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Common Weal Policy

AN INVESTMENT-LED ECONOMIC DEVELOPMENT FRAMEWORK FOR AN INDEPENDENT SCOTLAND

COMMON WEAL

Invest: *to allocate resource now in the expectation of future benefit*

Profit: *to gain financially from transactions*

Don’t grow for profit; invest for development.

Common Weal is a Scottish ‘think and do tank’ which promotes thinking, practice and campaigning on social and economic equality, participative democracy, environmental sustainability, wellbeing, quality of life, peace, justice and culture and the arts.

Common Weal is entirely funded by small donations from members of the public and is entirely independent of any political party. It is governed by a Board drawn from across the spectrum of progressive politics in Scotland.

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This paper has been produced by the Common Weal policy team based on a range of our existing policy work. With many thanks for comments and suggestions on the report from Laurie McFarlane, Mike Danson, Jim and Margaret Cuthbert, Richard Murphy, Katherine Trebeck, Gordon Morgan and George Kerevan.

KEY POINTS

The purpose of an economy

The report argues that an economy should serve its society and not the other way round. It argues that the success of an economy should be measured in terms of how well it achieves eleven social impacts. Those are; sufficiency, security, wellbeing, opportunity, sustainability, equality, development, stability, democracy, civicness and internationalism. The remainder of the report aims to make a case for an economy which has the best possible impact in these indicators.

UK economic failure in Scotland

The report argues that the UK's model of economic development is based on a tiny range of unproductive industry sectors which can generate fast profits through four particular methods – financial speculation, asset value inflation, debt-fuelled consumption and concentration and monopoly. It argues that by setting a public policy framework which favours these activities the UK's approach 'crowds out' long-term investment in the productive economy and creates increasing regional and economic inequality. The economic inequality occurs because these industry sectors are dominated by a very small number of (largely overseas) owners and are largely typified by low-pay jobs. The regional inequality comes because these industries are overwhelmingly located in London and the South East of England.

This has created a vicious circle in which regions outside of London and the South East have to work within an economic framework devised almost wholly in the economic interests of London. Not only does this mean that London captures a disproportionately large proportion of the UK's national wealth (well over twice as much as any other European capital city captures of its domestic economy), it means that these regions can't develop a economic strategy responsive to their needs.

Scotland's potential

The report assesses whether Scotland is capable of having a more successful economy if independent by looking at 12 key pillars of standard economic theory, asking in each case if Scotland's current economic performance is good enough to suggest it is capable of being independent and then looking to see if it is reasonable to believe that Scotland could improve its performance further in these areas if it was independent. In each case the conclusion is that Scotland currently has the profile of a successful advance economy but that in each case there is strong reason to believe that Scotland would improve its performance if it was independent.

The twelve areas considered are; stability, monetary policy, fiscal policy, infrastructure, energy, connectivity, human resources, natural resources, finance and investment, research, development and innovation, capital and productivity and trading environment for enterprises.

The failure of UK economic theory

The report examines the theoretical underpinning of the UK economic model and explains why it has produced the negative outcomes it has. It looks at concepts such as 'trickle down', privatisation and 'market efficiency' and explores why following these approaches over the last 40 years has not delivered the promised outcomes. In particular it argues that the profit-driven strategy has failed properly to account for the externalities of trade and so is scientifically illiterate in the face of climate change.

An alternative economic theory

Rejecting the UK's approach, the report then looks at existing and developing economic theories and practices to identify a range of underpinning approaches to developing an investment-led economic strategy. The report recommends 18 theories from which a strategy can be developed.

These are: new monetary theories; foundational economics; internationalisation and deglobalisation; entrepreneurial state; redistribution and predistribution; definancialisation; deconsumerisation; local wealth building; economic diversity; business quality improvement; economic decentralisation; resource-based development; smart specialisation; human resources and the economy of labour time; sharing economy; circular economy; feminist economics; and balanced measures and alternative indicators.

A programme of action

The report then outlines ten packages of actions which would move an independent Scotland towards an investment-led economy. First it explains that these programmes of action are all component parts of a Green New Deal. The report does not develop a full Green New Deal proposal (this is ongoing work at Common Weal) but sets the foundation for one.

The programmes of action are:

— **Create a monetary and fiscal environment conducive to investment** with an independent currency and strong monetary institutions (particularly a central bank and foreign currency reserve). During the development phase the government should prioritise investment and absolutely not cut deficits which only push deficits into the private and household sectors. Investment should be funded through bonds, levering pension funds and creating public saving schemes so that the maximum possible debt is held in the domestic currency. Substantial tax and financial regulation reform should create a simple, predictable, stable and fair environment for all enterprises.

— **Strengthen the foundational economy** with core public needs such as energy, transport, public infrastructure and postal services all collectively owned and managed. In housing and food a much more interventionist approach should seek to alter the market for the better (reducing the ratio of wages to house prices and improving the quality of food). In time collectivising telecoms and the roll-out of both broadband and 5G should be considered.

— **Build a public investment model** with the Scottish National Investment Bank at its heart. A series of intermediary 'National Companies' should then help drive investment into the economy in a strategic way, working with the public, civic and private sectors. A public stock exchange should support businesses seeking equity and a local, collectively-owned banking network should support small and local businesses.

— **Produce an industrial strategy** designed to boost, develop and stimulate the productive economy, achieve greater economic diversity and rebalance the economy away from low-pay sectors and towards high-pay ones. This should utilise a wide range of policy tools including public procurement (to support Scottish businesses), the Investment Bank and National Companies, import-substitution (producing more of what we consume), supply chain development, local wealth building, anchoring strategies (to maintain businesses in Scotland for the long term) and creative adaptation.

— **Invest in human capital** with a new system of industrial democracy which involves employees much more closely in the running of a business (through mandatory employee directors) and helps them to negotiate a fairer share of national wealth through effective collective bargaining. This should be underpinned with a strong set of workers' rights to ensure security and a range of actions to address the barriers to equal female participation in the economy. A Universal Basic Income should be explored as a way of recognising unpaid labour, creating security and encouraging enterprise set-up and social entrepreneurialism. An immigration strategy should be focussed on high skills where it is purely for economic reasons (there are many non-economic reasons for a welcoming immigration system).

— **Implement a resource management strategy** to help make much more productive use of Scotland's natural and geostrategic assets. This will involve diversified land ownership to boost a wide range of land-based industries – and in particular advanced timber manufacture. Much better use of Scotland's marine assets would be prioritised.

— **Decentralise economic policy** by creating a new tier of truly local democracy with Development Councils at the town level which would take over their own economic development. Regional economic development would see greater responsibility moved from national agencies to existing local authorities. This should be used to boost a number of industries and in particular the tourism industry.

— **Reorientate business support** to take a more strategic, value-based approach, favouring the development of enterprises which are domestically owned and high-skill, high-pay with a regenerative relationship to the environment. Diversification of ownership model should be encouraged with social, cooperative and employee-owned enterprises rising as a share of the economy. Business support should encourage a much more networked economy to capture supply chains, and should encourage much more cooperation between enterprises to enable them better to invest in infrastructure and services. The public sector should take a 'entrepreneurial state' approach to 'platform facilitation' (software applications which support sole traders), improving market access and shared facilities among other things.

— **Do no harm** by taking the science on climate change seriously. We must be encouraged to consume less but of a better quality and to invest more in activity than consumption. A Green New Deal should be developed and rapid regulation of activities such as the use of pesticides and disposal of plastic is needed. The 'sharing economy' should help us make much more efficient use of goods and services and circular economy approaches should move us away from the 'take, make, use, dump' model of the linear economy.

— **Start with a boost** by recognising that in setting up a new country Scotland will invest a large sum of money to create new services and infrastructure (and the jobs to go with them). Along with rapid investment in housing and energy, this should be carefully managed to give the Scottish economy a substantial boost in the early years of independence and to begin the transformation of the economy immediately.

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PREFACE

Imagine an economy for Scotland that was designed in the interests of all those who are touched by it. Imagine a humanistic economy which promoted wellbeing and security and regenerated our environment. Imagine an economy in which the quality of jobs and goods and services continually improved for all. What would it look like?

That economy would be productive; it would combine Scotland's rich natural resources with the high quality of its workforce, the excellent research and innovation base in our universities with a national industrial strategy, the brilliance of our creative industries with an internationalism that fuels them.

We would import fewer poor-quality goods (especially food) and make more of what we consume for ourselves, creating jobs, protecting the environment and improving quality. We would reform the tax system to create a level playing where Scottish businesses could compete fairly with multinational corporations.

Much more of Scotland's economy would be owned in Scotland. It would be underpinned by national infrastructure owned and run in the collective interest – not least an energy system built from our nation's enviable renewable energy resources. A principle of 'local wealth building' would seek to recycle as much national wealth as possible back into the economy and minimise wealth extraction. We would learn what are the high-skill things we can do at a world-class level and recognise lower-skill things others can do better – smart specialisation.

The public sector would create an economic environment that prioritised investment. It would be built round a National Investment Bank with intermediary 'national companies' working between finance, government and the business sector to drive investment into industries like zero-carbon housing, a modern renewable energy system, a high-quality food system, advanced manufacturing, an integrated transport network and much more.

The economy would become much more diverse, with many more medium-sized businesses helped to form an interconnected economy by a radically reformed system of business support. There would be many more cooperative and social enterprises and employee ownership of businesses would be encouraged and supported. Land reform would diversify land-based industries, Scotland would finally make the most of its amazing maritime resources and decentralisation would be economic power into the hands of Scotland's towns and regions, avoiding repeating the mistakes of the UK's centralisation.

And wages and job quality would be driven up by a reformed system of industrial democracy which would let workers become true partners in their businesses and work with business owners to drive forward the success of those businesses while being paid a fairer proportion of the nation's wealth.

All of this would help to reduce waste, improve resource use, regenerate the environment, redistribute wealth to tackle poverty, improve our infrastructure and particularly our housing stock, move us quickly towards becoming a zero-carbon economy, increase wages – and would focus on improving the quality of life of Scotland's people and not just indicators of 'economic growth'.

Because to achieve this kind of economy, the keyword would not be 'growth' but 'development'. Growth has come simply to mean that more and more private profit is taken out of the economy – which has made a small number of people very wealth but has had little impact on the wealth of the majority.

Development is all about getting better, not just bigger. Growth relies on how much can be taken out of the economy, development is built on how much is put into the economy. One is about private profit, the other is about collective investment. Because only through investment can the economy deliver more wellbeing, more security, more prosperity and better goods and services.

The UK's economic policy is all about maximising profits, and this has meant greatly favouring a small number of industries which are highly concentrated in London and the South East of England. That is why, compared to any other capital city in Europe, London is by far the biggest wealth-hoarder. The rest of the UK suffers because London captures well over twice the share of national wealth captured by any other European capital city. That is why economic growth in the UK has resulted in increasing wealth and regional inequality and has resulted in poor productivity, poor levels of innovation and poor levels of investment.

There is little Scotland can do to escape this so long as we are integrated into the UK economy. Our only chance of an economic renaissance is to escape the UK economy and build something better – not something which replicates the same growth-obsessed mistakes of the UK but an economy driven by the public good.

This report will outline how Scotland could achieve that economy and reject the failures of the past 40 years. If instead of growing for profit we invest for development we can build something better. Imagine an economy for Scotland that was designed in the interests of all those who are touched by it. This is the foundation for that economy.

1. APPROACH

This report is an economic development framework for an independent Scotland which is based on investment. It is not a predictive model which claims to be able to calculate future economic trends. It is not a public sector accounting document which predicts notional government surpluses and deficits far into the future. It is not the end of an economic debate but a beginning, not a single programme of action but a series of ideas about how we move our economy in a different direction. It is an attempt to explain why the existing UK economic development framework has failed Scotland and describes a different approach.

It assumes that (notwithstanding legitimate concerns about the European Union's economic rules) an independent Scotland would seek to join the European Economic Area (EEA) and that an independent Scotland would have its own currency from day one. To make the data underpinning the economic case presented as useable as possible it has been collated into a single section at the end of the report and so has not been dispersed throughout the report in footnotes.

2. THE PURPOSES OF THE ECONOMY

A public economic strategy should begin with a clear statement about the purpose of the economy to wider society. The economy is not something above, beyond or separate from wider society nor is it some kind of pure system of rules and relationships that exists in and of itself. The economy is a subset of society and not the other way round and the dominant political question of the last four decades – what can society do for the economy? - must be inverted. What does our society want from our economy? The following are eleven goals our economy should help us to work towards.

— Sufficiency. The economy should be providing everyone with everything they need to live a decent life. Scotland as a whole has sufficiency such that poverty need not exist and should be viewed as economic failure

— Security. People should have absolute confidence that they will continue to be able to achieve sufficiency for the foreseeable future. No-one should live in the constant fear that, through no fault of their own, they may one day fall below a level of reasonable sufficiency

— Wellbeing. The economy should promote wellbeing and never harm it. It should encourage good physical health, good mental health, positive family life, the ability to participate in society, a decent work-life balance and should make it easy for people to be active. It should never be causing harm in these areas.

— Opportunity. People should be able to choose who and what they wish to become and be able to pursue that choice. These opportunities should not be rationed only for those at the top of the economic order while people at the bottom have their choices restricted. Individual agency should lead to a diverse range of human experience underpinned by sufficiency and security.

— Sustainability. Economic activity must have a regenerative relationship to the environment. Better resource use must prevent resource depletion, reduce carbon and other emissions, prevent non-biodegradable waste being dumped, protect soil and water quality and prevent pollutants.

— Equality. The economy should create equality both in opportunity and outcome and the gap between the wealthiest and poorest should be constantly reduced. There should be no negative economic impact resulting from gender, race, sexuality, belief or any other personal factor. The economy will reduce the problem of intergenerational inequality.

— Development. There should be continual improvement in the quality of goods, services, infrastructure and jobs. These things should not get worse.

— Stability. The economy should provide stability and avoid cycles of boom and bust which harm society. It must prevent financial crises, manage inflation, manage balance of payments and achieve a reputation for reliability.

— Democracy. The economy should improve the ability of the population to make decisions about its society and laws and how it is run, increase transparency such that citizens are able to make judgements about public policy and be responsive to legitimate collective democratic decisions.

— Civicness. The economy should improve social cohesion, strengthen the communities where people live, support a strong and diverse civic society and help to sustain always-improving public services.

— Internationalism. The economy will enable Scotland to make a positive global contribution to achieving all of the above goals beyond its own borders, will be a 'good neighbour' which promotes moral behaviour abroad and will enable cultural exchange and enrichment at home.

These are the goals which underpin everything in this report.

It is worth noting that growth and market competition are not *a priori* goals; if they result from achieving the above outcomes then that is fine, but if those outcomes can be achieved without growth that's fine too. The pursuit of wealth by an individual is a matter for the individual and not public policy and wealth concentration should never be an aim of economic policy. Ideological positions such as the belief that the state should be shrunk as a proportion of the economy or that deficit reduction should be prioritised over social or economic development should not form part of an economic development strategy. And the imperative to make short-term gain at the expense of others ('international competitiveness') is not assumed where that may lead to longer-term losses (for example if others retaliate).

3. THE CASE AGAINST UK MANAGEMENT OF THE SCOTTISH ECONOMY

The United Kingdom economic model is based on short-term profit maximisation in the belief that this will create public benefit through the creation of good jobs and tax revenues. Economic policies therefore favour a small number of industry sectors which are able rapidly to generate the greatest surplus with the smallest possible investment as the easiest route to fast profit. There are four broad economic approaches which have been used to achieve this:

— Financial Speculation. In the finance industry profits have been generated on the basis of speculation on the rising and falling value of various financial assets (including property and housing – and businesses themselves which have at times been treated like financial assets). The profit has derived not by using these assets productively but by 'betting' money on their value increasing or decreasing, with the amount of money 'bet' on each asset generally much larger than the value of the asset itself. This rapidly causes each asset to become overvalued (the money involved is not invested 'in' the asset but 'on' it and so the real value of the asset does not rise). This in turn leads to classic speculative bubbles when the market 'reprices' the overvalued assets. This has entrenched the 'boom and bust' cycle in the UK economy.

— Asset value inflation. This has therefore led public policy to favour policies which achieve rapid asset value inflation. Unfortunately rapid asset value increases cannot generally be achieved through productive investment because this requires patience to improve the quality of the asset. So two approaches have been taken. First, asset values have been artificially inflated through public subsidy (this was the purpose of Quantitative Easing where money was 'printed' and funnelled into financial markets to maintain the value of overvalued financial assets). Second, rent-deriving assets in limited supply (particularly land and property) were encouraged to rise quickly in value. None of this is productive investment.

— Debt-fuelled consumption. Importing historically cheap consumer goods (mainly from China), marking up the price and selling them in greater numbers to consumers created a retail boom which increased profit, with the profits derived not from productive investment but from appropriating the income of customers. Inevitably this business model hit a ceiling when consumers no longer had remaining disposable income with which to consume, so historically cheap borrowing rates were used to enable the ongoing expansion of this business model based on ever-increasing household debt. Rather than profit deriving from customer income, profit then derived from customer debt.

