Did the Scottish Parliament Elections Change Anything?

On Saturday 15 May, the Financial Times reported on Tom Devine’s thoughts that “a kind of consensus seems to be forming in the political classes: that independence must come, but that its vehicle, the SNP, has not risen well to the task of governing”. This contribution shows in more detail that the SNP is not rising at all to begin its long overdue preparations for Independence. Since Thursday 06 May nothing has changed. It’s as though no one seems to have noticed that for Independence, excluding the Presiding Officer, there is now a 71 to 57 majority in Scottish Parliament seats and, as shown by the Electoral Mandate Board, a 61,889 majority in Regional List votes.

Planning for Independence needs to begin right now, rather than waiting for any belated updating of the May 2018 Sustainable Growth Commission, June 2020 Benny Higgins Economic Recovery Report or January 2021 Social Renewal Advisory Board report. All these were delivered before the true effects of COVID and 2021 restrictions could have been foreseen.

Firstly, no one disputes that Scotland’s priority should be to achieve Zero COVID, even if this means continuing with greater restrictions than in England – though the Scottish Government still lacks the compensation powers needed for what Mayor Andy Burnham currently seeks for some Greater Manchester Boroughs. As Philippa Whitford explained on ‘Any Questions’ on Friday 14 May, you can’t ‘out vaccinate’ the virus, because its variants multiply before the vaccine takes effect. This is even more worrying now that Sajid Javid, the new UK Health Secretary, has taken the decision to end most COVID restrictions on July 19. So the UK will be the only country in the world to rely simply on vaccinations.

Not only does Scotland have insufficient powers only to achieve Zero COVID but most certainly to begin any task of recovery. Too many of these powers are still in the gift of Westminster and Whitehall.

While the Fraser of Allander Institute’s June 2021 data shows Scottish Government returns for end May with 95% of businesses now trading, for accommodation and food services this was still only around 82%. Though around 10% of the overall Scottish workforce was still furloughed, this is still 30% for accommodation and food services and 35% for arts entertainment and recreation. So any real COVID recovery has hardly started.

For the UK as a whole, after COVID, Brexit and Net Zero, the May Economy 2030 Launch Report from the Resolution Foundation and LSE predicts future economic performance more like Italy than Germany. So for Scotland, it’s not a matter of “building back better” but building back completely differently. For the launch of the new Scottish Centre for Social Justice, Marion Ellison at Queen Margaret University and colleagues recently echoed growing criticisms of previous models throughout Europe, and advocated the “promotion of cross sectoral, horizontal approaches to the governance and mobilisation of social investment measures that facilitate the realisation of individual and collective resources within distinctive welfare cultures and systems”. She projects a role for “new organisational forms, such as social enterprise ownership at the urban community level, community development corporations and community development financial institutions” for comprehensive strategies of shared wellbeing at the local level. Unfortunately, the Scottish Government’s latest iteration of its Social Enterprise Action Plan 2021 to 2024, with its £30mn Social Catalyst, Circular Economy and Social Impact Venture Portfolio additions to the Third Sector Growth Fund, based on London models, prioritises larger organisations with its loans and equity investment from external investors.

### Ruled by Westminster and Whitehall

Among the few real steps so far made by the Office of the Scottish Secretary is opening three more temporary Job Centres in Aberdeen, Ayr and Falkirk.

The Scotland Act 1998, as amended in 2016, transferred some social security powers to Scotland, but this will not be completed till 2024. Though these include Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Severe Disablement Allowance, Industrial Injuries Disablement Benefit, Carers Allowance, Sure Start Maternity Grant (now Best Start Grant), Funeral Expenses, Cold Weather and Winter Fuel Payments and Discretionary Housing Payments, major powers and benefits critical to Scotland’s recovery are still reserved for London. These include Universal Credit (which replaces Jobseeker's Allowance, Employment Support Allowance, Income Support, Working Tax Credits, Child Tax Credits and Housing Benefit), Contributory Job Seeker's Allowance, Contributory Employment Support Allowance, Child Benefit, Maternity Allowance, State Pension and Pension Credit. An example of reserved London powers is the £2bn Kickstart scheme which pays 100% of National Minimum Wage to get 16-24 year olds into jobs. Employers in Scotland have complained it is too complicated.

