major factors limiting the UK’s performance on innovation. As raised above, much of the innovation gap between the UK and other developed economies is the missing employee innovation which is normal in other economies. There, management structures tend to create more empowered workers who are in greater control of aspects of their work and so when they can find ways to do things better they are immediately able to do it. This is also true of sector-level policy where sector associations can tap into employee expertise.

It is also important to seek external input to sector associations so that industry sectors are not able to get into ‘feedback loops’ of path dependency where ‘it’s always been done this way’ becomes a driving feature. The ability to challenge elements of performance or look for innovative examples of practice from elsewhere is necessary to stimulate new thinking.

What is not needed is bureaucratic mediation. Sector associations are not focus groups in which stakeholders are brought together to brainstorm ideas that central government policy professionals then take-or-leave in writing up the policies they believe to be right. It is for a sector association (with policy support from government) to develop their own plans collectively. Of course these then have to be submitted to government and parliament for approval and sector associations do not tie the hands of politicians or compel them to act in certain ways. In policy areas that are reserved matters in the UK constitution, it may be the case that the sector association is simply registering its position if the scope for reform is cut off or limited. In matters pertaining to EU law and legislation, sector associations can work with Scottish MEPs to build European alliances and challenge the dominant influence of lobbyists in Brussels. In devolved matters, while the sector associations would be voluntary organisations without statutory rights, their position papers would act as guidelines to the Scottish Government which would elevate their role beyond that of a standard consultation response.

This means that sector associations can take a pan-governmental approach in identifying what actions are required. If a sector association believes that action is needed in procurement approaches, housing policy and international marketing support it should be able to engage in a government-wide discussion on all these issues in a coordinated way and not be limited to dealing with one department and therefore a limited range of policy areas. The role of government is to assess what is being requested, test it against competing policy drivers, coordinate it with what other sector associations are requesting, and seek to develop a coherent overarching set of strategic guidelines. Particularly important in this context is that government is seen as all the layers and individual functions of governance, including; local authorities, agencies, NDPBs and any other element of the governmental system. Issues outside the direct remit of government should also be part of sector plans; the sector association itself with the support of government can negotiate directly with other non-government bodies.

“If sector associations are set up and the policy-maker attitude maintains a gatekeeper assumption or government believes that setting up the associations was the end of the process, they will just turn into talking shops and be quickly avoided by industry itself”

Associations should be set specific challenges, but these must be of principle and not of targets. So for example associations should be challenged to identify if there are smart specialisations that could be pursued in that industry. Or they might be asked to look specifically at productivity improvement or increasing export markets. This is not a one-way dialogue; part of the point is that some democratic statement of the type of outcome being sought is part of the process.

The approach to identifying potential new industry sectors where existing players are small, particularly disparate, not yet actively trading or which don’t exist at all will be slightly different. However, exploratory associations drawing together whatever players are available and matching them up with others who have capacity to help establish that industry can function on the same principles.

Of course, if sector associations are set up and the policy-maker attitude maintains a gatekeeper assumption or government believes that setting up the associations was the end of the process, they will just turn into talking shops and be quickly avoided by industry itself. What is required and proposed here is not ‘business as usual with consultative meetings tackled on’; it is a fundamentally different approach to policy-making. This is not a one-way dialogue; part of the point is that some democratic statement of the type of outcome being sought is part of the process, and this contrasts starkly with the current waste of the abundance of graduate and apprenticeship-based skills in our economy.
Industrial Policy
Task List

For all the reasons stated it would be pointless and counterproductive for this report to seek to bypass the approaches and processes outlined above and explain what policies need to be put in place. However, this does not mean that broad objectives that can be achieved with these policies cannot be identified. The following list is by no means comprehensive but forms an initial ‘task list’ for policy changes which can form the basis of sector plans. It seeks to show just how much is possible if government policy is properly put at the disposal of an industrial policy.