— Concentration and monopoly. Finally, public policy took an exceptionally lax approach to monopoly and concentration in a range economic areas such as energy, transport, supermarkets and high street chains, banking,accountancy, technology and communications. Traditionally, using excessive market domination to drive down wages and the prices paid to suppliers was seen as economically damaging and was regulated. But cost reduction (driving down wages and prices) increases profit margins and so in many cases increasing monopoly control was permitted. There are now a range of sectors where a tiny number of enterprises have become excessively dominant. But these increased profits have resulted more from increased market share (as competitors are bought or go under) than productive improvements.

These approaches all incentivise forms of short-term economic activity which crowd out longer-term investment in the real, productive economy. This leads to reduced productivity, capital replacement and investment in research and development as well as lower wages and duress on smaller businesses (particularly those involved in supply chains). This harms geographical areas which rely on the real economy.

But they increase profits in those geographic areas of the economy where the finance industry is based, where monopoly industry is headquartered and where assets whose value is inflating are based and owned. In all three cases, that is London (though it is important to make clear that even the concentration of economic benefit in London does not mean wellbeing for all, with many London residents just as much a victim of the UK's inequality as the rest of us). The UK's entire economic strategy is based on pursuing models of economic growth which primarily benefit London and harm other geographical areas which do not have London's advantages.

This fundamental structural problem (the creation of an economic model which is based on profit growth being achieved in a single geographic area) causes a number of other substantial problems. The first is that measurement of economic progress becomes reliant on and therefore centred around measures of what is good for the dominant economic centre. Economic performance becomes more and more reliant on measuring profits which are derived in that centre; measures of over- or under-heating of the economy are assessed on the basis of what is happening in the economic centre rather than what is happening in the overall economy; labour supply issues are assessed in terms of labour supply in the economic centre and so on.

The next impact of that is that macroeconomic policies become based on this measurement regime. For example, interest rates will rise or fall according to the needs of the London financial and property markets, even if the rises and falls do not match the economic cycles of other parts of the UK. This substantially exacerbates the uneven development which is already taking place because of the core economic model.

Next, the impact of crowding-out productive investment creates a downwards spiral in areas of the UK which are not served by the London-centric economic model. For example, if land use is dominated by a strategy of land value appreciation (rather than the productive use of land), parts of the country with valuable natural land resources are unable to build an economy based on those productive assets because they are valued in a way which makes their productive use economically unviable. Similarly, if economic policy follows the interests of energy corporations which are based in one part of the economy and energy infrastructure is designed to facilitate that, other geographical areas which have energy generation capacity but underinvestment in energy transmission become unable to exploit their energy advantages.

This means that 'fiscal transfers' become a central part of the economic model. Once this London-centric model has captured an excessive proportion of the nation's economic activity in the south east and has as a result suppressed the opportunity for economic development in the other regions of the UK, those regions will becoming economically weak and therefore will generate a lower tax base and will push a greater proportion of households into poverty. This is a negative loop where the need for public services increases but the ability to finance them decreases, leading to the need for finance to be reallocated from London to these other regions. But this structure of fiscal transfers is extremely politically sensitive and can be 'turned down' at any moment. And, objectionably, it involves the political culture in London criticising regions of the UK for asking for 'hand outs' even though it is the London economic model which has created the need for these fiscal transfers in the first place.

The UK's economic model is also scientifically illiterate. It continues to be based on a linear model of taking resources, making products, consuming them, disposing of the waste and repeating. This is depleting resources, harming the environment, leading to climate change and creating ever-greater economic risk. Scotland cannot shield itself from these impacts or change course while inside the UK economy.

Finally, this model is also based on advantages of scale – that the UK is a major world economy. But the advantages of that scale are precisely the ones that benefit the capital city and not other geographic regions, not least by continually eroding the proportion of the Scottish economy which is owned and controlled in Scotland. This in turn means that the corollary of scale (the flexibility, fast response time, coherence of policy and benefits of a more integrated and domestically owned economy available to smaller economies) are not available to Scotland. We don't get a fair share of the economic advantages that results from scale but can't develop the economic advantages which come from responsiveness. We can see this in Scotland's failure to capture more of the economic benefits of supply chains in a more integrated economy and through its reliance on centralised export routes, with little ability to develop its own.

The UK economy has inhibited growth, development, investment and self-reliance in almost every region of the UK other than London and the South East. The extent to which London has left the rest of the nation's economy behind is unparalleled in any other European nation state; London captures and hoards a greater proportion of the nation's wealth than any other European nation state by far. This fact (that the London-centric economic model creates a strongly negative impact on virtually every other part of the UK) is now generally accepted by all mainstream economists.

There are therefore three primary cases against Scotland continuing to sacrifice the interests of its own economy in favour of the economic interests of London and the South East. The first is that the UK model is highly ideological and has led to mass inequality, poor economic performance as measured by most standard measures and an enormous exposure to risk of financial crisis. The second is that the UK model prices assets in a way that doesn't reflect their real social or economic value, suppresses productive investment and creates a macroeconomic framework which is decoupled from the economic cycles of anywhere except London. The third is that we cannot take advantage of the policy coherence and responsiveness available to other small economies (while failing to gain a fair share of the UK's advantages of scale). This prevents Scotland developing its natural assets and from investing in the productive economy while creating a macroeconomic framework unsuited to Scotland's needs.

Put simply, the UK economy concentrates too much wealth demographically (too few people) and concentrates too much wealth geographically (too London-centric) and both of these impact negatively on Scotland's ability to achieve its economic potential – but create social damage which becomes a drain on public investment.

The economic case against the continued economic management of Scotland by the UK is straightforward; the macroeconomic management of the UK has been calibrated to the needs of London, not Scotland, and this has crowded out investment in Scotland, suppressed the development of the economy and led to a low-wage, low-productivity economy which greatly underutilises Scotland's economic assets and natural and human resources.

4. THE CASE FOR SCOTTISH MANAGEMENT OF THE SCOTTISH ECONOMY

This report does not engage in computer-based predictive models which use neoclassical assumptions to guess what minor changes in the existing UK economy will have on future GDP figures (and by extension assume that an independent Scotland will always best be understood as a subset of the UK economy). It certainly doesn't assume that any given outcome is inevitable and explains why development should be focussed on actions and not assumptions.

Rather, the economic case for Scottish independence should be based on showing that the fundamental elements underpinning an advanced economy are strong in Scotland and demonstrating that public policy can make more effective use of them if Scotland had the full powers of independence. The following are 12 standard 'pillars' of a developed economy and are drawn from mainstream economic theory. These are generally taken to be an indicator of whether an economy is capable of being a successful advanced economy. In each case we assess the extent to which Scotland meets the criteria of a successful modern economy and the extent to which independence provides an opportunity to improve that performance.

Stability

It is generally accepted that 'stability' is key for an advanced economy. While this term is often abused (it absolutely does not mean 'no change'), it remains an important concept. There are three forms of stability which are important; legal and contractual consistency and enforcement, a reasonable degree of predictability and stability of political leadership. The first of these is straightforward; Scotland has an advanced legal system compliant with EU norms which is substantially policed. It is a stable legal environment in which to base economic activity. Can this be improved with independence? Yes, because UK law is not consistent enough in areas such as tax avoidance and evasion. Scotland can improve the consistency of tax laws to ensure greater parity between enterprises, levelling the field for able to avoid tax and those unable to avoid tax. There are a number of other areas in which the UK's regulatory enforcement is suboptimal.

The second is also straightforward – predictability means that change takes place in a manner which the economy can predict and prepare for. Generally taxes will not be levied retrospectively, laws will not be changed without warning, public policy changes will be scrutinised via a transparent process and so on. Can this be improved with independence? Yes. Brexit has been entered into recklessly and with little awareness of what changes to the economy will result or over what timescales these changes will take place. This has been driven by a highly-ideological anti-European sentiment and while this may settle down post-Brexit it is likely that unexpected consequences of this process will increase unpredictability for a generation.

The third is political stability. Here Scotland has all the institutions of a stable, modern, advanced western democracy. We also have a much more consensual political culture than Westminster. Can independence improve the situation? At the moment the UK is gripped in a highly-ideological shift in political balance which has caused fragmentation and paralysis in decision-making in the UK parliament. This would be unlikely to be replicated in an independent Scotland.

Monetary policy

The way the money system is managed is a key foundational building block of the economy. The long-term performance of Sterling in international money markets has been poor; its value has been in long-term decline. This is usually taken to indicate that an economy is subject to suboptimal monetary policy. If a monetary policy is being managed in a way that works for the entire economy that would generally be known as an 'optimal currency area'. That is a geographical region in which it would maximize economic efficiency to have the entire region share a single currency and be assessed by the impact of monetary policy on the entire region. The geographical region of Sterling is the UK, and it can clearly be seen that the economic performance of the individual parts of the Sterling area are wildly different. In fact, the UK has the most unequal economic distribution of any EU country, which strongly suggests that it is not an optimal currency area, or that the management of that currency area (its monetary policy) has made it suboptimal. Since monetary policy has for many decades focussed on managing under- and over-heating of the London economy, it is hardly surprising that this has not matched the needs of the economic cycles in other parts of the UK. If Scotland was independent with its own currency it would be able to create a genuinely optimal currency area and match monetary policy to the economic cycles of the Scottish economy.

Fiscal policy

Fiscal policy is the ability of government to raise revenue (through taxes, duties or investments) and to spend it (on public services and infrastructure). This has been the target of most of the attacks on the case for Scottish independence, all predicated on arguments derived from data on UK public spending (Government Expenditure and Revenue Scotland or GERS being the primary source). The argument is that Scotland does not have a tax base sufficient to support the size of its public sector. There is not space here to rehearse the full public sector accounting issues involved and as was set out at the start of this report, this is an economic development framework and not a strategy for future governmental budgets. Common Weal has produced a number of pieces of work explaining why the fiscal situation for an independent Scotland will not be as predicted by the GERS report (primarily because GERS measures Scotland as a region and not as it would be if it was a nation state). We will publish further work to reinforce this case.

It is also important to be aware that many of the UK's fiscal problems are a result of the UK economy. This is partly (on the income side) because of extensive tax avoidance and unequal distribution of income and (on the expenditure side) because the inequality created by the UK economy creates incredible burdens on social services. Poverty is the biggest drag on the UK's fiscal position and this is reflected in Scotland. Many of the arguments against Scotland's 'fiscal readiness' for independence are based on the impacts of UK economy policy, a tautology which can only be resolved by independence itself.

The reason fiscal policy is a foundation of economic policy is because the fiscal behaviour of government induces impacts in the wider economy. This is discussed in more detail below but broadly if government runs a surplus (either by increasing taxes or cutting spending) then this induces a deficit in the private and household sectors whereas a government which runs a deficit induces a surplus elsewhere in the economy. Over the last decade the UK has pursued deficit-reduction strategies which have been shown to induce surplus-reduction in the wider economy. It has now been recognised by everyone up to and including the International Monetary Fund that this has unnecessarily suppressed economic development in the UK as a whole and in Scotland as part of the UK. Could Scotland produce a more fiscally advantageous economic policy if it was independent? Put simply, it could avoid ever again pursuing austerity (deficit reduction in periods of economic duress) which cause deficits in the private and household sectors, reducing demand in the economy overall and inhibiting economic recovery.

Infrastructure

Scotland has roads and bridges, schools and hospitals, telephone cables and mobile phone towers, water and electricity grids and so on. Importantly, if the level of these is assessed they are all at a stage of development with accords to that of a modern advanced nation. This infrastructure is very clearly the basis for a successful advanced economy and Scotland is comparatively well provided with these. However, the UK has an inordinate amount of this key infrastructure owned by private companies and in very many cases by foreign companies. They have increasingly invested in infrastructure only under regulatory pressure, because of public subsidy or to achieve higher profits. The fairly substantial failures in the roll-out of high-speed broadband to many parts of Scotland despite enough money having been spent to have achieved this is only one example of underinvestment which results from the UK profit-orientated model for infrastructure. Could Scotland manage its infrastructure better in the event of independence? Yes, undoubtedly.

Energy

While all infrastructure is important to the economy, energy has a particular role given that virtually no sector of the economy is able to perform without adequate access to energy. Energy security (being certain that there will be a sufficient supply of electricity now and in the future) is key to economic development. Scotland is a net electricity exporter and the potential for further expansion of renewable energy is substantial. In the field of energy there is little doubt that Scotland is in a very strong position. Can we do better under independence? Yes, certainly. The pricing mechanism of the privatised electricity market in the UK is designed to suit the densely-populated south of England where large single-site generation capacity (particularly the desire to expand nuclear generation) has dominated. Dispersed electricity generation by comparison is underpriced and underfunded, and this is the model of energy generation which best suits Scotland. Exiting the UK energy market and its obsession with very expensive nuclear generation in the south of the country would greatly benefit Scotland. Likewise, the 'single large generator' model counts against grid-level energy storage, yet any sensible grid based on large-scale renewable generation (as is the case in Scotland) would be prioritising grid-level storage and a more localised grid. Both these developments (dispersed generation with a localised grid with extensive storage capacity) would greatly enhance Scotland's energy economy.

Connectivity

Advanced economies rely on connectivity – telephony, data transfer, postal service, the mobility of people and the transport of goods domestically and internationally. Scotland's economy has a firm foundation in all of these areas. Could Scotland do better under independence? Yes. Data transfer remains too slow in Scotland with the rollout of high-speed broadband seriously hampered by the privatisation model and particularly rural areas express similar concerns about postal services for the same reason. And while Scotland has decent transport infrastructure there are notable gaps, not least the fact that an island nation with the longest coastline in Europe has comparatively little marine transport (which would open up economic opportunities in new geographic areas of Scotland). Where Scotland is very poorly served by UK connectivity is in exporting. Scotland is underserved by ports capable of large-scale, cost-effective export and so many industries have no option but to export via England. Not only would an independent Scotland be able to expand its export routes, it would be able to capture the economic benefits of these routes domestically.

Human resources

Inevitably, human resources will almost always be the single most important resource to any economy. Scotland has a highly educated population with a substantially higher proportion of the population having completed tertiary education than elsewhere in the UK and is one of the most educated populations in the world. Scotland also has relatively good 'wellbeing infrastructure' (the things that keep people healthy and productive such as housing, food supply and a health service). Could an independent Scotland do better? Yes. The UK as a whole has been shown to have high levels of stress-related work absences and there is evidence that 'presenteeism' (turning up for work when not well) reduces productivity. This is all exacerbated by some of the longest working hours in Europe and one of the lowest rates of industrial democracy. The potential of an independent Scotland to increase its human capital is substantial by creating better markets in housing and food, by creating employment rights more conducive to health and equality and by developing an immigration strategy which is geared to the needs of the Scottish economy and not to the ideological obsessions of the UK's rightwing media.

Natural resources

All economies rely on natural resources – land, water, agriculture, construction materials, energy generation and so on. Here Scotland is remarkably well served in almost every area and in terms of resources there is no doubt Scotland has the foundation for a strong economy. Can we do better as an independent country? Undoubtedly. The under-utilisation of land and marine resources in Scotland is startling and more effective use (and ownership) of these would rapidly expand other resources. Too high a proportion of resource management powers have been held at Westminster and designed for a nation with land shortages and insufficient domestic resources. Scotland can manage all of these better independently.

Finance and investment

A mature, advanced finance sector able to help enterprises even-out business cycles and source investment is a prerequisite for an advanced economy. Scotland clearly has a mature and advanced finance sector. Could an independent Scotland do better? Well, the entirety of this report is based on the case that UK economic management has resulted in a high level of underinvestment in the Scottish economy and it is fairly easy to show that the finance sector, following incentives and regulations from London, is failing in various forms of investment.

But even more significantly, the UK financial system generates enormous risks for the overall economy as a result of under-regulation as we saw during the 2008 financial crisis. Scotland could incentivise and regulate its finance sector to greatly reduce that risk and remedy investment failures. It would also have much greater capacity to intervene and directly provide a better investment framework by developing a framework of national development companies based around the Scottish National Investment Bank.

Research, development and innovation

Innovation is key to the product and service development which enable businesses to develop and improve. Scotland's business sector's research and development rate and resultant level of economic innovation is, like the UK, terrible. However Scotland's overall research, development and innovation rates are better as a result of the very substantial research performance of its universities which, proportionately, perform better than almost any other country. The human capacity to be an innovative nation is there. Could Scotland do better if it was independent? Almost certainly. The reason for the low rates of research and development is that the UK economy incentivises fast, certain returns from activity such as rent, monopoly and asset value inflation. This in turn disincentivises allocating resource to activity which is longer term and less certain in outcome like research and development. A patient, investment-related economic strategy linked to an industrial policy focussed on increasing production and productivity would reorient incentives towards investment in research and development.

Capital and productivity

One of the most fundamental concepts in economics is the combination of capital and labour to create productive outcomes. Investment in plant and machinery operated by skilled workers used to be considered fundamental to increased productivity and economic success. But the UK has a dreadful record on productivity and in large part that is due to underinvestment in economic capacity. In fact overall much of the evidence suggests that the UK does not invest an amount each year sufficient to maintain our existing fixed capital never mind improve it and this undermines productivity. Could Scotland do better if independent? The entire basis of this report is that it is possible to achieve an investment-focussed economy through integrated public policy – and that the UK simply refuses to do this. Scotland would be free to adopt this approach if independent.

