THE ADVISORY GROUP ON ECONOMIC RECOVERY FINAL REPORT

A COMMON WEAL RESPONSE

INTRODUCTION

The Report of the Advisory Group on Economic Recovery has now been published. A large part of it is based on the economic agenda that Common Weal has been developing for six years and there is certainly much in its aspirations to welcome. However, it is also dominated by the assumption that the kind of future Common Weal has envisaged can be achieved by doing almost exactly the same things we've been doing since devolution. There is a very big gap between the aspiration and the information contained on how to achieve it; the level of detail contained in the recommendations means it is generally impossible to envisage what is actually proposed. The vast majority of it seems to be to propose to do the same thing we were doing before – but a little faster. In places it seems unrealistic in its timescales – if something can't be achieved in the next three or four years it can hardly be called recovery. There are no costings in this report and, other than requesting an increase in borrowing powers, little to explain how it will be paid for. There is almost no mention of increasing levels of manufacture in Scotland, no mention of domestic ownership of the economy and a rather depressing focus on Foreign Direct Investment – despite decades of negative experiences of it in Scotland.

You can call something resilient but that doesn't make it resilient. You can talk about wellbeing at great length and it will do little to improve wellbeing. You can keep doing more of the same but you then need to explain how it will result in a different outcome 'this time'. And if you believe that the only issue with Scotland's economy is the harm caused by the virus and that a return to something like the status quo is your aim (but with renewable energy), you can't claim it as resilience or wellbeing.

Common Weal's approach was systematic; we identified what is wrong with the economy, explained the factors which caused the problems, outlined the alternatives and explained what to do to get there from here. This report believes that 'steady as she goes' will get us to the same place. Common Weal has severe doubts that that is credible.

The following is an initial response from Common Weal to the report's recommendations.

COMMON WEAL VIEW ON RECOMMENDATIONS

1. Fiscal Framework

We agree entirely that Scotland's borrowing cap should be raised but believe it would be better to do that quickly and outside the context of the wider Fiscal Framework. That undoubtedly needs reviewed and reformed but the task involved in doing that is substantial and there is a risk that it will be rushed if it is treated as an emergency response rather than a necessary structural change. Common Weal remains nervous about public borrowing in Scotland simply because the fiscal and monetary policy position in which we find ourselves prevents us from adopting the approach others have taken. The report mentions a number of nations which have borrowed to invest during the crisis but all of them have full fiscal powers so can recover the spending if they successfully induce tax growth and some of them have full monetary powers (or the European Central Bank acting on their behalf) and so have funded much of the investment through quantitative easing rather than borrowing. Without these powers there is a risk in Scotland loading itself with debt it is unable easily to pay off, which is why Common Weal proposed a different approach.

2. Investment-led recovery

Common Weal has pushed for investment-led economic development for many years and so strongly supports the principles of this recommendation; it's rejection of austerity is now a consensus view but it is good to see it spelled out here. However potentially the most important sentence in the entire report is "The Group has not taken a view on a single best mechanism to ensure capital investment is prioritised to support economic recovery". This is really important; who makes the investment and how it is made is absolutely crucial since it defines ownership and benefit. If the investment is made as equity investment then the returns from the investment will be go to the equity investor. If this comes from overseas the benefit will be exported which contradicts the Community Wealth Building agenda promoted later in the report. But if it is direct public investment the Scottish Government would come to own too much of the economy. This is fine in energy but is not appropriate to all sectors. In addition the Scottish Government's ability to pay off debt is limited by the fiscal settlement as discussed above. These are the reasons why the Common Weal approach has emphasised publicly-directed investment in quickly-developable profit-returning sectors of the economy made through the Scottish National Investment bank. This enables private capital to be used for the investment but it is done by capitalising the Bank and so the Bank can ensure fair but managed return on that investment. Rather than private bank debt or private equity owning the enterprise the enterprise would have a debt relationship only with the supportive Bank. In the case of energy it is essential that new development is publicly-owned, not least to capture the manufacturing supply chain. Investment must decrease economic inequality and not increase it so it must not be predatory finance looking for opportunities but development investment made in the public interest.

3. Regional Development

We strongly support the principle of regional development set out in the report but struggle to see how that will be achieved via its model. It does not pick up the issue of democratic deficit in Scottish local democracy and it seems to call for funds to be distributed centrally. 'Partnership at pace' appears to be the old model of public body commissioning corporation to build infrastructure – but that is temporary development ***in*** a regional economy rather than the structural development ***of*** a regional economy. Likewise the use of strategic partnerships to oversee development is little different from the nominal position we have now and does not seem to do much to build up economic development capacity in these regions. The ambition is admirable, but Common Weal is unconvinced it will be achieved through what appears to be little more than a slight acceleration of current practice.