Market development

- Using public procurement to create guaranteed order books for target industries
- Focusing more on developing export markets and promoting local sourcing, including a EU-wide strategy.
- Connecting Scottish consumers with Scottish products

Finance and investment

- Establish a Scottish National Investment Bank for long-term, patient finance
- Support credit unions and discourage pay-day lenders for micro-finance, as well as investigating the establishment of regional retail banks similar to the Sparkassen in Germany
- Develop a strategy to use Scottish pension funds for infrastructure investment
- Maximise use of Scottish Government capital borrowing powers and investigate establishment of Scottish bonds (‘kilts’)
- ‘Public-public partnerships’ where public sector collaboration can produce more efficient and high quality outcomes than the private sector

Economic development agencies

- Making diversification of the economy and increase in manufacturing a specific goal
- An industrial democracy kite-mark system similar to the living wage accreditation scheme for employers promoting industrial democracy
- Increasing recognition of wider benefits of local sourcing and local ownership
- Targeted government support for businesses promoting cutting edge innovation and product design

- Prioritise quality improvement in business support as opposed to quantity

R & D, training and skills

- Expand investment in ‘innovation centres’ which connect university R & D with industry, including making innovation centre plans integral to sector associations
- National strategies for more people into maths, engineering, design, etc.
- More support for lifelong learning which makes upgrading skills easy and accessible

Diversification

- Specific policy of whole-sector diversification
- Sector diversification agencies in particular sectors
- Local economies supported to produce locally and sustainably.
- Promote and support peer production and open source business methods
- Geographical diversification to utilise full resources of Scotland

Pan-government and extra-government approaches

- Other departments must become part of the discussion at an association level
- As should different layers of government, from councillors to MPs to MEPs
- Draw in non-governmental players where necessary

Shared infrastructure

- Establish and promote co-production services for small and micro businesses, particularly in food, manufacturing and IT
- Develop open source software industry, starting with public sector IT, and open source production designs eg 3D printing

There are a few consistent themes we would expect to see emerge from sector associations which could be addressed by these means:

- Move the balance in favour of independent businesses and away from corporations
- Move the balance in favour of manufacturing
- Create ‘anchoring strategies’ which keep indigenous businesses in Scotland and protect them from equity sale, etc.
• Diversify sectors to make them less reliant on small numbers of purchasers
• Pursue smart specialisation wherever possible
• Create secure, long-term finance
• Promote innovation throughout the economy
• Help create market demand for emerging businesses (for example by using public procurement)
• Base more of the economy on the productive use of natural resources
• Greatly improve investment rates throughout the economy

Principles of an industrial policy

This report does not seek to set targets for an industrial policy nor to describe how the economy would be structured if it was successful. However, it is important to be able to understand what sort of economy can be pursued. The following is an outline of the core principles and key institutional arrangements which would underpin an economy designed for the common good. These are grounded, where possible, in concrete examples of good practice. Together, these provide a realistic set of objectives to inform the specifics of strategic development of key sectors going forward.

An economy is a system of social provisioning; an array of institutions that ensures that society provides material goods and services to address its needs and wants (Gruchy, 1987). The common good is served when an economy socially provisions in such a way to enable the flourishing of each of its citizens; creates sufficient wealth and distributes it to ensure high social cohesion, and if it does so in an environmentally sustainable way. Three key aims of this kind of economy should be highlighted:

• to create and sustain high-wage, high quality jobs
• to produce socially useful goods and services
• to create sustainable industry sectors which achieve these two goals without social or environmental harm

Successful Economies

Successful economies, especially of smaller countries, are based on clear partnering work, cooperation between enterprises, state organisations and Research and Development (R&D) institutions, particularly universities. The experience of such ‘triple helixes’ is consistent with Scotland’s positive record in regional development agencies, European partnership agreements and models of economic regeneration – all adopted well beyond these borders as best practice.

Focused on and through key sectors, Scotland will do well to build on the strengths of these existing institutions and capacities to generate globally competitive and sustainable Small and Medium Sized Enterprises (SMEs). Nordic and German experiences have demonstrated that such smart specialisation can be achieved through the right combination of institutions with expertise in regional development, Research Development Technology and Innovation (RDTI), finance and other business factors. Establishing and retaining indigenously owned SMEs at the core of the economy should be a critical aim of Scotland’s economic strategy and embedded into the objectives of development and funding agencies.