Alongside reserved London powers and benefits, Alistair Jack’s rebadged Office of the Secretary of State for Scotland, now augmented by Michael Gove’s increasingly frequent visits to Edinburgh, Glasgow and East Kilbride (now part of the Foreign Office) is working against the clock to increase the complexities of Independence. Gove has already promised 1,000 more civil servants. Claiming to be the “custodian for the devolution settlement”, the Office trumpets the availability of £4.8bn from the Levelling Up Fund, with £3.6bn in 2021/2022. 780,000 employees were supported by furlough at its peak, with 431,000 grants paid to self employed. £3.4bn has been loaned to 90,000 Scottish businesses. The Universities of Edinburgh and Glasgow are benefiting from UK Government Innovate Funding and the British Business Bank claims that 90,000 businesses have benefited from Government backed loans. (It is hard to resist the temptation to point out some double counting!)

In addition, Westminster’s Internal Market Act, which gives London more control over subsidies, food and professional standards, received Royal Assent on in December 2020. Already under the Act, £760mn of European Structural Funds, from which Scotland’s public and third sector organisations could bid for capital and revenue projects during the last 2014 to 2020 programme, is now replaced by the UK Government’s Shared Prosperity Fund, to be processed and distributed directly from Alistair Jack’s Office. This was in the face of detailed replacement planning from David Bell at the University of Stirling to benefit Scotland’s poorest areas.

This Whitehall and Westminster shape of things to come is already clearly visible in the shape of the UK Government’s City Deals, which with their inaccessible, tangled web of governance, unaccountability, now permeate Scottish Government and all local authorities. Hidden from plain sight in their governance complexities, in City Deals totalling more than £5bn, UK Government essentially provides match funding for joint projects and ties them to a UK Government agenda for ten to twenty years.

Among latest examples, signed in December 2020, the £700mn Tay Cities Deal’s governance arrangements resembles an organigram joining up all the European Union’s Buildings in Brussels. The Deal includes £24.5mn for St Andrews University’s Eden Campus, £10mn for Perth’s Cultural Quarter and City Hall, £1mn for a Crieff International Highland Centre and £1.6mn for Aerospace Kinross. Under the February 2020 £214mn Stirling and Clackmannanshire Deal, there will be an International Environmental Centre in Clackmannanshire and a National Aquaculture Technology and Innovation Hub in Stirling. The UK Government will transfer £5mn of Forthside land to Stirling Council for joint ventures and provide £10mn for a National Tartan Centre in Stirling. It is difficult to imagine that these would be priorities chosen by anyone living in Stirling and Clacks.

Throughout its assessment of Scotland’s City Region and Growth Deals, the Accounts Commission and Auditor General Report in January 2020 shows their confusion and lack of clarity. Page 14 points out that “Neither the UK nor the Scottish Government carried out any analysis of Scotland’s economic geography to determine which area should be covered by each deal before the deals were agreed.” A recommendation on page 16 is that “There is a need to clarify what the overall programme of City Deals is expected to achieve, how individual deals will take account of national and local economic development priorities, and to provide more information on the funding of deals”. No wonder page 31 says “Five years after signing the first deal, the Scottish Government has still to set clear objectives or outcomes for the deals programme”.

Despite Marion Ellison’s and others’ recommendations above on the need for new local structures, the Edinburgh and Southeast Scotland Deal is the only one formally to involve third sector and voluntary organisations.

### Brexit and Scotland

Following Scotland’s 62% to 38% 2016 Referendum vote to stay in the European Union, the Scottish Government appears fixated on rejoining Europe, an inevitably complex process. In the meantime, apart from Scotland’s fishing industry, there are trade difficulties galore. In March, the House of Lords EU Goods SubCommittee reported that physical checks on animal, plant, mean and shellfish projects “could become permanent barriers to trade”. But many of these could be alleviated after Independence by Scotland’s joining the European Free Trade Area (EFTA) as an interim step towards joining the European Economic Area (EEA), established in 1994.

Since representatives from EFTA Member States and the EFTA Secretariat have already previously met with committees of the House of Commons and the House of Lords, in advance of Scottish Independence, why should the EFTA process not begin for relevant Scottish Parliament Committees?

The EEA’s objective is to extend the EU Internal Market to participating EFTA States, creating a homogeneous European Economic Area, with common rules and equal conditions of competition. The EEA Agreement guarantees equal rights and obligations within the Internal Market for individuals and economic operators. EEA rules relate to the free movement of goods, capital, services and persons throughout EU and EFTA States and cover social policy, consumer protection, environment, company law, statistics, tourism and culture. Essentially, the EEA Agreement mirrors the competition and state aid rules of EU treaties and enables participation in EU programmes for research and education.