Trading environment for enterprises

While this report takes issue with the 'pure, free-market' theories of economic development, a consistent and fair trading environment for all types of enterprise is important if competition is to be part of economic development strategy. Does the UK have a fair trading environment for multinational corporations? Excessively so, with low regulation and a lax approach to internal accounting and tax collection. Does the UK have a fair trading environment for small and medium businesses? Not particularly. They are unable to undertake the kinds of internal business accounting tricks used by corporations or to invest in the industrial-scale tax avoidance of bigger competitors. In addition the UK has a poor track record of dealing with monopoly or excessive market domination. Combined, this means that the UK is a hostile environment for small and medium-sized businesses if they either seek to compete in any way with corporations or if their business model involves exposure to corporations, for example by being part of a supply chain. The predatory nature of the UK financial sector and its behaviour towards small businesses has made this hostile environment more hostile again. Could Scotland do better if it was independent? Definitely. There are easy methods to close the tax avoidance loopholes exploited by big business, ways to prevent unjustifiable internal accounting practices, a very wide scope for greater enforcement of monopolies and merger policy and a range of steps that could be taken to protect suppliers from exploitation. This would create a much more even playing field for domestically owned businesses which in turn would gradually reduce the inordinately high proportion of Scotland's economy which is foreign-owned.

5. WHY THE THEORETICAL FRAMEWORK UNDERPINNING THE UK ECONOMY HAS FAILED

Investment means to allocate resource now in the expectation of future benefit. Profit means to gain financially from transactions.

For many decades the UK's economic development model has been a profit-driven model. This philosophy believed that collective benefit derived from profit because profit created prosperity through paying wages and paying for public infrastructure and services by being taxed. In this theory the more profit, the more public benefit. The ultimate goal was therefore defined as 'increasing growth value added' (the total sale value of what is produced minus the cost of production). This is best known as GDP growth and became the primary goal of government economic policy. An important part of this philosophy is the belief that profit is created by 'winners' and that the way to select winners is through maximum competition in a 'free market' where there is no external interference. Those who win and those who lose both 'deserve it' because profit has already been defined as merit and therefore the more profit, the more merit. A system of perpetual competition will therefore eventually achieve the maximum possible profit and therefore the best achievable society. In this theory the public good is achieved through 'trickle down' – that some of the concentrations of wealth in individual regions or held by individuals will somehow be reallocated by the free market down to those who don't have it.

However, this theory has substantial problems. Fundamentally, wealth has not 'trickled down' but been increasingly concentrated. While public benefit may accrue from profit there are many ways to increase profits in ways which act against public benefit. Increasing 'rent' on things in limited supply (like housing) creates profit, but only by extracting it from existing customers. Allowing banks to take greater and greater risks can also increase profit (at the expense of stability and security), but again this is 'predatory profit'. However these are forms of profit which can be achieved quickly (precisely because they are not generated through productive activity) and so in a profit-driven system the incentive to expand these industry sectors is clear.

The end result of this is that the UK now has an economy dominated by the needs of the so-called FIRE industries (finance, insurance and real estate) which are primarily involved in a form of wealth redistribution which means that those who already have wealth are increasingly able to use it to lever more wealth from those who have less via the ownership of non-productive assets. This is where the competition model falls down; the winner has very often not been the better, more innovative, more customer-focussed enterprise but the one that started with the most money and so was best able to use it to extract more money.

The rapid expansion of retail has a similar effect. Retail is a crucial public service and clearly without a retail market it would be very difficult to organise the distribution of essential goods and services. But that does not mean all retail is a public good. Corporate retail redistributes wealth from customers to big business and has promoted damaging and unhealthy patterns of consumption. It has also led to reduced diversity on high streets, increasingly monopolistic behaviours and has the highest incidence of low pay of any of the major economy sectors. And because it is a wealth-extracting model it faces the problem of what happens when all the available wealth has been extracted. The response was to enable very cheap borrowing so wealth could continue to be extracted from customers who simply built up higher and higher levels of debt.

There are other ways to increase profits without increasing productivity through investment and innovation – most obviously by reducing costs. The two primary costs which can most easily be suppressed are wages (so long as the jobs concerned are not skilled jobs) and supply chain costs (so long as the purchaser has greater economic power than the producer). A good example of this is the low wages and extreme duress on domestic producers which form the business model of the UK supermarkets. This has made the UK a hostile environment for small and medium-sized producers (and other businesses) and has resulted in an insecure, low-pay labour market.

Another key problem with this ideology is the issue of externalities. Externalities are negative impacts which the economic model creates and which have costs for society but which the businesses causing the impacts do not pay, leaving others to pick up the cost (usually the taxpayer). Three major examples are risk, poverty and environmental harm. When the banking sector crashes the economy, it is the taxpayer who pays. When low-pay retail creates poverty, the taxpayer pays. When industrial agriculture causes flooding, the taxpayer pays. The costs to the taxpayer are not included in the calculation of business profits.

Finally, if profit-seeking is the ultimate goal of public policy then a move from public benefit to greater exploitation of the public realm for private profit is inevitable. This infrastructure previously managed in the public interest is privatised to increase profits derived from customers who previously owned the infrastructure they are now charged for access to (mostly notably the public utilities). Other services previously delivered on a not-for-profit basis through the public sector are now outsourced and run on a profit-making basis by private companies.

The stewardship of the UK economy has not only enabled but encouraged all of these behaviours. It has made it much easier to take a short-term approach to profit through asset value accumulation than to take a long term approach of investment and innovation. For example where we should have been rapidly improving building standards while constraining house price rises we have actually constrained improvements in building standards while rapidly inflating house prices. Instead of high-quality, low-cost housing we have low-quality, high-cost housing. The saving in build quality costs and the constantly inflated price of the house are what has created the profit and so the national rise in GDP. But the outcome is economically negative in almost every sense.

We can see this replicated across the entire economy. We have very low levels of investment and even worse rates of innovation. We manufacture less and less which means we run a constant balance of trade deficit. We create low-wage employment which creates a vicious circle of increased need for public services but lower tax revenue (low wages have substantially harmed the income tax base). This has created high levels of inequality (which in itself is economically inefficient), continuing environmental and social harm, declining public wellbeing (for example poorer quality sleep and increasing levels of stress), declining public infrastructure and rising corruption (particularly in the finance industries but also through ever-greater influence of commercial interests on government policy).

This fallacious ideology of the 'wealth creators in perfect competition' has been utterly dominant in UK politics for decades. In reality, wealth-creation is a function of collectivism – collective provision of education, transport networks, communication systems and laws and their enforcement interact with the collective management of resources such as water, land and money and the provision of labour from a large, well-educated and healthy labour force.

But the ideology of profit as a function of the private sector has spread well beyond economic policy, leading to the fundamental belief among its advocates that shrinking the public realm as a proportion of the overall economy is inherently 'good'. This has led to an utterly unnecessary obsession with public accounting deficits which in turn has led to one of the most damaging and counterproductive economic theories of the modern age; austerity. This has all been exacerbated by the impact of wealth inequality; when wealth is concentrated in a small proportion of the population it makes the taxation system inefficient. Those with very large resources in wealth are greatly undertaxed – but so are those who have incomes so low that they pay little or no tax. The inequality-deficit-austerity triangle has dominated public finances.

The theories behind the UK economic model are now widely understood as seriously flawed and the economic performance they have created is damning evidence of this.

5. AN ALTERNATIVE THEORETICAL FRAMEWORK FOR INVESTMENT-DRIVEN ECONOMIC DEVELOPMENT

To repeat, profit means to gain financially from transactions. Investment means to allocate resource now in the expectation of future benefit. Achieving profit is admirable (particularly where it is reinvested in a business) but is the latter rather than the former which should underpin an economic strategy for an independent Scotland.

Rather than measuring success in terms of the amount of wealth extracted (through any means), Scotland should instead pursue a strategy which believe progress is achieved on the basis of what is invested. Rather than seeing the public good in terms of a small number of entities (corporations or individuals) concentrating wealth in themselves and then letting some of that wealth 'trickle down' to create public benefit, we should seek benefit in improving the quality of skills, goods, services and infrastructure. And of course the greatest public benefit is public wellbeing which should always be prioritised. This approach should aim to increase wages, reduce inequality, strengthen and diversify the business base in Scotland, increase the volume of domestic manufacturing (and other high-skill, productive activities) and improve the balance of payments through more domestic consumption of domestic produce while expanding exports on the basis of quality. These are the outcomes which public policy should prioritise, and while it is perfectly possible that these outcomes could increase traditional measures of GDP, more prosperity might be achieved through efficiency of resource use and a more sharing economy which could increase the wealth of workers and domestic industries and expand tax take while actually contracting GDP. GDP in an of itself should not be the goal since we have seen how this has distorted public policy in ways which have been damaging. 'Quality not quantity' should be the focus.

So what theoretical framework can deliver this kind of economic development? The following are 18 contemporary approaches to the economy which should be adopted to guide an action programme.

New monetary theories

The domestic economy is traditionally seen as having three parts – the public (the state), private (businesses) and households (the population) sectors. In addition to this there is international trade. The annual balances of these four factors should sum to zero, which is to say that if trade stays constant then surpluses in one sector will be balanced by deficits in another sector. Which in turn means that (for example) if the private sector is in surplus then their surplus has to come from somewhere – either the household or public sectors, which will then be in deficit.

So if the public sector is running a surplus, that means it is taxing more than it is spending. This means that either households or the private sector are in deficit (i.e. losing money) which suppresses economic activity. Similarly, if the public sector runs a deficit it means it is spending more than it is taxing so the household and private sectors will run a comparative surplus which stimulates economic activity.

But the public sector is different from the private and household sectors in a number of ways, not least that it controls the monetary system (if the country has its own currency). Governments can borrow very cheaply and can create money when necessary. If properly managed the public sector is perfectly capable of running deficits indefinitely with little negative consequence, particularly if the resultant debts are held in its own currency and certainly where those debts are held by its own central bank.

This does not mean that all our fiscal problems can be solved by money creation – debt and deficit may not be a problem but inflation and exchange rates are and so taxation policy must ensure that enough surplus is removed from the economy to prevent inflation rising or the currency devaluing. But what absolutely does not have to happen is to take actions to reduce debt and deficit during periods in which economic development is the priority.

An independent Scotland will inevitably go through a rapid period of transition after independence as it decouples itself from the UK economy. During that period it is essential that we maximise investment in the economy which can’t be done if government is focussed on deficit reduction. Scotland should run carefully managed deficits throughout the early years of independence.

Foundational Economics

Foundational Economics looks at the economy as a system made up of the public, private and household sectors, not just the private sector. And it believes that it is the public sector which creates the foundations for private sector success and not the other way round. This is because governments create infrastructure, provide services (including the legal system) and regulate and intervene in markets of essential goods like food and housing.

An advanced economy cannot succeed without the core infrastructure of a modern country such as education, transport, a health service and a police force – and there is no viable private sector model for delivering these things. It is the provision of a universal education system that creates the workforce needed by modern businesses; without this they would not exist. In an advanced economy it is the public sector which enables the private sector to make profits; it is not the private sector which enables the public sector to exist as current ideologies pretend.

So for Foundational Economics the question is not how to make the maximum private profit from the economic foundations provided or regulated by the state, and it is certainly not how to extricate the public sector as much as possible from the private economy. Instead the question is how best to invest and manage these economic activities to maximise their development impact and how best to properly understand their role in the overall economy.

For a modern economy core provision like transport and housing are ‘non-optional consumption’. Foundation Economics argues that they are best delivered through forms of collective consumption (coordinated, regulated or provided collectively) and that this will achieve the highest level of efficiency and quality. Public intervention in the economy is not only desirable but essential.

Internationalism and deglobalistion

The differential meanings contained in the two concepts of internationalisation and globalisation have been (intentionally) confused. It is helpful to think of them as quite separate concepts. Internationalisation is the interaction of people, organisations and governments from different nation states (including travel and trade). Globalisation is the transfer of democratic powers from the nation state to multinational organisations or constraint in the the use of democratic powers resulting from multilateral agreements. Internationalism has been around as long as humanity; globalisation is an agenda driven over the last 30 years by multinational corporations with the aim of reducing or removing their need to respond to the democratic will of the nations in which they trade.

Internationalism requires investment in the infrastructure which connects an individual country to the wider world – transport and trading links, digital and communications infrastructure, diplomatic frameworks, cultural exchange links – and this should bring benefit to both parties. The profile of Scotland's economy requires this, not least because much of it is based on technological advances which simply do not take place in national isolation. Scotland must have an open economy, trading with the world.

But no economy is truly open; all of them are governed by domestic laws and practices which involve varying degrees of protectionism. The European Union is presented as one of the world's leading advocates of open economies and free trade but is in reality one of the world's biggest protectionist blocks. Without democratic control of the economy countries are left with little scope other than to try and capture benefits from and mitigate the negative effects of the globalised behaviour of multinational corporations. This has led to substantial growth in global inequality, with all the negative effects that assumes. The question is what kind of protection and regulation is likely to create public good outcomes and what kinds are about wealth concentration.

It is not the case that internationalism and globalisation are inextricable. On the contrary it is entirely possible to increase an economy's level of internationalism while pursuing a process of returning democratic control of the economy to the citizens of that economy (deglobalisation).

Entrepreneurial State

There is almost no major social, technological or economic change in modern history which has not been driven by governmental intervention. For example, almost all the technologies involved in a mobile phone were originally developed by the military, universities and public infrastructure companies. Free market economics believes that market forces driven by the profit motive alone will allocate resources most efficiently, including into research and development and innovation. The evidence is strongly against this; the greater the pure free-market doctrine pursued, the smaller the proportion of total wealth that has been invested in long-term research, development and innovation. In fact, if the state had not made investments that the private sector did not, much of the modern world around us could not have existed.

But the innovation cycle is only one means through which the state can intervene in the economy in beneficial ways. The state is a very big purchaser of goods and services and this gives it enormous power in directing capital flows in the economy. Public procurement can be used to change the nature of both production and consumption. And of course the public sector has a full range of policies it can enact to shape and direct aspects of the wider economy through regulation, taxation and its broader fiscal and monetary policies. The ideology of recent decades has sought always to reduce the state's use of these policies but this can easily be reversed.

But these are only the better known roles that the state can take. In fact, while there are limitations imposed on state actions (particularly by European Union competition and state aid laws), there is much more that the state can do. In fact the state can intervene in all kinds of ways – to break up monopolies, to prevent mergers and takeovers that reduce market competition, to nationalise crucial underperforming industries or even to undertake entire programmes of direct economic activity.

This latter ability can prove particularly crucial in periods of major economic restructuring. Since the 1970s the dominant economic theories have argued that the best way to deal with economic restructuring is to allow free market forces to engage in 'creative destruction' – the 'inevitable' economic shock of entire industry sectors or parts of the country facing rapid economic decline would be encouraged for reasons of 'efficiency' (with the state being expected to step in and mitigate the often terrible human consequences of this). But creative destruction is not the only possible response to economic restructuring; it is entirely possible instead pursue a course of creative adaptation. This would involve not stepping aside and allowing the most devastating form of restructuring but instead actively helping industries and communities adapt to the economic causes of restructuring. This is particularly relevant just now because of the potential impact of automation and Artificial Intelligence.

An 'entrepreneurial state' approach would seek to coordinate the roll-out of new technologies like driverless cars and seek to capture the wider benefits of this kind of economic restructuring (for example by using its purchasing power to seek to bring parts of the manufacturing process to Scotland). It is unlikely (though not impossible) that entire vehicles would be made here but partnership agreements with automated car manufacturers might bring some specialisms involved to Scotland (for example battery manufacture or the development of software systems). This not only brings substantial (and high-skilled) economic activity to Scotland, it creates the potential for a managed transition for those employees who are displaced by the new technological developments.

The UK's passive state deals with economic failure by encouraging, begging or forcing private companies to fix the problem. A Scottish entrepreneurial state can take actions directly to fix these failures itself.

Redistribution and Predistribution

The stagnation of wages and the growth of inequality is both socially and economically harmful. The benefits of a more equal distribution of resources are enormous, from the ability of more people to start enterprises to the ability of more people to pay tax. A more evenly distributed national wealth would see much less hoarding of resource and much more investment of wealth back into the economy.

The traditional approach to this is known as redistribution; allow economic inequality but then level it out a bit by providing public services and a social security system which will reallocate some of the national wealth through taxation. The problem is that this approach can work in periods of high tax returns but not during recession or periods of poor economic performance. And, more fundamentally, all this does is mask the problem of economic inequality rather than tackle it. In any case redistribution as currently practised can only be achieved by permanent growth, and there are straightforward planetary limits on the scope of permanent growth.