“As in the globally leading Nordic countries, a first step in reviving the Scottish economy, and the production industries especially, should be the collation of intelligence and full analysis of the impacts, supply chain, input and output linkages of all sectors and large companies.”

Scotland should aim to create an economic and industrial structure that maximises opportunities for all through the smart application of Scotland’s human capital, R&D, partnerships and natural resources. Indigenous factors and facilities should be complemented by the judicious application of foreign investment, diasporas of all our peoples and other external networks and partnerships. As in the globally leading Nordic countries, a first step in reviving the Scottish economy, and the production industries especially, should be the collation of intelligence and full analysis of the impacts, supply chain, input and output linkages of all sectors and large companies. This will enable better targeting of public sector finance and other support so that maximum net benefits are achieved for the Scottish economy, enterprises and people.

Institutions and a more integrated economy

The economy is not only a series of independent enterprises in a ‘free market’; it must be seen as an integrated system including private enterprises, social enterprises, public enterprises and key national institutions (notably universities and colleges). There should be good economic integration – for example using sector associations and hub systems. Integrated supply chains and local trading relationships should enable entire sectors of different enterprises to ‘grow up together.’

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A good example of this kind of integration is ‘The Third Italy’, the Italian industrial districts found in the north-east of the country. SMEs located in a specific geographical location both co-operate and compete (Danson and Whittam, 1997).
They cooperate over input activities such as research and development, training, marketing and advertising, but they remain in competition over output activities. This enables small businesses to achieve what has been termed ‘cooperative economies of scale’, which enable the SMEs who are a part of ‘the industrial district’ to compete in the global marketplace against multi-national competitors. The SMEs may share specialist equipment such as computer-aided design, which an individual business would not be able to afford. Similarly, individual specialist workers may be ‘shared’ between businesses. Specialist ‘Service Centres’ have been established to handle a lot of the regulatory compliance and issues such as payroll so that the cost of this ‘red tape’ is likewise shared amongst the participating businesses. Industrial regions can also be marketed as a whole through, for example, participation in trade fairs, so that costs are shared amongst all the participating businesses. These policies have resulted in the ‘Third Italy’ maintaining a reputation for high value-added goods and services resulting in high living standards.

Finance

The UK and Scottish Governments appear committed to using private finance to renew infrastructure and invest in new plants and industries. There is some merit in this, e.g. the top 400 world corporations have $6.7 trillion in cash, sovereign wealth funds and hedge funds (have much more), and if the investment occurs, jobs and taxes will accrue. It does not, however, best utilise the country’s resources and continues the well documented tradition of branch factories and industrial blackmail, seen most recently with the Ineos owned plant at Grangemouth. Moreover, investment often only occurs at significant long term cost, e.g. Hinkley Point Nuclear stations will pay overseas profits for 40 years. Frequently no investment occurs and infrastructure deteriorates. The obsession with minimising government debt, even where investments will generate additional tax revenues, is utterly self-defeating. If the investments are essential, then if Governments can borrow cheaper than companies, special vehicles should be established to provide new capital.

The Scottish Government should aim to increase investment levels to at least the EU average (Cairns, Cooper, Morgan, 2014). Sources of investment could include new Scottish bonds, specially targeted to attract pension funds. This could simultaneously slow pensioner impoverishment from below inflation interest from banks (and National Savings and Investment (NS&I)), and free local government to directly issue bonds and promote economic development.

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Central to the financing of any industrial strategy should be a National Investment Bank (NIB). This would issue bonds for targeted investment and could be modelled on the highly successful Kreditanstalt für Wiederaufbau (KfW), joint owned by the German state and lander. The NIB would work with local authorities and other agencies to identify priority projects, much along the lines of the Public Works Loan Board. Although corporate technical expertise would be required, as far as possible investment in tax generating industries and projects should be publicly owned.