4. Ownership stakes in companies

For the reasons set out above Common Weal is not particularly keen on a lot of direct public subsidy to individual businesses, not least because of the risk attached to guessing which businesses to bail out. If there is to be a bail out then yes, it makes sense to take public equity stakes – but these must then be used to make public-benefit interventions in the economy and not be held and managed in 'blind trusts'. Clearly Common Weal wants to see collective ownership of key parts of the Foundational Economy, but that should be developed on a strategic basis rather than a reactive one.

5. Strategic support for business

It is difficult to know what this recommendation is proposing. Common Weal has set out a detailed framework for business support using public procurement, public banking and a national industrial policy with a wide range of support actions. Here it suggests there should be a sectoral approach and supportive private banks, but it is difficult to see what these suggestions mean in practice.

6. Foreign Direct Investment

It is with this recommendation that the report has failed to address the real, underlying causes of the problems with Scotland's economy. Foreign Direct Investment (international corporations owing more of the Scottish economy or global equity funds buying up large parts of the economy) has been shown time and time again to be the opposite of resilient. Time and time again public money has been spent to attract such investment and either the investor then exports the profits or simply walks away. This has been the story of economic development in Scotland for over 50 years and believing it will be different this time is to fail to learn any lessons at all. Scotland has probably the lowest level of economic ownership in the developed world and probably does less than any nation in Europe (excepting the rest of the UK) to protect and support its domestic business. The report simply does not seem to prioritise the stimulation of manufacturing in Scotland and indeed this section reads like a response to Common Weal's calls for using public procurement to stimulate a manufacturing base in Scotland. It is dispiriting to return to the 1970s and 1980s once again and to sell the myth of 'Silicon Glen through FDI' which worked briefly in the late 1970s and then failed repeatedly every decade since.

7. Business community relations

It is difficult to know what this recommendation proposes. Scotland has been pursuing a 'Team Scotland' approach for a long time now and 'partnership with business' is, nominally at least, the primary economic development approach taken by every administration since devolution. It is far from clear that this has worked to the benefit of Scottish businesses since the Team Scotland approach has been captured much more successfully by multinational corporations.

8. Planning acceleration

Again, this is a very familiar proposal – so much so that the Scottish Government is supposed just to have passed legislation achieving this. It is another case where it is hard to see why doing more of the same is going to result in a different outcome this time. There is also serious reason for concern if pressure is put on agencies either to weaken their monitoring role or enhance they economic growth targets. The example of SEPA given in the report is a case study; this is a body which has already gone too far in the direction of 'business facilitation' and too far away from its mission of protecting Scotland's environment. There seems to be an assumption in this report that there is no trade-off, but this is little more than wishful thinking.

9. Conditionality

This is welcome – but it must not be a cover for widespread tax cuts. Post-lockdown, a non-viable business won't become viable because of the kinds of tax cuts available or affordable in Scotland and will be likely to result in lots of public money going to businesses which do not need it. This is why Common Weal has favoured a more targeted approach to public financial support. But yes, where public money is used, public good conditions must be attached – and policed stringently. This should be extended to all businesses in receipt of public money including procurement.

10. Digital connectivity

This is another recommendation where it is a little difficult to understand what is proposed – other than doing what we're currently doing a little bit faster. But more specifically, since the lead times on new digital infrastructure are not measured in months it is hard to see how this can contribute to recovery, as opposed to long-term resilience. The report also says nothing about the mechanism for doing this; there has been great inefficiency in the roll-out so far because in Scotland this has been a monopoly passing itself off as a market.

11. Green investment

Yet again there is simply no detail in this section. Is this simply a privatisation 'fire sale' of renewable assets to overseas equity investors or is this an industrial policy pursuing domestic green reindustrialisation? It is difficult to identify anything in this section that involves an action other than what is currently being done. Given the whole report is based on 'greening the economy', it simply isn't acceptable that there is no meaningful indication of how it is to be done.

12. Natural assets

It is good (finally) to see recognition of the central importance of land to Scotland's economy, something Common Weal has fought hard to get on the agenda. But this recommendation does little other than propose to improve statistics about land. It is very noticeable that it fails to mention in any way the pattern of land ownership in Scotland and why this has locked out the economic development potential of Scotland's land. It says nothing about the inability of people to get access to land for land-based businesses. If the proposals in the report work, Scotland's tiny number of landowners will simply get richer. If it doesn't we are where we are, stuck for another 50 years with a pattern of ownership that is positive feudal in nature and with almost all of Scotland locked out of the economic development potential of its own land.