Redistribution will always be an element of tackling inequality but a more helpful concept is 'Predistribution'. Predistribution seeks not to reduce inequality after the economic failure of increasing wealth inequality but to reduce it by influencing the labour market such that growing inequality does not arise in the first place but rather is reversed. Two key approaches are needed to achieve this. First, we need to rebalance the economy away from low-pay employment and towards economic sectors which pay higher wages. This needs an industrial policy which promotes expansion of the parts of the economy which pay higher wages (like manufacturing and skilled services) and diversify away from sectors which pay low wages (like much of the retail sector). The impact is an economy in which inequality of pay is reduced through upskilling the economy as a whole. It would be underpinned by a finance system that took a longer-term approach, a public policy that focussed on investment, better use of minimum wage policies and education and training to support upskilling.

The second is to return to an effective system of industrial democracy. Corporate profits have been achieved in part by reducing wages which means that the national wage bill has been decreasing as proportion of national wealth. This is not in the public interest and so systems which enable the labour force to negotiate a fairer share of that national wealth should be substantially strengthened. This means increasing the role of trade unions in pay negotiations and restoring collective bargaining and also greater involvement of workers in the governance structures of enterprises. In particular, it is centralised collective bargaining (at the industry sector or even national level) which drives wages up and starts to equalise gender pay gaps because it prevents a company-by-company 'race to the bottom'. The experience of rising wages is that employers seek to invest more in new technology to make the most of the employees they are paying for. For this reason collective bargaining and increased wages are in fact productivity drivers.

Definancialisation

Finance provides a crucial role for the economy – but it has moved from being servant to master. Rather than supporting other parts of the economy the UK finance sector has instead transformed itself into a big business that must be supported by the rest of the economy. This is the wrong way round and the result is that major aspects of economic policy are now tailored to the interests of the banks and not to the productive economy. This process should be reversed through a process of 'definancialisation'. The first step is to intervene to make sure that the broad area of market failure of patient capital investment is addressed. Rather than always seeking fast profits we need a finance sector which takes a long-term view, and this has not been provided by the market either at the national or local level. Publicly-owned financial institutions like a national investment bank can be a mechanism for achieving this, and can support publicly- or mutually-owned high street banks.

The second approach is to restore public policy to a role of supporting the productive economy and not the finance sector. It is not that big finance should be inhibited from making profits (other than where these are clearly socially or economically damaging), it's that the economy as a whole should not be managed in terms of what is good for banking but for what is good for economic development. A simple example of this is regulation. It has been argued over recent decades that financial regulation was bad for 'the economy'. In fact, it was only bad for one part of the economy – the wildly risky speculative part of the banking industry. As the 2008 financial crisis showed, every other part of the economy would have benefited from much stronger banking regulation. We must return finance to an enabling role rather than a parasitic one.

Deconsumerisation

Deconsumerisation means both that we should consume fewer natural resources each and that our economy overall should be less reliant on ever-expanding consumption. There are many reasons for this – not least the disastrous impact over-consumption is having on the environment and the psychological harm hyperconsumerism has on consumers (who are constantly shamed into buying more and more). But the economic reason for deconsumerisation is to move away from low-skill to high-skill work. The current model of consumerism is heavily based on the constant expansions of cheap imports and the constant expansion of household debt. Both of these trends are harmful to Scotland's overall economy.

The productive part of the retail industry is in the manufacture of the goods since this is where the skills and technology are applied. The unproductive part is the distribution and sales because they add no value other than the mark-up of the price of the goods being sold. Clearly the distribution and sales aspect plays a very important social role in giving citizens access to goods (many essential), but it is the manufacturing element which we should seek to grow in Scotland. The greater the proportion of what is consumed domestically being produced domestically the greater the economic impact and the lesser the environmental harm. This also means consuming less but consuming better – reducing the volume of consumption but increasing the quality of what is consumed. This is not an unrealistic agenda; countries clearly can't be fully self-sufficient, particularly in the field of modern technology. But greater domestic production of food and many goods is perfectly possible – and reducing the volume of pointless and disposable plastic goods we buy is simply becoming an urgent necessity.

In addition, consumerisation has driven a sharp increase in household debt and this is bad for the economy since those in debt are limited in the economic contribution they can make because of the impact of financial duress – starting a business is even more difficult if you have large credit card bills which were used to pay for non-essential luxuries. And since most of the retailers are not domestically owned the profits derived from consumer spending do not stay in the economy but are exported through the internal accounting of multinational corporations. A growing emphasis on using leisure time to engage in activity rather than consumption in itself increases economic activity since recreational and hospitality industries are much more likely to be domestically owned and value-adding.

Local Wealth Building

Not all profits are the same and not all profits have the same economic impact. This is because of the difference between profit extraction and profit reinvestment. If we want to stimulate the domestic economy then we should focus on the kinds of economic development that create profits that will be reinvested in the domestic economy. What makes little sense is to focus on profits which will be immediately extracted from the domestic economy and therefore have no (or even a negative) economic impact.

So what kinds of profit are most likely to be reinvested? There are four main routes to reinvestment – wages, supply chains, business development and business diversification. The more that is paid in wages, the more of the value of the enterprise is recycled into the economy through the many forms of economic activity undertaken by the employees (not least local consumption). Likewise, the greater the volume of the supply chain which is itself located domestically the more of the profit generated by the enterprise is recycled into the domestic economy. The more a business reinvests into itself (particularly into technology and innovation), the more of the value is captured domestically. Finally, when a business reaches a certain stage it will often have to slow down its development and growth, sell to a bigger company or find ways to diversify to develop. Clearly the last of these is the most economically beneficial.

So what kinds of businesses are likely to pay higher wages, use local supply chains, reinvest in themselves domestically and seek to diversify domestically? This is certainly not the model of multinational corporations which seek to outsource as much as possible either to the lowest wage destination possible or to concentrate these activities in a single location (many big businesses do all their global R&D in one place). Supply chains are most likely to be other multinationals and when it meets a ceiling to its domestic market it is much more likely to seek out other markets in other countries than to seek to diversify domestically. We should aim to follow an economic strategy with the goal of having as large a part of the overall economy domestically owned as possible. The 'ownership neutrality' doctrine of recent decades has left Scotland as one of the most foreign-owned economies in the developed world.

This is a rapidly growing field of economic theory and local economic strategies are now becoming the focus of an awful lot of international attention, not only because they can help national economies but because they can very substantially help regional and local economies. This is known as 'local wealth building'. It involves using public policy, the development of public infrastructure and public investments to encourage as much local, integrated economic activity as possible. And the approach has been shown to have the potential to deliver impressive results.

Scotland has suffered decades of under-development under UK financial rule and so should accept that it must be more proactive in protecting and growing sectors of its economy than it would otherwise have to be if these were established, mature industry sectors. Procurement, infrastructure planning and reorientated economic development support should be used at national and local levels but market protection (for example through strong merger and acquisition regulation), direct state intervention (for example by creating collectively owned enterprises to develop new business sectors), subsidy (where compliant with state aid rules) and some use of pricing mechanisms should also be used (to make domestic products more competitive with those from very low-pay economies).

Economic diversity

Diversity in the economy is the best protection against temporary downturns, crises or long-term decline in any one industry sector. Over-reliance on a few big businesses can be very damaging, as we have seen with the 'too big to fail' banking sector. Diversity should mean that if any one part of an economy is under duress, other parts of the economy can take the strain.

There are other reasons for diversity among enterprises and that is because of the differential behaviours of different types of enterprise. For example, social enterprises prioritise public benefit outcomes and so are particularly important in local areas or in regions which face economic and social difficulties. Cooperatives have very strong industrial democracy and can play an important role in upskilling and changing the nature of the labour market. A better balance between small and big business will reduce the monopsonistic pressures faced by small producers (monopsony is when there is only one or a small number of buyers in a market and so sellers have no market power and is to producers what monopoly is to consumers). If small producers have a larger number of potential buyers of their product they will be less open to exploitation.

Modern technologies have greatly increase the capacity to act as a sole trader with platforms like Uber or AirBnB opening up markets through the creation of a critical mass of small suppliers. However rather than acting as a facilitator these platforms have tended towards exploitation and have effectively moved jobs from higher pay to lower pay status. The potential for the public sector to help and support the development of platforms which support small traders is substantial. And finally the role of publicly owned companies has already been discussed, either through nationalisation or intervention where there has been economic failure or underperformance.

Business quality improvement

The quality of the overall economy will in part derive from the quality of individual enterprises in that economy. Free market economics has argued against the public sector making any value judgement about the nature of individual businesses, but this does not make obvious economic sense. At the moment public business support is driven by a 'fast growth' approach, focussing on any business which appears able to grow very rapidly. It is broadly agnostic about any other aspect of the business (although sometimes takes an interest in issues such as staff training). Rather than favouring companies which can grow low-pay employment or derive rent-seeking profits quickly, public business support should focus on quality measures such as the nature of the jobs, the level of investment in research and development, the amount of reinvestment in the company, the nature of its supply chains and so on. Most businesses want to be better; public support should be directed to helping them to be better in the short term to help them become bigger and more sustainable in the long term.

If business development support is mission-driven it will focus on supporting the kinds of enterprises which are most likely to achieve the social and economic outcomes which are set as the aims and goals of economic development policy. It will also look at enterprises in the context of the wider economy, for example supporting individual businesses to collaborate more effectively in a more integrated economy. This means that business support will draw on all of the available tools outlined in this report (entrepreneurial state, foundational economy, definancialisation etc.) and will help to coordinate all of these tools to assist individual businesses in the most effective way possible.

Another way of improving the qualitative outcomes from businesses is to increase their level of socialisation. The nature of the ownership of businesses can shape the way they behave with broader and more diverse ownership structures able to balance the narrow interests of any one kind of owner. It is possible to require limited companies (of a certain size) to create shares which are then put in the collective ownership of the workforce. This gives workers a clear role in protecting the long-term interest of the business and, in conjunction with reforms to industrial democracy and company governance, can change how businesses behave in the long term – for the better. Different company models also play an important part here – cooperatives, social enterprises, community interest companies and employee-owned businesses all have important and varying roles in a more balanced economy.

There are precedents for all of this. The German 'Mittelstand' company sector is characterised by high skill, productive manufacturing businesses of a medium size which are domestically (often family) owned, are high-pay, have flat management structures and low wage ratios (the ratio between the best and worst paid employee), invest heavily in advanced manufacturing technology and reinvest heavily in the business overall with much less being taken out in private profit, a long-term planning horizon and one third of the management board being elected by the workforce. They are also major international exporting businesses – some a household name in the UK. This is something like the kind of businesses Scotland should aspire to grow.

If we care about the impact of the economy over all we must care about the elements of that economy which are creating these impacts. Profitable tax avoidance or wealth created through major environmental harm are not activities about which we should be neutral. If we do not make democratic, collective judgements on the kind of society we wish to live in, we will not achieve that society. Qualitative economic development support should be the norm.

Economic decentralisation

We have shown how an economy centralised around London and the South East has harmed Scotland's economic development as a result of geographic wealth concentration. But the harm caused by excessive centralisation is consistent to most economies. There is a tendency for economies to be centred around dominant cities and this is likely to depress economic performance in other parts of the economy (this is often a problem for remoter regions and rural areas but is increasingly becoming a problem for large towns which are near to dominant cities which rather than gaining from the spill-overs from successful large cities are being harmed by them).

The ability for economic policy to be responsive to the different needs of different regions is increasingly understood. This can best be addressed by decentralising the policy powers which are needed to create responsive public policy. This requires that regional and local government has strong, independent powers with which bespoke economic approaches can be developed. It is important that these can be based on local knowledge, local opportunities and local enterprise and entrepreneurialism. The tendency to conceive of 'national economic imperatives' in terms of what suits the places where corporations headquarter and politicians and civil servants congregate must always be challenged and should always be balanced by localised power.

If economic development is not going to be based on rent-seeking, asset value inflation, financial speculation, debt-fuelled consumption and price gouging, it must instead be based on the effective use of resources – natural, geostrategic and human. It is therefore not sufficient that economic policy powers should be decentralised but that national-level infrastructure should be created which enables the effective utilisation of resources and other economic opportunities wherever they lie. An example of this is in energy generation - if an economy has the potential to generate large amounts of electricity in dispersed locations (as is the case in Scotland), this potential will not be realised without a national electricity grid which enables that energy to be distributed and, where the generation is from renewable sources, be maximised through effective deployment of grid-level storage. Alternatively, if a large natural resource is being under-developed in some regions because of policy approaches at a national level, these approaches must be challenged. An example might be concentration of ownership of an asset which is of little interest to the dominant economic region but is a missed opportunity in other regions. Scotland's land ownership patters are a real-world example of how inaction at the centre reduces the potential of the periphery.

Resource-based development

If wealth is not to be based on speculation, centralisation, concentration, rent-seeking and price-gouging it must be based on our human and natural resources. Natural resources (if used sustainably) are a permanent competitive advantage for any economy which has them. They provide the energy and materials which create new products and so induce growth throughout the economy, but they also create economic activity in their management, extraction and processing. The economic theories around 'globalisation' imply that natural resources are bought and sold in a free market so derive limited benefit to those who have them. This is wrong; natural resources remain an underpinning element of a domestic economy. Places which are richly endowed with these resources suffer disproportionately from economic strategies which take a 'resource-neutral' stance and assume that resources are a function of free markets. This can be tackled by shifting economic underpinning from finance and retail to energy and the production of goods and materials based on the processing of available resources. That includes food, forestry, marine, wind, tide, aggregates and land. These provide a competitive advantage to those which have them but tend not to be the focus of city-based economic strategies. Clearly, Scotland is very well endowed with these resources.

One of the most substantial problems for the effective exploitation of natural resources is concentration of ownership. Effective development of resources should encourage a diversity of uses for those resources so that the regions which benefit from their management are not excessively reliant on single economy sectors which purchase those resources. Long-term economic stability requires that entire regions are not excessively tied to the rises and falls in any one economy sector, and diversity of ownership and use is the best protection against this. But there is a more fundamental reason why concentration of ownership reduces effective exploitation - it suppresses creativity, ingenuity and entrepreneurialism. Without the ability for new entrants into the market, economies cannot regenerate themselves over time and if ownership is overwhelmingly concentrated then it becomes very difficult for individuals and enterprises to enter the market. This is a recipe for stagnation and a lack of innovation. The woeful underutilisation of Scotland's land resources and the almost complete lack of innovation in their use resulting from the frankly staggering concentration of land ownership (unparalleled anywhere else in the developed world) is a case-study example of this.

But 'resources' are not merely materials which can be extracted. Clearly people are the most important resource an economy has, but so are factors such as geostrategic location. The world is full of economies which have developed (often over many centuries if not longer) based on their locations in the world. Whether it use of location to act as a 'connection hub' for international travel or the availability of rapid access to marine transport routes, identifying and making the most of these location-based resources is a substantial opportunity. But they seldom result in benefit in an of themselves - the value of geostrategic locations is unlocked through infrastructure and particularly transport and communications infrastructure. Scotland has a valuable geostrategic location but suffers from poor international transport and communication infrastructure, particularly to make the most of our proximity to important marine transport routes.

Smart Specialisation

Knowledge and intellectual property is also a resource which creates economic benefit. But the modern global economy is both highly complex and highly distributed with many aspects of the development of intellectual property being exploited in places other than where it is generated –even if a specific economy produces a major technological breakthrough it is likely that its manufacture and production will take place in a different economy (usually one typified by lower wages).

This does not mean that a medium-sized country like Scotland can't reap the benefits of domestic innovation which creates intellectual property - by pursuing a strategy of 'smart specialisation'. Scotland absolutely can compete by specialising in a single technological element (for example advanced component design) or by developing entire advanced, complex products but which are lower in sales volume where cost saving at every stage of production is not the priority (for example advanced medical equipment). Exactly the same is true of high-skill service industries and 'knowledge services' (the production of intellectual assets rather than either products or service provision). Scotland should therefore develop strategies which are best placed to help us secure these kind of 'smart specialisation' industries, and to take a coordinated approach to seek to capture as much of the value of these industries as possible including their supply chains and, where possible, manufacturing which spins out from the development of intellectual property. And the domestic ownership of these businesses should be protected, anchoring them in the Scottish economy for the long term (the rapid acquisition of high-tech companies is a key part of the business model of large high-tech corporation which do as much appropriating of other people's innovation as they innovate themselves).

An important development in the field of smart specialisation is the idea of the creative commons and in particular an IP Commons. The existing economic model sees new knowledge and breakthroughs as resources to be kept totally private and exploited for as long as possible. In fact what we see is that places with thriving and open research communities attract research and researchers and that this creates more spin-off activity in a virtuous circle. Open source software and open, collaborative ventures like the human genome project are models for the future.

Scotland has genuinely world-class universities and (despite constant media attacks) an excellent education system that produces a highly-educated workforce. We have very substantial track records in many knowledge-based industries from medicine and engineering to software development and biotechnology. Smart specialisation can play a major role in capturing the economic impact of these developments for Scotland.