An NIB could also contribute to promoting banking diversity. Small banks allocate a considerably greater proportion of credit to SMEs than large banks (Berger and Udell, 1996; DeYoung et al., 1999; Keeton, 1995; Peek and Rosengren, 1996). Large banks prefer to make their money from large deals, rather than many small deals, because this is less labour intensive. All too often these involve asset speculation, fuelling cycles of boom and bust. Small banks are more focused on smaller deals as returns secured are larger relative to their size. Therefore, a financial sector populated by numerous small banks, rather than one dominated by just four or five ‘Too Big to Fail Banks’, would be more stable and ensure that more credit is allocated for productive purposes. Following the example of the German state-owned investment bank, KfW, a NIB could support small banks by providing interest rate subsidies via loan programmes, e.g. for start-up companies, vastly improving business lending and allowing small banks to compete with larger banks (Cox, 2012). Diversity in the financial sector could be further promoted, while simultaneously making financial services more responsive to local needs, by encouraging democratic accountability in the sector through the establishment of local authority-owned savings banks and providing support for credit-union development.

Ownership, Governance and Regulation

A progressive approach to the economy should be one that seeks to democratise economic decision-making. This involves developing forms of ownership, governance and regulation that radically centre decision-making to empower all groups in society. German models of patient capitalism where share-holding is distributed among regional banks and even regional states provide better models of corporate governance.

Greater economic democracy can also be developed through legislation that gives employees a stake in corporate decision-making. In many European companies, especially the Nordic countries, France and Germany, principles of co-determination exist where workers have statutory rights to elect representatives to boards of directors. In Norway, for example, workers’ representatives constitute one third of the board of directors for large companies. There is also compelling evidence from other countries, notably the Scandinavian countries and Germany, that economies with better employment protection and trade union rights are more productive and perform better than deregulated economies such as the UK (Asteriou and Monastiriotis, 2001). Unfortunately, employment law is not set to be devolved in the Scotland Bill, and there
There are a number of potential benefits to businesses from a Dutch-based "social plan". For example, the mere existence of a social plan signals that an organisation or business is invested in its staff; a duty of care is acknowledged and is enforceable.

There is a substantial literature on the benefits that may accrue to companies from the adept pursuit of CSR. As part of their CSR strategies businesses could be encouraged to further engage with workers and unions through a "social plan". Such a plan would in effect be a formal, i.e. legal recognition (and acknowledgement by the business and any other organisation) of its responsibility to its employees, and local and wider economy (this could obviously be extended to the environment). The plan would draw from the Netherlands’ ‘social plan’, which stipulates, for example, that an organisation (including public and private sectors) contemplating a restructuring that involves redundancies of more than 20 employees, or 10% of the workforce, must agree with workers’ representatives the appropriate procedures that will be followed and the assistance given to redundant employees in finding new employment (Kernkamp Advocaten, 2014). The social plan could be legally enforceable, with courts fix levels of redundancy payments, if legislated for at the UK level as it trade and industry is a reserved power. At Scottish level, it could be an incentivised voluntary scheme.

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"A ‘kite-mark’ accreditation system for businesses that promote industrial democracy should be explored, similar to the Scottish Government’s current living wage accreditation scheme.”

We should also develop and support forms of democratic corporate ownership such as employee owned firms, cooperatives and community owned businesses. A recent study by the Cass Business School demonstrated that employee owned firms performed better than other firms through the recent recession, were more profitable and better at safeguarding jobs than other firms (Lampel et al., 2010). Increased employee commitment is a major factor. Employee ownership also represents an excellent solution for small family firms facing problems of business succession.

**Better Businesses**

Most significantly sized businesses have embraced, to varying degrees, the notion of corporate social responsibility (CSR). The Commission of the EU defines this as:

"T]he responsibility of enterprises for their impacts on society. [...] To fully meet their social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders" (European Commission, 2011).