13. Tourism and hospitality

There is a very specific reason Common Weal proposed a targeted voucher system for tourism rather than a tax cut. We need to adapt the industry, not just bail out it. By giving vouchers to everyone in Scotland to get them to use our domestic capacity we not only get investment to business, we leverage that investment (people will spend more during their break; tax cuts do not) and we encourage behaviour change. A blanket tax cut will achieve little more the slowing the crash very slightly.

14. Creative sector

The only concrete proposal here is a National Arts Force. That it has the unfortunate acronym NAF reflects the risk that it may be tokenism. This could be a positive initiative but since there is no detail in it whatsoever it is impossible to judge.

15. Care

This is too big an issue to cover here; what is in the recommendation is a no-change position (i.e. pursue reform process already under way). However it is slightly objectionable to depict care as a business bringing economic impact to the Scottish economy; this is mostly public spending. A National Care Service must be the route forward, not private operators leaching out public money.

16. The Third Sector

There don't appear to be any recommendations in this recommendation.

17. People, place and community

It is very positive to see mention of Community Wealth Building here – but it is hard to see how that is reflected in any of the other recommendations which have taken a resolutely 'open economy' approach. It is again filled with phrases such as 'mechanisms to accelerate investment' which contain so little detail as to be of little help. What is most objectionable here is that there is no recognition of Scotland's enormous failure in having the lowest level of local democracy in the developed world and so no recognition of the fact that the 'people' in these 'places' do not have the power to build their community wealth. Instead we have a process that suggests localism can be imposed through central planning. The inherent incoherence of this position suggests its inclusion is more to do with appearances than strategy.

18. Learning loss

This section is really a matter for education policy and we will not comment further here, given how little detail is contained.

19. Workplace innovation

Common Weal finds it hard to give credit to the suggestion that good progress has been made in Scotland on achieving 'fair work', not least because this is mainly a function reserved to Westminster. The proposed Centre for Workplace Transformation sounds interesting but at the moment appears to be little more than another government task force to look at the future of work.

20. Skills and the labour market

Common Weal has developed an integrated strategy for training, linked to an industrial strategy for a Green New Deal. We propose that training people *for* something as part of a strategy makes sense. We are very unconvinced by the classical economic case for training (that it will increase the efficiency of the labour market and help people find jobs). Skills do no create jobs and the evidence for this strand of economic theory is weak. The report as a whole is very vague on what people will actually be doing in this new economy so knowing what to train them for is impossible.

21. Universities and colleges

It is notable that the one sector of the economy this paper proposes should get a bail-out without conditions is the university and college sector. There will need to be additional investment in this sector but there must be democratic reform in return.

22. Apprenticeships

It is difficult to understand why this is a separate recommendation and not included in the skills recommendation above, with a fear that there is an underlying assumption that there are two kinds of skills – and practical skills come second. Here even more than above it is hard to see how training unlinked to the bigger economic picture achieves much. This must be integrated into an industrial strategy.

23. A Scottish Guarantee

It is simply impossible to make a lot of sense of this recommendation based on what is here. Is this a universal guarantee of employment (or training presumably) for every single person aged 16 – 25? If so do the authors really believe this can be delivered by being led by business? What happens if the business sector don't produce enough jobs? Will this be used to displace jobs of people over the 25-year-old threshold? What will the cohort do which does not gain the private sector jobs? And what is the cost of this scheme? Common Weal would have loved to offer a meaningful job guarantee for all people aged under 25 but did not believe this was financially viable. We look forward to seeing the costing for this proposal.

24. Four Capitals approach

This seems pretty meaningless. This plan is based entirely and wholly in the pre-existing economic consensus and so rebranding parts of that old consensus seem to have little value.

CONCLUSION

The stated ambitions of this report are admirable and reflect closely what Common Weal has been setting out as a model for Scotland's future economy. However Common Weal has provided extensive detail on how to get there from here and explains the economic conditions which create that future. For example, we explicitly want to see more Scottish manufacturing – and yet the word manufacturing is mentioned only once in passing in the recommendations. The overwhelming majority of what else is in this report can be summarised as 'continue to...' or 'accelerate what you were going to do...'. It certainly seems to miss the moment if the conclusion from this is that just a little bit more of what we were already doing is going to produce a wildly different outcome this time. It won't.