Human resources and the economy of labour time

A more effective economy should be in large part built around people rather than around profit. A well as putting downwards pressure on wages and conditions, the drive to fast profit has also increased working hours and the retirement age. But as our poor productivity performance demonstrates, this is not the best way to get value from your human resources. There is ample evidence that shorter working hours are economically advantageous for all involved, particularly in a high-skill economy. And in any case, since achieving a work-life balance conducive to wellbeing is a core purpose of the economy as set out above, we must recognise that humans do not live solely to work. Part of an industrial policy should be focussed on working better, not longer.

There are other crucial investments in the workforce we should emphasise. The discussion of industrial democracy above does not pick up the essential role it plays in innovation and productivity. In fact, in many advanced economies the primary source of business innovation is employee knowledge. It is often workers who know the business processes best and by giving them a clear role in the governance of an enterprise we can better harness their knowledge. Having workers on boards also increases the investment enterprises make into training and development of staff which in itself creates a virtuous circle of innovation and productivity improvement.

But not all of the labour force is born here. There are many, many reasons Scotland should have open and supportive immigration policies – moral reasons, cultural reasons, demographic reasons and economic reasons. However we should not run an immigration policy focussed on purely volume targets. To be clear, it is possible to 'grow' GDP simply by having more and more people in any given economy. Like expanding household debt, it opens up growth opportunities for profit-extracting industries like retail or banking which see the size of their markets increasing. And some low-pay employers favour increased immigration from low-income countries to prevent domestic labour market pressures forcing them to pay increased wages. But while this may cause aggregate GDP to increase, per captia GDP increases much more slowly (or can even contract). There is more wealth, but it is shared between more people. And this problem is exacerbated because the profit growth in this model occurs often in precisely the economic sectors which do the least to recycle profits back into the economy. While we should be very careful of overemphasising the arguments that say immigrant labour always undercuts wages in the domestic labour market (a claim used by the far right to promote anti-immigrant sentiment), it is certainly the case that this has happened to some extent in a number of industry sectors.

Where immigration policy is about social justice or cultural enrichment there are very good reasons to be generous and open. But where the aim is purely economic strategy should be clear about what is being sought from that strand of immigration. A 'smart specialisation' strategy can be pursued to retain as many overseas university graduates in the domestic economy as possible and active recruitment into high-skill industry sectors can be pursued where there are skills shortages or where increased supply of skilled labour will aid development. Being aware of ongoing demographic challenges in an economy is also important where an ageing population is changing the relationship between the working age population and the retired population. Long-term strategies for maintaining a strong working-age population should also involve encouraging domestic population growth through supporting those who already live in an economy and who want to start families by making it easier for them to do so through policies such as enhanced childcare provision and the promotion of family-friendly working practices. Better economic performance will create jobs which will also decrease the incentives for out-migration. But we can also rebalance the age profile of our economy and our society more generally through sensible use of an economic immigration strategy.

Sharing economy

The 'linear' nature of our current economy (take, make, sell, use, dispose) is highly inefficient. People are required to purchase goods for which they have only limited use (the average drill gun from a DIY superstore is used for only 15 minutes during its entire lifecycle, a small fraction of its capability). Free market economists argue that markets allocate resources with maximum efficiency, but this is very clearly not the case, particularly when it comes to hyper-consumerism. The more efficient alternative to this is the sharing economy.

Rather than assuming that infrastructure, goods, services and skills can only be provided by outright purchase from a free market we should look at how we can allocate resources much more equally through coordinating and sharing. This can mean many things. Perhaps the best known example of the sharing economy is a lending library and its modern iteration the 'share shop' or 'tool library' (where tools or other equipment people use but not regularly enough to justify purchase can be borrowed for short periods). There is much cross-over with the concept of the foundational economy and collective consumption and exploring other kinds of resource which can be better provided in a shared, collective way can bring real economic benefit.

It also works for businesses. Here there are many options in areas such as shared infrastructure (small businesses that are unable to expand on the basis of needing to invest heavily in new infrastructure, plant or equipment which they do not have sufficient use for can become involved in cooperatives to invest in this infrastructure with others who also share a partial need for it). If we stop seeing separate enterprises only through the lens of competition the scope for collectivity becomes even clearer. 'Right size' processing becomes a reality (where medium-sized enterprises can collectively invest in shared or mobile processing technology for where they do not have sufficient need to put it in place permanently). And potentially just as importantly shared service provision enables companies to expand in ways they otherwise would not have been able to. Examples include everything from export support (where companies exporting to given markets are networked so that opportunities for sharing the costs of exporting can be explored) to the protection of intellectual property rights (where consortia of high-tech businesses can between them afford the kind of legal protections which they cannot individually, enabling them better to compete with corporations). Government can play a major part in business-to-business sharing, for example by calling on businesses to contact the economic development agencies with information about their requirements which would enable either direct provision by the public sector or 'matchmaking' of people who have similar needs.

Circular economy

The concept of the 'circular economy' is a direct challenge to the current linear model. In the linear model we take resources, we make goods from them, we sell them, we consume them, we dump anything that's left over and then we start again. It has led to enormous harm in resource depletion, natural resource degradation (such as declining soil quality), carbon and other emissions and the proliferation of pollutants. We must take the science on this much more seriously – the current model of constant growth through increased consumption and exploitation of resources is utterly scientifically illiterate. Unless something changes, the way we are currently organising economic activity will eventually result in the complete collapse of the ecosystem. Pretending this is either not the case, that some minor cosmetic changes will be sufficient or simply crossing our fingers are all unsuitable responses.

The circular economy model sees the economy as being a series of 'loops' where resource inputs result in waste, emissions and energy leakage which must as far as possible become the inputs for the next cycle of the loop and must be minimised and mitigated where that is not possible. This should create not the degenerating ecosystem of the linear economy but instead a regenerative system where the wider ecosystem is able to recover and repair itself after each round of resource and energy extraction. In fact, the methods for this have largely already been discussed in the above theoretical framework – longer-lasting design and better quality of products, better maintenance and repair of existing products, reuse, repurposing, refurbishing, recycling and of course lower levels of consumption in the first place. We simply cannot afford to be passive in the face of the science we have and must change our behaviours. And we cannot wait for someone else to take the lead or for the illusory promise that this can all be achieved only at a 'global level'.

Feminist economics

Feminist economics is an important and rapidly-developing field of economic study. It is a diverse discipline and not a unified framework. For example, an important current strand of feminist economics is the critique and reform of the discipline of economics itself. Another is increased economic study of the informal economy which is often feminised and either unmeasured or unrewarded (much of society's caring economy remains both dominated by women and also underpaid or unpaid altogether). Another is the examination of career paths and the structural and attitudinal causes of continued pay disparity for women in existing businesses and organisations. Another is greater exploration of gender segregation in the workforce and the extent to which women are encourage towards industry sectors which are low pay.

The impact of the failure to achieve gender inequality in the economy is about much more than just social justice; it is a damagingly inefficient way to make the most of valuable human capital. Simply increasing female participation in the workforce (particularly at pay levels above the minimum wage level) has a substantial economic impact. And of course the fact that this means the skills and knowledge that individual women would bring to enterprises is lost to the economy.

This field of study does not yet lead to a single programme of action which can be adopted but does demonstrate a number of steps, such as ensuring public support for infrastructure which enables female economic participation (such as better childcare), constant vigilance and pursuit of discriminatory practices in individual businesses and incentives and encouragement to increase the provision of flexible working patterns. It also opens up major areas for development such as the question of how we reward caring roles. And it must inform an industrial strategy with the aim of desegregating the labour market and preventing the drivers which force women into low-pay sectors.

Balanced measurement and alternative indicators

Finally and crucially, we must embed an investment-led economic development approach by adopting economic indicators which are suitable for assessing progress against the development model which is being pursued. The illusory simplicity of the free market approach is based on the belief that all government has to do is stay out of the way and count up just how much profit is achieved as a result. Hence almost the only economic statistic which is seriously considered is national GDP (and this in itself isn't even sophisticated enough to assess GDP growth in per capita terms – national wealth would notionally stay the same if we halved everyone's income but doubled the number of people). But among its many problems is that GDP includes no serious assessment of 'externalities' – the hidden costs created by GDP growth, in particular poverty and environmental damage. We watch one indicator which is actively harming other more important indicators, but we pay insufficient attention to those.

We must place much less weight on GDP measures and instead should be measuring the aspects of the overall economy which are genuine indicators of development and not just growth – investment rates, innovation rates, company ownership, productivity, balance of trade, waste and emissions produced and so on. These must then be the guides to what public policy is trying to achieve.

But, in the end, success will be measured not by even this broader range of economic statistics alone but rather the extent to which the economy is successfully achieving the overarching goals set out at the beginning of this report. If it is not achieving these, it is failing, whether it is growing or not.

6. AN OUTLINE PROGRAMME FOR AN INVESTMENT-LED ECONOMIC DEVELOPMENT STRATEGY

This has provided a theoretical framework which explains what an economic development strategy in Scotland is seeking to achieve and underpins it with a series of contemporary economic development theories and the outcomes of practical attempts to put these theories into action. It is a coherent and workable approach to economic development in Scotland. But what would it look like in practice? This chapter will present ten substantial programmes of action which take the theoretical approaches and convert them into policies which can be enacted in an independent Scotland – but will first discuss the issue of the Green New Deal.

A Green New Deal for Scotland

The programmes of action contained in this report represent the fundamental building blocks of the concept of a 'Green New Deal' which have gaining so much momentum internationally. The Green New Deal is a specific programme of action designed to transform the economies of the world's nations in such a way that they not only avoid the catastrophe of irreversible climate change but are reformed to create a much more humanistic and regenerative economy for the future. It is a remedial solution – fixing a problem we already have. But it is also a preventative solution – learning from exactly why we have ended up with a world economy which is causing a mass extinction, increasing global inequality and resulting in international conflict and doing something different. And it is also a solution to the question of people's lives as they are lived now – a plan for an enormous economic stimulus aimed not at propping up banks but creating greater prosperity and wellbeing for everyone right now.

The Green New Deal is explicitly an investment-driven plan for reorientating the economy and the elements which are generally taken to make up a Green New Deal plan are all discussed in this report. However, this report is about the totality of the Scottish economy post-independence and so is considering a wider range of issues. Common Weal believes that a Green New Deal for Scotland is a policy response to climate science we simply cannot avoid, and it would be essential for an independent Scotland to address this agenda head-on. We also believe (for reasons outlined above in relation to how the UK economy works) that at the moment the only way for Scotland to embark on a major Green New Deal programme would be to be independent.

This report is not the case for a Green New Deal for Scotland and does not argue that one alone would be sufficient to form the basis of an economic plan for a newly independent Scotland. However, a Green New Deal and an Investment-driven economic development plan for an independent Scotland walk hand in hand. Common Weal is currently working on a major plan for a Green New Deal for Scotland which we hope to publish later in 2019. The philosophies which will underpin it are captured in the following ten programmes of action for the economy of an independent Scotland.

Create a monetary and fiscal environment conducive to investment

First we must create a monetary and fiscal environment to promote an investment-driven economic model. This should be capable of supporting the Foundational Economy and public services, creating economic stability, producing a business environment which is equally supportive of all enterprise types, prioritising the real economy through an investment focus and insulating the overall economy from risk.

The first step to achieving this is to put in place strong monetary institutions and in particular a central bank with strong regulatory functions. The central bank – in conjunction with the government – must make sure that there is stability of key indicators such as inflation, balance of payments, exchange rates and private and household debt. But the purpose of managing these indicators is to promote the kind of economy which is being developed and they do not exist to be managed for their own sake. For example this means that interest rates should be managed not to encourage asset value inflation (such as constantly-rising house prices) but rather to encourage long-term investment and financial security. Exchange rates should promote exports and domestic consumption of domestic produce, not cheap imports. And balance of payments should be taken much more seriously as a public policy priority.

The second step is to get the fiscal environment right. Government should not make reducing deficits a priority but should instead prioritise investment in the foundational economy (along with protecting and enhancing public services). To be able to do this public sector debt should be held in the domestic currency as far as is possible; it is the requirement to pay back debts denominated in other currencies which creates risk in public sector debt. There are a number of ways this can be done. It could be made a condition of pension tax relief that the pension fund make at least a proportion of its investments in the Scottish currency. Scottish government bonds can then be sold domestically. Scotland should also create a much more stable savings environment for households which can involve the marketing of government bonds directly to citizens. Conditionality on tax relief on savings such as ISAs can also provide a means of sourcing public investment in the domestic currency. Where bonds are purchased in currencies other than the Scottish currency the central bank should examine the financial case for purchasing these back. If as much public debt as possible is held in the domestic currency there is no need to manage the economy on the basis of the needs of international debt financing but on the basis of the needs of an investment-led development framework.

The next step is to undo the UK's hostile environment for small and medium-sized enterprises by creating an entirely new tax code which is massively shorter and simpler and which does not contain tax avoidance loopholes. The first principle of the business tax element of the tax code should be parity of treatment of enterprise type and size through ending the scope for tax avoidance and ensuring all taxes are collected. This will also mean altering accounting rules to prevent multinationals using internal accounting practices for the sole purpose of tax avoidance. A tax policy based on total profit derived by the enterprise from inside the Scottish economy should be the starting point since this is most difficult to avoid. A much stronger inland revenue service (Revenue Scotland) and customs and excise service should ensure tax evasion is minimised and lost income through practices such as smuggling or the use of off-shore tax havens is progressively reduced.

Next the fiscal and monetary framework should reduce risk to the overall economy by carefully regulating the financial services sector. That regulation should protect socially and economically useful finance such as retail banking services both to businesses and the public, limit non-useful activity such as trade in complex financial derivatives, limit bank sizes and the economy's exposure to them so none are 'too big to fail' and make clear that any future bail-out of banks will protect only the consumer and the wider economy, not the banks themselves. There is strong merit in creating publicly-owned consulting and auditing companies to decrease the risk from some of the behaviours we've seen from big businesses outside the finance sector. It has become clear that existing accounting and auditing firms have failed in their duty to identify and highlight the risk by being too close to the businesses they are supposed to be auditing.

Finally, we must develop a much more balanced set of indicators of economic progress. GDP alone tells us next to nothing about the quality development of the Scottish economy and so if we are to get public policy right we must greatly de-emphasise GDP as a measure of success and create a much more balanced means of measuring progress.

Strengthen the Foundational Economy

It is important to reiterate at this stage that successful economies result from diversity. A mixed economy is essential and too much domination of the economy by the state can be just as great a risk to the economy as too much domination by financial institutions or multinational corporations. But at the moment the balance is in the wrong direction, with too little public-good intervention. The need for this mixed economy will be discussed further in the following sections where the role of public companies and business support will illustrate further on how public good interventions do not all mean public ownership, with the role of stimulating and supporting the private economy being emphasised.

However, to get this mixed economy right Scotland should start by identifying the parts of the economic which are 'foundational' (too important to the overall economy to be managed without a clear public benefit focus). In each case it should look at the best option for achieving a public benefit outcome – public or collective provision, direct public intervention in private provision or public regulation of private provision. Where the market is doing the right things there will be no need for intervention – but energy, public infrastructure, postal services, public transport, broadband infrastructure and core public services (including recreation and sport, culture and the 'sharing economy') have no realistic competitive market model and so are best delivered in public ownership (though this does not mean they all need to be centrally managed by government). Housing and transport both requires a mixed model with much more direct public intervention and better regulation. Food requires a regulatory model with a series of public-good orientated policy incentives.

Immediately on independence Scotland should create a publicly-owned Transmission System Operator to take the management of the Scottish national electricity and gas grids into public control. We should establish a National Energy Company and National Energy Agency to begin offering stable retail energy prices to customers and to take over the development of new energy generation capacity. All future large-scale capacity should be developed in public, mutual or cooperative ownership or, coordinated with the National Energy Company, in community ownership. A plan should be developed to gradually bring existing energy capacity into collective ownership. Similarly the National Energy Company/Agency should take over the role of developing new grid infrastructure and in particular should develop proposals for the roll-out of localised smart-grid technologies with large-scale grid storage to make better use of

Scotland's renewables capacity. Existing grid infrastructure should be taken into collective control at an early stage. Crucially the National Energy Company should at every stage seek to identify ways of keeping as much as possible of this economic activity rooted in the Scottish economy, either by commissioning domestically-owned manufacturers or other providers to carry out work, or if this is not possible to explore establishing divisions of the Company to do the work directly. On occasions where neither approach is possible procurement power should be used to try and get multinational to bring aspects of manufacture or other technical services to Scotland.

The development of a 'heating grid' is more complicated with technologies still developing and a much bigger engineering problem to be faced if we wish to decarbonise energy. A longer term plan for doing this should be created. All of the above activity is profit-generating and so should be achievable with minimal additional public subsidies, but the National Energy Company should work with the Scottish Government to develop a pricing and regulatory framework best able to support a dispersed and public-good orientated energy generation and distribution system.

Scotland will of course wish to continue to build and improve its public infrastructure such as roads, schools, hospitals and so on. These are wholly publicly-funded and so can only be developed on the basis of the availability of public sector investment (the energy model above and housing and in large part transport models below do not require increased public subsidy). But a National Infrastructure Company can make sure that this essential public infrastructure is developed to the highest standards and at with the most beneficial financing (working with the Scottish National Investment Bank and ending the failures of PFI) while capturing a greater proportion of the economic value of building this infrastructure in the domestic economy.