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\[11\] TOWARDS AN INDUSTRIAL POLICY FOR SCOTLAND: A discussion of principles and approaches
**Taxation**

A tax system should ensure common benefit from common wealth and provide resources to fund institutions and services that give all of us an opportunity for a good life in a good society. It should incentivise activities that are good for society and dis-incentivise things that are bad and seek, along with other elements of government, to reinforce cultural values of caring cooperation and fellowship and undermine greed and oppression. That means maximising liberty, equality and sustainability and therefore democracy as the means to manage the tensions between these aspirations.

“A Land Value Tax dis-incentivises damaging activity and outcomes, such as land speculation and hoarding, and incentivises good activity, such as housebuilding and other productive use or development of land.”

A Land Value Tax as operated in Denmark (see Wolters, 2002) is an example of most of these principles at work. It ensures common benefit from common wealth by giving a return to us all from the increase in private land value due to public amenities, such as infrastructure projects and the allocation of planning consents. It dis-incentivises damaging activity and outcomes, such as land speculation and hoarding, and incentivises good activity, such as housebuilding and other productive use or development of land. It presents a collective culture in that the land is viewed more as a shared productive resource and unlike labour or capital the tax base cannot relocate or run away. As the tax is levied locally, revenues collected can be directed to services and institutions in a way that is close to and democratically accountable to the people that live there, both in the level at which it is set and in how it is spent.

**Energy**

Drawing upon best practice from Nordic and other experiences (e.g. Quebec, German Stadwerke), Scotland’s privatised energy regime would ideally be replaced by a publicly owned sector with a diversity of structures that spread economic decision making power and public participation. However, the energy grid in Scotland is reserved to Westminster and therefore the prospects for public ownership are limited. This does not mean that the Scottish Government could not form a National Energy Company to carry out longer term strategic planning. Such an initiative could work in tandem with more decentralised community and local government owned forms of power generation. In this way, national strategic public policy issues, notably security of supply, lower energy prices for the more disadvantaged and combating global warming, can be combined with spreading participation and ownership.

“The Scottish Government should invest in low-carbon infrastructure through the issuing of energy bonds at between three and four per cent – compared to private rates of six per cent and higher - as a way of financing the larger capital investments required.”

The Scottish Government should invest in low-carbon infrastructure through the issuing of energy bonds at between three and four per cent – compared to private rates of six per cent and higher - as a way of financing the larger capital investments required (e.g. major offshore wind or tidal projects) (Cumbers et al., 2013). This solution would both be cheaper in the longer term for the government – because it would own the assets being created – and have the added advantage of keeping fuel prices lower for consumers. It would also facilitate local procurement, skills utilisation and other policy goals.

**The Experience of Work**

Work should enable a better work/life balance, avoiding excessive anti-social hours and preventing people from being compelled to continually increase working hours to ensure some sort of economic security, although this is frequently typified by its precariousness. Work should, as far as possible, create rewarding job content, reversing ‘deskilling’, diversifying away from low skill, low pay, with real employee training and development embedded. Work must create individual economic security; employment practices that leave employees in uncertainty about regular income must be ended. Central to improving the experience of work is empowering employees to shape their own working conditions, along the lines indicated in ‘Ownership, Governance and Regulation’. An ethos of promoting skilled work and engaged workers is exemplified by the highly successful Basque worker-owned cooperative Mondragón Corporation (Thomas and Logan, 1982; Wolff, 2012).

Mondragon has a long-standing commitment to technical education; it invests a considerable proportion of revenue in R&D and, advancing its involvement in the knowledge economy further, founded the University of Mondragon, in 1997. A key feature of Mondragon’s organisation is agreed-upon wage differentials between executive and factory work. These ensure fair pay and encourage worker commitment, which is rewarded by higher productivity and less absenteeism compared to investor-owned firms. A drive to improve work/life balance could be led, as in the Netherlands, by the public sector, which began offering 80% contracts in response to recession in the 1990s (Simms, 2013; the Netherlands now has the lowest average working week in Europe (OECD, 2012). At UK level, excessively long working hours could be further tackled through specific legislation, such as in Denmark and the Netherlands, making it illegal for employers to discriminate against workers who desire shorter schedules.
Looking ahead, automation is likely to put pressure on employment (Frey, Osborne, 2013), with the potential for increasing poverty and alienation from the economy unless a new, more flexible relationship between work and income is developed (Mason, 2015). Shorter working hours and spreading hours worked more evenly among the population could be part of the solution. Another approach could be a basic income that guarantees all citizens regardless of employment regular financial support from the government.