Postal services should be brought back into public ownership and a medium-term development plan for postal and distribution services should be created to anticipate and make the most of the impending arrival of increased automation and then driverless vehicle delivery. The roll-out of broadband infrastructure and (crucially) the role-out of 5G mobile technology should be brought into collective ownership and both of these functions (post and telecoms) might be delivered by a National Communications Company which may in time take a greater role in other communication and distribution infrastructure issues such as telephony and the management and regulation of broadcasting and radio spectrum.

A National Transport Company should be established. This should take the ScotRail franchise back into public ownership and should advise on reregulating the bus network with the medium term aim of ensuring that core public transport networks and capacity are publicly owned and developed for the public and economic good. Marine transport is already managed by CalMac which is a public body. All public transport should be integrated into a single public company. This will enable a much more rapid development of transport networks which open up new economic opportunities in parts of Scotland currently poorly served by public transport, notably rural areas. This also applies to marine transport where there is enormous medium-term potential for Scotland. With urgency a full development plan should be created to anticipate and prepare for the impacts of electric and driverless vehicles, beginning with the provision of national charging infrastructure.

The Transport Company should also develop Scotland's international links. In particular it should quickly develop at least one and potentially a number of publicly-managed ports to open up direct trading routes from Scotland to the rest of the world and in particular to Europe. The business model should also look at Scotland's geostrategic location to identify any elements of global trade distribution networks in which Scotland can develop interests.

A national housing policy should be put in place with a policy of reducing the ratio of average house prices to average salaries. The best way to do this is to use policy levers (discussed below) to seek to 'freeze' average house prices in cash terms, allowing inflation gradually to reduce the total proportion of family incomes being spent on housing. The poor savings environment for households in the UK means that housing is now often used as a means of household savings. This approach should be replaced with the series of public savings options as set out in the above monetary and fiscal sections so people have a proper, stable system of saving. The low level of the UK state pension must also be tackled so reliance on housing for income in old age is reduced.

Reducing house price ratios will require direct provision of alternative tenure models – which means the large-scale construction of public rental housing. This should not be considered 'social housing' (which has come to mean emergency housing for those in severe social need) but rather a high-quality rental option for anyone who doesn't want to own, or who can't. A National Housing Company should work closely with the Scottish National Investment Bank to create a model for housing finance that will enable top quality housing (to 'passive house' or similar standards) to be built without subsidy but at below-market rents.

Pubic policy approaches which have inflated house price (such as subsidies for buyers and generous tax breaks for buy-to-let landlords) should be ended. Instead a much more active land reform and management policy should prevent long-term 'land banking' (monopolising land ownership but not developing it to limit supply and therefore push up prices), making much more land available to the public sector and for self-builders at reasonable prices. Tools to do this include land value capture practices, using land taxes and other measures to control land prices and incentives to break up large landholdings to increase genuine economic competition in the housing market.

The UK food system has become dominated by a monopsonistic cost-minimising model in which a tiny number of large retailers have overwhelming power over both consumers and, in particular, producers. This has led to downward pressures on food prices but at the expense of smaller retailers (leading to decline in high streets), producers (particularly small and medium-sized producers) and food quality (as a result of mass-produced, heavily-processed foods made with poor quality ingredients and chemical additives). A National Food Agency should be set up to change this food system. This should begin where the public sector delivers food directly via 'public kitchens' (the provision of food in schools, hospitals, prisons and other publicly-owned institutions). As well as improving the quality of food and nutritional standards, the public procurement of food should be used to support the parts of the domestic food industry most damaged by the existing system which is to say localised small and medium-sized producers (as well as domestically-owned large producers). A law should be passed compelling public kitchens to source a high proportion of their ingredients (in France the policy is set at 50 per cent) from local, organic, quality, ethical producers. The Food Agency should then be tasked with developing a range of strategies for improving market access for smaller producers, ways of diversifying the food retail industry and making domestic produce increasingly competitive. If Scotland is a member of the EEA but not the EU it would be able to use duty and tariff barriers to help support domestic industry as Norway currently does and as the EU itself does through the flawed Common Agricultural Programme.

In the medium term the Food Agency should work with the government to develop a natural resources strategy (see below) which would help to expand developed arable land (where possible), exploit new growing technologies (light-assisted all-year indoor growing is increasingly competitive) and help producers to coordinate to increase the volume of food produced in Scotland. This should create both export opportunities and import substitution. The Food Agency should be working with local and regional authorities and economic support agencies (see below) to stimulate the food processing and manufacturing industries with the same aim. The more of the food Scotland eats which is grown and prepared in Scotland, the greater the domestic economic impact, the better our national balance of payments, the healthier will be our citizens – and life will taste better too.

In all cases the National Companies will have a permanent focus on identifying how much of the economic activity stimulated can be captured in and for Scotland, including supply chains. Where the economy is unable to deliver goods or services which are being stimulated (and we are therefore importing or outsourcing) National Companies should explore how to stimulate Scottish enterprises which are able to fill the gap and make the most of the economic opportunity.

Finally, we should be seeking to use collective consumption to create economic efficiencies by restoring public provision in areas such as recreational services, access to tools and other enabling goods through 'share shops' and 'tool libraries' and in any other area where an existing private sector model of excessive consumption and under-utilisation has led to inefficiency and the associated problems of resultant environmental harm and the concentration of wealth from consumers to retailers.

Build a public investment model

We must create an optimal environment for an investment-led economy. This must begin with managing monetary and tax policy to incentivise long-term productive investment and minimise the incentives to short-term rent-seeking or speculative behaviours. Then we should create a financial system which is geared towards stability and long-term investment.

The Scottish National Investment Bank will be a mission-led development bank which will provide large-scale lending into the Scottish economy. The Bank should create a suite of lending packages which are tailored to the needs of various kinds of enterprises at various stages of development. For example, some may need long-term lending which is patient and affordable, other's might need quick and temporary injections of cash and others again might benefit from phased repayment structures in which repayment is back-loaded so that the business has time to build up its economic activity through investment and is then better able to repay the bulk of that loan a little later when the business has grown. Along with closer business support (see below) this will help bigger businesses operating at a national level to get the kind of finance they need. One of the important roles of the Investment Bank is to remove fear through a supportive environment, encouraging enterprises to come forward with development plans they may not have been confident enough to take to a profit-maximising bank.

But smaller businesses and citizens are much better served by local high-street banking. The National Investment Bank should coordinate and capitalise a network of customer-focussed high street banks, also with a mission-led development focus. These could be either publicly or mutually owned and should provide stability for households and their banking needs but also to develop supportive, long-term relationships with small and medium-sized enterprises in local areas.

Of course some businesses will be seeking not loans but equity capital. Scotland should therefore set up a publicly- or mutually-owned stock exchange to help private investors and businesses seeking equity to connect. But this stock exchange should be run on a 'public good' basis and have a clear mission-orientated purpose, not least an ethical element which would not support economic activity which is deemed immoral or harmful.

We should create a national 'public good' investment model based around the Scottish National Investment Bank. This model must not be based on 'subsidy' but on a sound business case which will return the investment. We should then create intermediate public vehicles – 'National Companies' – which are designed to drive investment from the National Investment Bank into the real economy. These would sit between the bank and the wider economy and make a range of different interventions according to circumstances. Among the areas for investment already discussed are energy, public infrastructure, transport, housing, broadband and food. In each case a national company or agency would identify investment needs (such as the need to prepare for transport automation, develop localised energy grids or the need to create more investment into public rental housing) and then would between the Investment Bank and the relevant parts of the economy to direct maximum investment towards economic opportunities. This might mean supporting private businesses to access the investment and deliver the outcomes (supporting food businesses to grow with public support), taking ownership of the outcomes and commissioning businesses directly (building public rental housing) or identifying entire gaps in the economy and carrying out the economic activity directly (developing national software systems to manage integrated automated distribution systems). These are all investments in economic activity which has a sustainable business case or which is already being publicly funded. None of this would result in an increase in public sector expenditure other than where a policy decision is taken to do so for particular reasons (for example, to expand rural transport where the business model is weaker). The purpose of this investment framework is to lever economic activity in the economy through an entrepreneurial state model where markets have failed to grasp opportunities – it is not fundamentally about public subsidy.

These examples are all in the foundational economy, but an entrepreneurial state model can reach further than that by identifying investment opportunities where Scotland has capacity and competitive advantages but a lack of investment. For example, a National Pharmaceutical Company working closely with the NHS could drive investment into the development of medicines in Scotland.

Finally, there of course remains an important role for Scotland's existing financial services sector and this should be supported where doing so does not act against the overall objectives of economic policy (such as exposing the economy to unnecessary risk). However, there is a case for public policy and support being linked to a national strategy for financial services which seeks to restore Scotland's reputation for sound, sensible, trustworthy banking on the world stage.

Produce an industrial strategy

A policy agenda should be set which aims to achieve the development of an economy which shares wealth more evenly through higher wages and reduced income inequality, increases domestic ownership of the economy, grows the proportion of the economy involved in manufacture, design, production, high-skill services and knowledge services (the creation of intellectual property assets), and which creates greater diversity in the economy both of economic activity and enterprise type. (Workforce diversity will be discussed below.)

Achieving this and rebalancing the economy requires an industrial strategy. A number of the main elements of it have been covered above – to use public procurement and other forms of collective consumption to build up the order books of productive Scottish businesses, to direct investment to productive businesses from the National Investment Bank via National Companies and to use those National Companies to capture as much as possible of the design and manufacture involved in public infrastructure and any other industry sectors in Scotland, for Scotland (manufacture-capture). Import substitution (producing more of what we consume) and early adaptation to new technology will also play a role. Import substitution in particular needs to be better understood. If a product is made in Scotland and then consumed in Scotland, displacing a product that would otherwise have been imported, this has exactly the same short-term economic impact of manufacturing and exporting the same product – and arguably has greater longer-term effects since this model of consumption is likely to be easier to sustain than export orders which are more volatile. If more of what we wear, eat, build with and use around the home and if a greater proportion of supply chain products are made in Scotland it will increase wealth and improve our balance of trade figures. And since an import-substitution strategy and an export strategy are not only mutually compatible but mutually reinforcing, it means that progress can be much more rapid than relying on an export strategy alone.

The practices of local wealth building will be crucial to an industrial strategy, with pubic procurement, National Companies and manufacture-capture already discussed. But local wealth building is an approach which is about more than one or two set actions; rather it is about looking for many small opportunities as well as big ones. Every economic intervention is likely to benefit one part of the economy or another in disproportionate ways – there is little which is genuinely outcome-neutral. For example, if you support the building of a shopping mall which consists of large retail units you inevitably favour big business which will then dominate market access in the relevant town centre and crowd out domestic business. While attracting large retailers to an area has traditionally been promoted as economic success it is now widely understood that in fact all this does is weaken your local economy and extract more wealth from it. If you create a shopping mall with many smaller units, however, this is much more likely to favour local businesses which have the opposite effect. In planning decisions, business support or relocation grants, event planning, outsourcing and in many other policy areas it is possible either to favour big business or local business. Fast growth strategies always favour big businesses which can create fast profits; a local wealth building strategy will always favour the local or domestic business. (This does not contravene European competition rules – it is simply about tilting the field in the other direction.)

The industrial policy should include ‘anchoring strategies’ to protect development for the long term. One of the problems of the UK management of Scotland’s economy is that it has failed to tackle and has even encouraged promising new businesses to sell out to bigger, often overseas businesses. If Scotland keeps exporting its business and intellectual assets rather than developing them domestically, these assets will never achieve their real economic potential in Scotland. An anchoring strategy will seek to keep promising new businesses in Scotland for the long term. A much more rigorous attitude to monopolies and mergers policy than the lax approach taken by the UK will be an important start. Other means of ensuring anchoring include conditionality of lending of the Scottish National Investment Bank (you get a better borrowing environment but you must make a long-term commitment to Scotland), better development of infrastructure and supply chains (so there is no need to leave) and through the role of employee directors (who are much less likely to support mergers and acquisitions unless there are very strong guarantees over the location of jobs).

Supply chain development should be an important part of an industrial strategy. In the UK supply chains are purely a function of free markets and so public policy does not intervene. This is a major missed opportunity. Businesses in a supply chain naturally have some competing interests but they have many more interests in common. Bringing enterprises together to plan collectively can help identify gaps in supply chains which it may be possible to fill domestically or where we can increase the viability of existing supply chain companies through critical mass and economies of scale. If Scottish businesses are manufacturing goods using materials or equipment which is imported and there is potential for those materials or that equipment to be produced and supplied domestically then public policy should intervene to explore whether and how that potential can be realised. Again, procurement and collective consumption can be used to support this process.

Creative adaptation should be at the heart of the industrial strategy, focusing on economic diversification and preparing for approaching economic change. A Diversification and Adaptation Agency should be created. This would then prepare for the decline of industry sectors nationally, regionally or locally (for example, preparing on the basis that oil and gas production in the Aberdeen area will eventually come to an end), identifying over-reliance of the economy on too few industry sectors (such as financial services) and taking moral decisions to seek to move away from certain kinds of economic activity (such as highly-polluting industries or weapons manufacture). All of the elements of an industrial policy can be brought to bear on these issues and can prevent risk and smooth out the inevitable rise and fall of industry sectors over time. Waiting for major changes such as Artificial Intelligence or automation to arrive before reacting to their impacts is unwise. We can benefit from these or we can suffer, so we must use all the elements of industrial policy to maximise the benefit and minimise the suffering.

If an industrial policy is to rebalance the economy it must address sectors which are too big, and in particular the over-reliance on consumption. Retail has developed a business model which looks too much like addiction and both individuals and the economy as a whole must ‘detox’. Part of the point of domestic production for domestic consumption is to increase the quality of goods and reduce their disposability – buy less but buy better. Likewise the use of the sharing economy via provision of resources such as tool libraries and share shops reduces the pressure to consume. But this shouldn't mean an austere approach to how the public spends its income. Public policy has made it incredibly easy to shop; it should rebalance this and instead make it very easy to be active. This can mean everything from learning skills for enjoyment (from woodworking to dressmaking to learning a language to learning how to develop computer games to playing music), placing more emphasis on recreation including culture and the arts, promoting domestic tourism and so on. There are many more concrete steps public policy could take to achieve this than there is space to discuss here.

Collectively (and in conjunction with all the other proposals in this report) these are a powerful set of tools which can be used to form an industrial policy which promotes economic development and the public good.

Invest in human capital

Scotland must invest in its workforce. First Scotland should replace the UK's insecure working environment with a much more secure one, the better to promote productivity. Zero hours contracts should be ended; flexible working is fine if it is genuinely in the interests of both parties but employees must have reliable and predictable income so while patterns of work might change month-by-month the total volume of work and therefore total pay should be consistent. Stronger rights over job security more generally is good for both employees and for the kinds of employers Scotland should wish to encourage; a proper programme of revised employment regulation should be implemented which is much more in line with economies such as Germany and the Nordic countries (while Denmark's 'flexicurity' approach has some merits it only works if there are very generous social security benefits which would involve immediate very high rises in social security spending and should not be considered in the short term).

This should be combined with much better industrial democracy. This involves two different approaches. First, legislation should require businesses over a certain size to negotiate issue of pay and conditions with a recognised trade union. As far as possible these negotiations should take place at an industry-sector level rather than business-by-business to prevent a race to the bottom (and the potential for full national wage bargaining should be explored). Second, employees in enterprises over a fairly low size threshold should have a right to nominate one third of the members of the governing board of a company as employee directors. This makes a business much more likely to continue investing in its workforce over the long term.

Public sector employment behaviour should be used to drive up the quality and standards of employment in all parts of the economy. The free-market dogma of 'crowding-out' (that the public sector makes businesses unviable in any given part of the economy if it employs people on decent salaries as it will reduce the incentive to work for lower wages) has be shown to be false and should be not only rejected but reversed. The aim of economic policy is to raise wages and not reduce them and so reducing the competitiveness of low-pay employment has a role. There should also be a genuine living wage policy that moves towards a Scotland where no-one in full-time employment relies on in-work benefits to get by.

The role of women in the workforce must be transformed and a specific national strategy on women's participation in and experience of the economy should be developed. At the moment women face differential participation rates (a smaller proportion of women participate in the formal economy and they are more likely to work part-time) and often a differential experience of the economy (because of the gender pay gap and in-built discrimination). This must be understood of course as a social justice problem, but it is just as much an economic failure – the women who don't participate in the economy are a wasted economic asset and their absence reduces national productivity, innovation and business start-up.

There are many interacting social and economic reasons for this situation. If women are overlooked for promotion at early stages in their career this can affect their career path throughout their lives. Factors which cause women's career development to be delayed must be tackled, including better childcare support, strong equal opportunities laws (with strong monitoring and enforcement) and education and awareness-raising among employers (the culture change in attitudes to gender which has been happening over recent decades and has accelerated over recent years must be sustained). Businesses should also be encouraged or compelled to allow women (and of course men) to adjust their working hours to be able to combine taking care of a young family and being in productive employment.

The UK has a very gender-segregated economy with women's employment largely concentrated in lower-paid sectors of the economy like retail, cleaning, caring and the routine service sector. These tend to be low-skill occupations (though not universally – caring can be a very skilled occupation) and this is exacerbated by the low trade union density in these sectors. The overall purpose of this industrial policy is to reduce the proportion of employment which is in low-pay sectors and this will have a disproportionate impact on women. The reform of industrial democracy will help unionise parts of the economy dominated by female work and increase wages. Public sector employment practices can help; for example, treating a number of female-dominated sectors of the economy as professions rather than simply basic services will help. Childcare is a good example and despite being an involved and complex job is neither recognised as nor paid like a profession. And we must always be vigilant about both social attitudes and institutional practices which steer women towards lower-paid sectors of work – and this must start at school where steps have already been made to change careers advice assumptions and to encourage women in to science, technology, maths, computing and engineering education.

Finally, unrecognised and unpaid female labour makes up a significant portion of the UK's economic activity, particularly in areas such as care. Better infrastructure to support women in this role can help to close the gap in how easy it is for women to sustain full time employment compared to men. But while the informal economy is dominated by women it is by no means only women who are trapped in the informal economy. The domestic caring role carried out by thousands upon thousands of carers in Scotland is both socially essential (it very greatly reduces the pressure on public sector finances never mind its role in protecting and looking after vulnerable people) but is generally little supported or rewarded. There is no easy solution to this – but there is a solution. A Universal Basic Income is a monthly payment made to everyone in society which is sufficient to live on, paid for by a major reform of existing benefits payments and tax allowance. It is paid to everyone in society wether in work or not but is particularly important in supporting those not in paid work including those with caring responsibilities. But it has many, many economic benefits – for example, it provides an income which can help to sustain people who are starting a business and face having little income during the initial period of enterprise set up. It makes various forms of part time work possible for people who are currently forced to live on benefits alone. And it creates a very big boost to the creative industries where many people have to sustain themselves on very low incomes for long periods of time to develop into creative professionals able to generate economic benefit.

Universal Basic Incomes have been piloted and tested a number of times (including a forthcoming pilot in Scotland) but have never been implemented. And they are not a magic bullet – if set too low they can be as bad as or worse than the UK's punitive benefits system. But they remain the most credible response which has been proposed to deal with a wide range of issues not currently sufficient addressed through either the economy or wider public policy. An independent Scotland should begin to explore a UBI upon independence and create a solid proposal for public debate.

Scotland should operate a quality-focussed immigration strategy for when immigration is being managed for economic reasons (immigration is about more than the economy and there is a wealth of good reasons to encourage more of it). Economic immigration should be targeted at improving the quality and capacity of the overall workforce and certainly not to expand it at the low end of the pay spectrum with the risk that this undermines wages. This might focus on overseas graduates of Scottish universities and workforce development in high-skill employment sectors where there is a demand for a larger workforce. As well as a skills-based immigration strategy there should be an ethical and cultural immigration policy not focussed on the economy.

Finally, Scotland should continually examine its education sectors to make sure they are preparing people for both the workplace and for civic life. An industrial strategy and an industrial democracy model as laid out above should incentivise and if necessary compel proper business investment in workforce development through training and learning. The process of reskilling the economy through economic rebalancing will also improve the capacity of the workforce. But there should be care taken with the free market assumption that training and retraining can counteract the negative impacts of free market economics. People who lose work generally do so because of the performance of their employer or the economy as a whole so improving their own skills will not prevent those economic impacts. Training has been treated as a lazy panacea which almost explicitly blames the workforce for problems in the economy which not caused by them. The fetishisation of training as a response to economic change must be greatly lessened.

Implement a resource management strategy

The UK economy is not orientated towards effective and productive use of natural resources nor to their proper management and protection. Scotland should act differently.

Land is key and the inordinately concentrated pattern of Scottish land ownership is a drag on the potential of our national economy. Parts of Scotland which once sustained large communities of people with their own local economies have become barren deserts kept that way for the purpose of bloodsports and in particular the shooting of grouse. It is argued that there is no alternative economic role for that land, but it is not true. Much of it can be brought back into productive use for food production, forestry, housing, energy generation (including biomass for heating), tourism and more. Land in Scotland has been treated as a speculative asset (the value of large landed estates in Scotland has risen faster than the stock market for many years) and that in itself is a strong disincentive to its productive use.

There is already a well-established land reform agenda in Scotland though public policy has been slow to follow through on it. Land in Scotland must be taxed to incentivise its productive use and to disincentivise holding it as a speculative asset but doing little with it. Other steps must be taken to break up large landed estates. But this is not just about rural Scotland; urban Scotland is littered with sites which are available for development but which are being land-banked or where development is being held up for reasons which are themselves against the public interest (for example, not building in the hope that the land value is going to increase further). A full range of tax, planning,legal and compulsory purchase tools should be used to bring all of this land back into productive use again.

Coordinated development of industry sectors and supply chains should be used to identify resource development opportunities. Scotland requires new approaches to heating and more biomass will be part of that. Scotland has substantial potential to develop industries which produce timber for construction; while unprocessed fast-growing timber crops are not good for structural purposes they are ideal for producing cross-laminated timber which is ideal for structural purposes (that Scotland doesn't have a wood-based advanced materials industry is an major economic failure). Other construction applications like wood-based insulation products should be developed here. Land which cannot be used to grow agricultural crops, biomass or forestry still has capacity for renewable energy generation, housing or any other economic activity that requires space but not soil. The leaps forward in the efficiency of solar energy mean solar production in Scotland is becoming a viable large-scale industry. All of these will require an active strategy to stimulate them.

Scotland is an island nation with a strong maritime tradition but little existing maritime industry. The immediate opportunity of independence is to grow Scotland's share of the fishing industry which fishes Scotland's waters. The UK has absolutely let Scotland down in how it has negotiated the EU's Common Fisheries Policy and this has devastated Scotland's fishing industry. The best option for fishing would be for an independent Scotland to become a member of the EEA but not the EU – we'd be in the single market but not the Common Fisheries Policy and so would have control over our fishing waters. But if we joined the EU we would be in a position to at least try to negotiate a better deal for Scotland.

Fishing is not the only marine activity that can be developed – off-shore renewable is already being developed and this can accelerate substantially, as can wave and tidal. There is a range of other options as well. To take one example, there is real capacity to farm kelp and kelp is an extremely useful crop. It can be used for everything from animal feed to medicines and dietary supplements to fertiliser production. However, as with all natural resources, we will destroy this asset if we do not farm it responsibly and sustainably, which means industrial dredging should be banned. But simply opening up marine transport routes has the capacity to open up access to more parts of Scotland for economic activity – Scotland has remarkably few ferry routes for a nation with our marine profile.

A national agency should be set up to manage and develop Scotland's natural resources for national public benefit. This should advise on policies to make our natural resources more available and give greater access for development as discussed above. It should work closely with Scotland's environment agencies to ensure that the management of natural assets is sustainable and regenerative (for example current intensive agriculture practices need to be modified if soil degradation is to be halted and reversed). But crucially it should work closely with national companies, economic development agencies and the entrepreneurial state to stimulate the economic use of natural resources. Much of this stimulation is about creating demand and some is about encouraging or creating secondary processing industries.

For example, a National Housing Company might work with a Natural Resources Agency to encourage the development of industries processing forestry crops into cellulose insulation (Scotland currently has to import this) and then provide a guaranteed order book for this insulation through its procurement for house construction. Or the Energy Company could work with the National Resources Agency to create a market for biomass. Or the Food Agency could work with the National Resources Agency to build up a market for kelp-based fertiliser. Integrating these strands of work can lead to the biggest possible economic development potential.

Decentralise economic policy

Scotland should decentralise its economic development strategy, focussing more on an economy as something which is built upwards from the micro level rather than downwards from the macro level. And it should restore a much stronger link between economic policy and place, basing its strategy on real local economies rather than national level aggregate indicators.

But economic policy should also be democratic; the 'city council in a private conversation with big retailers and property developers' approach must be minimised. To achieve both these things Scotland must both democratise and decentralise its democracy. We have the most concentrated and undemocratic system of local democracy in Europe and unless this is reformed, local responsiveness won't be possible. Scotland must, with urgency, create a new layer of genuinely local democracy at the town level through the establishment of Development Councils. Scotland is the only country in the developed world where towns large and small have no independent and autonomous policy-making capacity or independent budget. They cannot take responsibility for their local economy and so cannot act autonomously to improve their local economy. Development Councils elected by everyone in the community and with power over the full range of local public policy but with a forward-looking development focus and a serious budget could make an enormous difference. If that is put in place there is then a case for a longer-term exploration of some mergers between existing 'local' authorities to create genuinely regional authorities.

With that democratic structure in place, economic policy should be made inside the economy itself, not imposed on it from outside. A powerful town Development Council should have the power and budget to set its own economic strategy. If we look at the Galloway area we can see what this might mean, with towns choosing to specialise in and market themselves on the basis of strengths such as books and literature, art and design and food. Towns all over Scotland should have the powers to choose their own strategy and to deliver that strategy using many of the approaches described above. In particular the Local Wealth Building agenda should be encouraged everywhere.

Existing authorities should be seen as regional authorities. They should set the framework for a regional development strategy (and much of the infrastructure planning for a larger geographical area). Central government should manage macroeconomic policy with a focus on the impact on every area of the country, and to act as an entrepreneurial state in the interests of every part of the country. It should coordinate, stimulate activity and intervene to make things happen.

Among many other things this is likely to help is Scotland's overall tourism offer. The more areas which are able to develop their own local tourism strategy (particularly targeting domestic tourism), the greater Scotland's total capacity will be. There is much more to be said about tourism than there is space for here but decentralising economic strategy has already expanded tourism opportunities in Scotland (as per the Galloway example) and more can be done.

Reorientate business support

Scotland should take a qualitative approach to business support. That support must move from a narrow and self-defeating focus on any enterprise which claims to be able to grow very quickly at the expense of any assessment of the quality of the enterprise and its long-term prospects. There is of course a public interest in offering support and advice to all start-up and developing businesses, but that support and advice need not and should not be value-free. If the public is to help, the public is right to seek public-benefit outcomes. A focus on fast growth and high employment rates can be utterly illusionary; ten high-skill, productive businesses employing 20 people each are of much greater economic benefit than one low-skill, low-productivity business employing 200 people. And yet public policy currently favours the latter – which makes no sense.

Business quality matters; we should want businesses to be better and not just bigger. The profile of the kinds of businesses Scotland wants to encourage has been outlined above; this is what business support should seek to maximise. The large handouts to giant and enormously profitable companies such as Amazon or KPMG to open offices in Scotland is inexplicable when compared to the constant refrain that financial support for small and medium businesses is 'against state aid rules'. The millions of pounds in what are effectively gifts of public money to (for example) Amazon could have been used to support domestic industry. Instead, Amazon actively undermines domestic Scottish businesses.

Public support should be tied to all the behaviours outlined above, particularly job quality, productivity, investment, innovation and research and development and long-term commitment to Scotland. Support for smaller businesses should be less about passively providing advice and more about actively working in partnership. This kind of partnership working would involve helping businesses get the right finance package from the Scottish National Investment Bank or the local banking network, connecting with supply chain businesses here and abroad, getting access to research and development expertise from colleges and universities, identifying potential partners for shared infrastructure, providing direct logistical support for exporting, seeking potential partnerships with public procurement to support order books and always helping to provide increased market access. The concept of 'smart specialisation' should be encouraged.

Networked infrastructure and service support should be set as a key outcome of business support. An economic development agency should be talking to developing businesses about their real needs and finding ways to provide them. Many of the businesses we most want to encourage produce intellectual property but then struggle properly to protect that IP internationally against large corporations whose legal capacity will always be much greater than the small businesses. An economic development agency should identify groups of businesses with the same needs and find ways to bring them together in a critical mass which makes the provision of legal support for IP protection viable. This might simply mean getting businesses together to purchase the relevant legal expertise from existing firms (but with the power of collective consumption) or it might mean providing that capacity by setting up an in-house unit. Businesses should also be encouraged to think about how shared services or infrastructure could help them expend. For example, a business might be able to diversify if it had access to a certain kind of processing facility but not have sufficient demand to build the facility itself. But if there are three or four other businesses with the same need the critical mass for the facility becoming viable can be reached. This is made even more possible with the development of new, mobile processing technologies. For example in food and drink processing, medium-sized producers can often now source processing infrastructure which can be installed in an articulated lorry which can then serve more than one enterprise.

But one of the biggest problems for Scottish producers is market access. The busy retail centres (either city centres or out-of-town shopping complexes) are dominated by big businesses which monopolise market access. Producers are then left to try to sell to big businesses if they want market access. The internet should in theory have opened up markets but here too monopolisation has been the order of the day and in some cases that monopoly is even stronger than real-world retail monopolies. We have also seen the emergence of a number of 'market access facilitation platforms' online which have offered better market access to small businesses and sole traders. Unfortunately, these platforms (Amazon, Uber, AirBnB, Ebay) are in themselves monopolistic and in the worst cases (Uber) are actually replacing good jobs with bad rather that opening up the capacity for more good jobs. There is no reason that part of Scotland's business support offer should not be to help businesses with facilitation platforms which operate on a 'public good' basis. For example, Glasgow or Edinburgh could produce an easy-to-use mobile phone app which enables people to call taxis on the basis of networks of sole trader taxi drivers, but without extracting any of the income of those drivers. A Scottish online retailing platform (perhaps with shared distribution systems) might give a boost to Scottish producers. This can also happen in the real world, with 'town centre first' policies helping to return domestic businesses to competitive retail environments (by, for example, preventing more out-of-town retail developments). The example of making shopping malls and other prime retail spaces much more affordable for smaller businesses can also aid market access.

It is telling that current business development support approaches differentiate between cooperatives and social enterprises and privately owned businesses, and this can give the impression that there is a hierarchy. In fact business support should be seeking to diversify the nature of the enterprise base, to do much more to promote the development of social enterprises and cooperatives. Town-level Development Councils in particular are well placed to stimulate local social enterprises, for example by supporting community buy-outs or to help produce funding packages to take over local businesses that are struggling, converting them into cooperatives.

All of this would represent a major culture change in Scotland's existing business support agencies. The biggest of these is Scottish Enterprise, an agency which once had a strong reputation but whose reputation has declined. There have been a variety of attempts to reform and reorientate Scottish Enterprise but it is difficult to argue that these have been successful. If this is to be attempted again it must be a much more substantial reform - and there is a case for simply replacing Scottish Enterprise. If that was done, some of Scottish Enterprise's functions should be returned directly to central government to strengthen its capacity to act as an entrepreneurial state. Some of its existing divisions (such as the export-support division Scottish Development International) remain well regarded and effective and should become specialist agencies providing services to those delivering direct business support. There is no 'one size fits all' business support package which is effective or meaningful and the range of different kinds of support that would benefit different businesses is diverse. Seeking to create all of that support in one place is unrealistic. We should create instead a system able rapidly to meet any package of needs. For SMEs that support should be provided by dedicated teams in regional authorities who have access to specialist national agencies able to help with specific needs (export support, accessing research and development, seeking equity funding, developing shared infrastructure). The regional authority business support team would seek to develop long-term relationships with individual businesses and link them as and when needed to any of these services, or to the public banking network, or to the Scottish National Investment Bank, or to the National Companies driving investment and orders towards businesses, or to other businesses that have similar interests.

Do no harm

Scotland must state the goal that it wishes to have an economy based on the principle of 'do no harm' and must take steps to move towards that economy as quickly as possible. Humankind is very good at convincing itself that 'somehow it'll be OK' – and every one of us is guilty of this. We find it easy to tell ourselves what we ought to be doing and then find reasons to make exceptions every time we actually want to do something else. But humanity has reached a point where it has all the information to know that if we don't stop doing some of the things we're doing it absolutely won't all just be OK. Pesticide use is destroying populations of pollinators which could cause the entire collapse of our food system. Intensive agricultural practices are leading to long-term soil degradation which could have similar effects. The disposal of plastics is having shocking environmental consequences we're only learning about now. Resource depletion means certain essential materials may simply no longer exist in any usable form on our planet. And of course carbon emissions are changing our atmosphere in ways that may devastate the planet in a worryingly short timescale. And yet still we tell ourselves that we must consume more for the sake of the economy, dispose of more so we can keep consuming, spray poisons into the air to keep prices low so we can expand consumption and keep burning pollutants to create the energy needed to keep the whole show on the road.

The average response is to recognise all of this, make a couple of cosmetic changes now and then set targets for well into the future which we take no steps to meet, assuming future generations will somehow blame someone else ('Climate Change Delay'). But Scotland is not an average country. We are much richer than the average and consume much more than the average – but we also have way above average capacity to create a decarbonised, low-pollution economy. The combination of our enormous and under-utilised natural resources and our scope for renewable energy generation mean that if Scotland was taking an average response we would be betraying the rest of the world. We must make a response which is much, much more than average. The fact that this can be economically beneficial should make the decision easy.