Gender Equality

The need to tackle endemic workplace gender inequalities should run through all aspects of an industrial policy, and should be set as a specific task of sector associations. Complacency in this respect needs to be challenged: a 2016 poll found that one in four Scots say they have witnessed gender discrimination in their place of work (Scotsman, 7 March 2016).

The over-emphasis on GDP as an indicator of progress is highlighted particularly in relation to gendered work issues, which doesn’t take account of for instance unpaid care work and the number of women who can’t access work because of, for example, expensive childcare costs.

A more holistic approach based on the principle of ‘no industry left behind’ is likely to account for more female dominated sectors, which still tend to be more low-paid and less likely to feature in models for potential high growth industries. Investment and economic development agency support remains predominantly for male-dominated industries in Scotland’s highly gender segregated labour market (Engender, 2016). Sector associations, bringing together the diverse range of stakeholders in an industry sector, could be well placed to devise strategies to break down gendered barriers to particular industries and propose solutions to why particular industries still see stark disparities in pay based on gender (Scottish Government, 2015).

The News Media

A Common Weal economy actively encourages democratic experimentation with the structure of enterprises and sectors. Such an approach would be greatly aided by a news media industry that more effectively supported the generation, availability and circulation of new economic ideas. The particular challenges faced by the modern news media can be seen as presenting opportunities for developments in this direction and opening up possibilities for increased diversification in the sector, complementing the kind of diversity advocated by this paper for the economy as a whole.

Commercially-owned newspapers in Scotland are heading for extinction in the face of changing media habits and decommodified content on open digital networks. Yet as recognised since Thomas Jefferson, a press “free” from government control is a crucial guarantor of the health of democracy (implying, by definition, that a Scottish state broadcaster/network, however well-constituted, would not be sufficient). While internet-enabled “citizen journalism” is a valuable response, it does not answer the “industrial” question of how the wages and conditions of journalistic producers operating in civil society can be sustainably supported.

“An industrial-strategy perspective should address the question: what are the regulatory, institutional and fiscal/economic frameworks that might preserve the professional/occupational practice of journalism as a “public good” in Scottish civil society?”

An industrial-strategy perspective should address the question: what are the regulatory, institutional and fiscal/economic frameworks that might preserve the professional/occupational practice of journalism as a “public good” in Scottish civil society? How can trained and experienced journalists find an organisational environment that enables and sustains their profession, a sphere that sits beyond well-paid PR/communications, Scottish state-broadcaster employment and the free-labour of citizen journalism?

One approach could draw from the Swedish experience of public subsidies for print media. Subsidies are collected through a 3% levy on print advertising and are distributed in a variety of ways, such as offering favourable loan terms to minor commercial newspapers and facilitating the use of the distribution networks of more dominant newspaper brands by their competitors (Geoghegan, 2013) This policy would require UK Government action. Another approach feasible in the current devolved context, suggested by US academic Robert McChesney, is distribution of a “citizenship news voucher” to every adult which they would donate to any non-profit news medium2 of their choice (McChesney and Nichols, 2010). Combining such measures to promote a highly diversified industry could allow Scotland to move up the rankings of indices of press freedom, away from the poorly performing UK and towards levels recognised in Scandinavian countries (see Reporters without Borders, 2013). But even beyond these exemplars, we need a ‘first-principles’ inquiry as to the relationship between democracy, journalism, networks, economy and the public good.

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2 McChesney (2013: 22) suggests that enterprises thus supported should release all material free to the web and not take advertising - although they could take “tax deductible donations from individuals or foundations to supplement their income”. For a Scottish take on McChesney’s ideas, see Iain Macwhirter (2014).
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