The answer is a Green New Deal. Many of the elements of that have already been discussed throughout this report. We must deconsumerise and move to encouraging people to shop better but shop less, reduce the disposability of what we consume, reuse and recycle much better and then incentivise household expenditure towards activity rather than consumption. We need a national resource management strategy. We need a new, zero-carbon energy system. We need to focus on the sharing economy. We need to take value judgements in our business support strategy. We need to diversify the economy away from harmful activity. We must adapt new technologies to reduce our global impact and never to increase it. We need always to take account of the international impact of what we do – it is not enough that our consumption reduces waste and pollution in Scotland, it must reduce it everywhere that the things we consume are made (in time Scotland should think about imposing import tariffs which are based on environmental performance including carbon released in transport to market). And we need to put in place a strategy for a circular economy. (The need for a massive retro-fitting of houses to improve their environmental performance and aspects of transport, food and agriculture have not been discussed but will be explored in Common Weal's forthcoming Green New Deal project).

There is not space here to do full justice to the circular economy question but it is worth saying some things about it. We must think about the concept of 'urban mining'. This means that the first approach to waste is to identify how every part of it can become an input into the next cycle of production (and that does not just mean inefficiently burning it for energy). We must recover as much usable material as we can. To make that viable we must increasingly use economic levers (including taxes) to make wasting materials (or using raw, non-renewable materials) more expensive, making recycled materials more and more competitive. But we also need to reduce waste in the first place – and that requires action. Two examples are that we must start to tax packaging materials to create strong incentives for retailers to use less packaging (particularly plastics and other pollutants). We need to incentivise biodegradable alternatives such as paper, cardboard and bioplastics (and we should be encouraging the technological development of these materials).

We must also reduce energy waste. We should set the target that every year the Scottish household sector will use less heating energy than the previous year. This means we must increase building standards such that all new houses are at or close to passive house standards. It will also require tax incentives to existing homeowners to promote renovation, not least by equalising VAT charged on renovation with that charged on new build. We should also set a target of reducing transport energy use and carbon emissions through a combination of developing an integrated public transport network and promoting the electrification of transport.

In every case the current reflex of economic development policy will be to think of every reason in the world to make exceptions and exemptions to all of the above, to keep the current system going because that is easier. The consequences of this are utterly petrifying. If we don't take this seriously now in one of the world's countries with the most capacity to respond, we deserve to be condemned by history.

Start with a boost

Scotland should seek to stimulate a lot of economic activity in the very early years of independence to create economic conditions best able to cope with the social and economic changes which will come. For both economic, social and political reasons the early years of independence should be ones of expansion and certainly not contraction. We should therefore set out a coordinated plan on how to stimulate the economy during this once-in-a-lifetime transition period.

First, we must make maximum advantage from the process of independence itself. At independence (and actually for a few years beforehand) we'll need to build the infrastructure of a new state. Common Weal has costed this work and identified where the money will come from for it. It is a major task but it is easily affordable – and it will involve spending a lot of money. In fact, it will involve the expenditure of about £25 billion. Other than the proportion which will go to a foreign currency reserve, the bulk of that expenditure will take the form of wages and services. The simple act of spending that money will have an immediate multiplier effect which will increase prosperity, but we must create a coherent economic strategy for getting the maximum immediate impact from that boost. We must profile the spending involved in setting up an independent Scotland and make sure the maximum amount of that spending is spent in Scotland, for Scotland. Opponents of independence have rather obsessed over claims that in the early years of independence Scotland will be (by their spreadsheet calculations) a bit worse off because of the 'loss of subsidy' from London. It should be noted that over the early years this supposed 'loss' will be utterly overwhelmed by the start-up expenditure taken to begin as a new country. This will create a mini-boom and can create sustainable improvement in the economy if it is planned well.

Second, in the early years of independence there is no question that the Scottish Government should be operating a budget deficit as it should be promoting a Keynesian stimulation of the economy. There are many valuable investments that should be started, including in better broadband, better transport infrastructure and by better funding local government. As explained above, if we create a monetary environment in which much of the public debt is owned domestically in the form of household savings and pension funds and we have our own currency, we can be relaxed about debt and deficits in the early years.

Third, we should be moving quickly to bring forward the parts of this action plan which can be started by the public sector without subsidy. The two areas which are best suited to this are housing and energy where revenue is greater than investment. A large-scale housebuilding and energy infrastructure-building programme should be planned to begin immediately Scotland becomes independent, funded through the National Investment Bank and planned by the National Companies. There are a range of other proposals throughout this report which can stimulate economic activity quickly without subsidy and these should be planned too.

This report sets out a complete framework for how the Scottish economy should be managed in the first few decades of independence, all focussed on public good outcomes. The three steps above explain how during the crucial first five years Scotland's economy – and confidence – can be given an immediate boost. Everything else Scotland will need to do to make independence a success will be easier if it takes place beside a confident, developing economy which is increasing public and household wealth. Supporters of independence should be talking about the tantalising prospect of the immediate impact on people's lives of Scotland becoming an independent country. This is a plan for how we can do it.

7. DATA ARCHIVE

Underinvestment: Annual Capital investment in the UK has declined from a peak of 27.5% of GDP in 1975 to 16.97% of GDP in 2016.

(https://www.theglobaleconomy.com/United-Kingdom/Capital_investment/)

Instability: The UK economy has suffered a recession in eight of the last ten decades.

(https://en.wikipedia.org/wiki/List_of_recessions_in_the_United_Kingdom)

Insecurity: UK house prices have consistently risen faster than household incomes. In 1975, an average UK house cost 3.6 times an average UK income. In 2017, house prices had risen to 8.5 times average income. By comparison, in Germany the average house price has risen by only 9% in real terms over the same period and costs around 3.6 times average income.

(https://home.kpmg.com/uk/en/home/insights/2017/03/house-prices-a-bubble-in-london.html)

(https://www.economist.com/graphic-detail/2016/03/31/global-house-prices)

(https://rba.gov.au/publications/bulletin/2012/dec/2.html)

Overconsumption: The amount UK household spend on consumption has risen by 60% since 1998.

https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/januarytomarch2018

Indebtedness: Household debt in the UK rose from an average of 100% of household income in 2000 to 136% of household income in 2008. It subsequently declined to 123% in 2014 as Austerity forced consumers to reign in spending but has begun rising again. The average across all Eurozone countries in 2008 was 94.5% of average income and it has since declined marginally to 93.9%.

(https://tradingeconomics.com/united-kingdom/households-debt-to-income)

(https://ec.europa.eu/eurostat/web/products-datasets/-/tec00104)

Corporate domination: Large businesses dominate UK business to a far greater degree than in any other EU nation. 0.3% of enterprises operating in the UK employed 47% of the UK workforce in 2015.

(https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises#Why_is the_.27SME_vs_large_enterprise.27_discussion_relevant.3F)

London dominance of finance: 50% of the UK's financial services activity occurs in London with a further 9% in the South East of England. Scotland is third, hosting 7% of the UK's financial services, which is less than our population share despite Scotland's strong track record in finance.

(www.researchbriefings.files.parliament.uk/documents/SN06193/SN06193.pdf)

Asset inflation: Since 2008 UK house prices have fallen by an average of 5%. However, where property has been treated as a purely asset investment and has been supported by generous public quantitative easing, the opposite has happened and values have risen by more than 30%.

(https://ftalphaville.ft.com/2018/08/03/1533287928000/The-Bank-of-England-has-a-strange-idea-of-what-QE-achieved/)

Undermining Scotland: The UK National Grid is biased against Scotland. A 1MW coal power generator connected to the grid in Cornwall would be paid an annual subsidy of £6,889. A 1MW wind turbine connected to the grid in the north of Scotland would pay an annual tariff of £24,000.

(http://www.allofusfirst.org/library/incentives-and-opportunities-signalled-by-transmission-charges-in-scotland/)

Regional inequality: Scotland is simultaneously the third richest region in the UK and below the UK average for GDP/capita. This is due to the extreme regional inequality of the UK which concentrates wealth in London and the South East.

https://ec.europa.eu/eurostat/statistics-explained/index.php

London steals the UK's wealth: In most EU countries, the capital city is the richest region with a GDP-per-person of around 200% of the national average. Inner London has a GDP-per-person of around 500% of the UK average, miles ahead of any European comparator.

https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Gross_domestic_product_(GDP)_per_inhabitant_in_purchasing_power_standards_(PPS)_in_relation_to_the_EU-28_average,_by_NUTS_2_regions,_2015_(%25_of_the_EU-28_average,_EU-28_%3D_100)_RYB17.png

Scotland doesn't get UK innovation spend: Scotland has higher than UK average levels of government R&D investment but it is well below the UK average in business sector R&D investment.

https://www.tomforth.co.uk/boostingrd/

The UK pays low wages: Between 2008 and 2014, British workers experienced a 6% drop in weekly wages – the second largest pay squeeze in the EU during that time period after Greece. Real wages (adjusted for inflation) have dropped by £15 per week since the 2008 Financial Crisis from a peak of £495pw in 2008 to a low of £460pw in 2014 before rising marginally to £480pw in 2017.

https://www.resolutionfoundation.org/media/blog/top-of-the-charts-lehman-brothers-anniversary-special-the-cause-of-and-lessons-from-britains-pay-squeeze/

https://nordic.businessinsider.com/resolution-foundation-real-wages-2006-2017-10?r=UK&IR=T

British consumers have lower purchasing power: Purchasing Power (a measure of how much someone on an average wage can buy after accounting for taxes and prices) in the UK is 106% of the EU average. Smaller and more prosperous countries have a substantially higher purchasing power. Sweden's PP is 122% of the EU average. Denmark's is 125% of the EU average. Iceland has a purchasing power that is 130% of the EU average.

https://ec.europa.eu/eurostat/web/purchasing-power-parities/data/database

The UK is unproductive: The UK has the second lowest level of productivity in the G7 group of nations, after Italy, and since the financial crash has experienced the second lowest rate of growth in productivity, also after Italy.

https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/internationalcomparisonsofproductivityfirstestimates

The UK is a tax haven for the rich: HMRC estimates that the "tax gap" between that which is owed and that which is collected amounts to £35 billion per year. Prof Richard Murphy of Tax Research UK estimates that the figure is closer to £120 billion per year when "legal" tax avoidance schemes and other loopholes are also considered.

http://www.taxresearch.org.uk/Documents/PCSTaxGap2014Full.pdf

The playing field isn't level for small businesses: The UK allows corporations to avoid substantial amounts of tax: The effective tax rate for UK corporations has been steadily falling for decades as headline tax rates are slashed and multinationals find ways to move money around to avoid tax. Starbucks is a notable example with its UK operations paying just 2.8% tax on recorded UK profits of $213 million in 2016/17.

(https://www.ft.com/content/4d85c99c-bb44-11e8-8274-55b72926558f)

Sterling is a poorly-performing currency: The Pound Sterling has experienced a long-term trend of weakening against its most important trading partners, declining by approximately 52% between 1983 and 2018.

https://www.poundsterlinglive.com/bank-of-england-spot/historical-effective-exchange-rates/GBP-history#charts

Scotland is very highly educated: 47.4% of Scotland's adult population (25-64) has a tertiary education qualification. This compares to a UK average of 42.8% and EU average of 31.4%

http://ec.europa.eu/eurostat/statistical-atlas/gis/viewer/?year=&chapter=04&mids=BKGCNT,C04M03&o=1,1&ch=POP,C04&center=45.95103,26.14696,2&lcis=C04M03&#

UK workers work the longest hours: UK workers work the longest hours of anyone in the EU, averaging 42.3 hours per week compared to an EU average of 40.3 hours per week. Denmark has the shortest working week at 37.8 hours.

https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180125-1?inheritRedirect=true

The UK has very poor industrial democracy: It ranks second lowest in Europe on the European Participation Index with only Lithuania behind it. Workplace representation, Board representation, collective bargaining coverage and trade union density are all well below European averages.

(https://www.worker-participation.eu/About-WP/European-Participation-Index-EPI)

The banking sector is little interested in SME lending: The UK's banks are far less dependent on SMEs for income. The UK is also noted as having far less public involvement in SME lending.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/522490/bis-16-105-small-and-medium-sized-enterprise-lending.pdf

The private sector is not pulling is weight in R&D: In 2013, Scotland spent £300 in public R&D for every £200 of private R&D spend. The West Midlands spent £75 in public R&D for every £350 in private R&D. The UK as a whole spends £200 public for £350 private. The European average is roughly £100 public R&D for £200 private R&D.

https://www.tomforth.co.uk/boostingrd/

The UK has low regulation for an advance economy: The UK is 32 out 137 countries in terms of business regulation burden, with those who have even lower rates tending to have weaker or more corrupt government.

http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017–2018.pdf

The UK is the world's most foreign-owned economy: The UK was ranked first out of 137 countries in terms of the prevalence of foreign ownership.

http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017–2018.pdf

The UK has very high concentrations of wealth: The top tenth of UK households own 44% of the UK's wealth. Almost a quarter of households in the South East are millionaires compared to 7% in Scotland.

https://www.ippr.org/files/2017-10/cej-wealth-in-the-21st-century-october-2017.pdf

The UK encourages insecure employment: The UK is ranked sixth out of 137 countries for the ease of hiring and firing staff, lack of collective wage bargaining and confrontational relations between workers and employers.

http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017–2018.pdf

The UK is bad for small producers: The share of the price paid by consumers that goes to small-scale farmers and workers has decreased from 7.6% in 1996 to 5.7% in 2015 (meaning that an average small producer was paid just 5.7p for every £1 of goods sold on the shelves). The share going to the supermarkets has risen from 41.3% to 52.8% over the same period.

Oxfam, "UK Supermarket Supply Chains – Ending The Human Suffering Behind Our Food, June 2018

The UK doesn't make things: Manufacturing as a share of the UK economy has steadily dropped from 17.4% in 1990 to 10.3% in 2017. In comparator countries like Germany and South Korea manufacturing makes up 23% and 29% of GVA respectively.

House of Commons Briefing Paper Number 01942 – Manufacturing: statistics and policy. January 2018

Britain is in hock to the world: Between 1955 and 1971 the UK Balance of Payments was effectively zero. Since then the UK has been steadily accumulating a Balance of Payments deficit. This deficit reached £20 billion in Q1the first quarter of 2018. By contrast, Germany started accumulating a surplus over the same period. By 2018, this surplus had reached around €80 billion every quarter.

https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/hbop/pnbp

https://tradingeconomics.com/germany/current-account

The UK is an unhappy place: Fewer than 35% of people report "very high" levels of happiness, life satisfaction and feelings of life being worthwhile in Britain. Twelve European countries – including Finland, Norway, Denmark, Austria and Ireland – consistently rank higher than the UK in the World Happiness Index.

(https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/measuringnationalwellbeing/qualityoflifeintheuk2018)

(https://countryeconomy.com/demography/world-happiness-index)

Britain's poor are unfairly treated: The effective rate of personal tax for the poorest tenth of people in the UK (after benefits) is 41%. The richest tenth have an average tax rate of 40%.

http://livingstandards.org/final-report/gaining-from-growth-a4.pdf

8. CONCLUSION

There are three main conclusions we hope you will take from this report. First, we hope it has persuasively argued that the management of the Scottish economy by London has been substantively and measurably harmful. We have shown that on a wide range of core underlying economic measurements the UK as a whole is performing poorly and that this has a disproportionate effect on Scotland. We have demonstrated that this is a result of the UK's excessive centralisation and because UK economic policy is predicated on a number of economic philosophies which disincentivise the productive economy, create volatility and risk and exacerbate inequality.

Second, we have shown that Scotland has all the right foundations on which to build a better economy and that there is an alternative range of economic philosophies which can promote a more virtuous form of economic development. That kind of economic development can restore a more productive economy, reduce inequality and help Scotland to develop an economy which promotes the wellbeing of our citizens and the wider world.

Thirdly, we have outlined a substantial range of the kinds of actions, initiatives and policies which can help to realise this more virtuous economy. This is a nascent economic development plan for an independent Scotland which seeks to demonstrate that an alternative approach is possible not only in theory but in practice. It helps to paint a picture of the kind of enterprises, jobs and economic outcomes which would form the shape of that future economy.

Then in the preceding section we have provided a large number of pieces of data which help to both illustrate and demonstrate the arguments and ideas contained throughout, It paints a picture of a UK economy which is offers substantially fewer reasons to 'cling for safety' than you may have been led to believe.

But to conclude, it is important to return to the beginning of this report. We propose none of this for its own sake or simply because 'we can'. It is not about following a spreadsheet-based rendering of the world into abstract indicators which require to be managed. Rather, we wish to finish by reminding you that all of this is about achieving a range of outcomes which are about making life - and the world - better.

We believe that, with independence, it will be possible to achieve these goals: sufficiency, security, wellbeing, opportunity, sustainability, equality, development, stability, democracy, civicness and internationalism. We believe that these goals create a vision of a Scotland to come which can not only meet the hopes and aspirations of its citizens but can bring them together in a shared enterprise of making our lives better.