Joining EFTA, which currently includes Norway, Switzerland, Iceland and Liechtenstein, would give access to markets which make up 8.5% of UK exports. In addition, EFTA already has free trade agreements with 38 countries, including Canada, Mexico, the Philippines, Hong Kong, the Gulf Cooperation Council and South African Customs Union.

Though the EEA Agreement does not cover EU common agriculture and fisheries policies, it contains provisions on trade in agricultural and fish products. The EFTA Convention guarantees free trade in fish and other maritime products between Member States. It does not mean a customs union, common trade policy, common foreign and security policy, justice and home affairs, harmonised taxation or economic and monetary union. Though borderless Schengen Agreement is not a part of the EEA Agreement, EFTA states participate in Schengen and Dublin through bilateral agreements. The EFTA Convention guarantees the free movement of people between the Member States.

Joining EFTA under Article 56 of the EFTA Convention is a straightforward process. In the EFTA Council, each Member State has a vote. Provided there is unanimity, the applicant can be admitted. Compared to joining the European Union, the requirements of EFTA membership are relatively modest. There is an annual contribution of EFTA’s annual budget, currently around £17mn.

If EFTA were to receive a membership application from Scotland and the EFTA states agreed to proceed with the application, with the more limited scope of EFTA cooperation activities compared to those of the EU, negotiations on the terms of accession could be straightforward. From application to admission would probably take less than a year – after which Scotland might soon regain readmission to the EU Single Market through joining the EEA.

### A Scottish Currency

The hallmark of the Scottish Government’s Sustainable Growth Commission Report of May 2018 is its self induced confusion. On page 23, Fig 1-10 shows that among ‘Selected Advanced Economies’, Scotland produces only 53% gross domestic project (GDP) per head compared with Norway, 49% compared with Switzerland and 56% with Ireland. Though the Commission asserts that with Independence, Scotland can pursue policies in line with these others, its main recommendation is that Scotland should retain the Pound Sterling for an Extended Transitional Period. Even if the regulatory functions of the Prudential Regulation Authority and Financial Conduct Authority with their existing rules and legislation could be transferred seamlessly to a Scottish Central Bank, this would still mean that Scotland would have no more economic ability to manage its own affairs than a West Country county council. No wonder that on page 46 the Commission accepts that Scotland would start Independence with greater financial and economic integration with the rest of the UK than any other country in recent decades which has sought independence. So the Scottish Government would not secure monetary policy sovereignty in the initial period following an independence vote.

To reinforce its message of continuing austerity, on page 44, the Commission insists that public debt should be no more than 50% of GDP and the public sector deficit should be below 3% of GDP.

The Growth Commission offers no alternative currency approaches, including adopting the Euro or Norwegian Krone. After the Commission there has been no real discussion about a new Scottish currency or Modern Monetary Theory (MMT), under which a Scottish Central Bank would issue its own currency and borrow in its own currency. Scotland would thus choose its own interest rates and tax system, with fiscal measures used to offset inflation caused by government spending. Varying tax rates and inflation offsets would be included from the outset in the Scottish Budget process. The Scottish Fiscal Commission would produce detailed reports on how spending or lending proposals would increase demand and which sectors and regions would be most affected.

If this newfound reliance on fiscal policy seems far fetched, then read Gita Gopinath, the Chief Economist of the International Monetary Fund, who has recently said clearly that as the COVID crisis gets worse, the problems will be more about solvency than liquidity, which monetary policy is not well placed to handle. She continues that we need to enter a world with more jobs, where we make investments needed for sustainable, inclusive growth. Since there will be a very large amount of savings looking for adequate investment for some time to come, government fiscal policy can play a very important role. Following Marion Ellison’s recommendations above, Gita Gopinath advocates more place based policies, with encouragement for investment using subsidies and tax credits.

Last year’s IMF and World Bank Annual Meetings saw the rejection of 1980s and 1990s ‘Washington Consensus’ free market liberalisation. What’s good enough for the IMF should surely be considered by Scotland? To ensure that a Green New Deal for Scotland creates and maintains true full employment, we will need a new macroeconomic framework, not imposed by a UK Government or the Bank of England but one which conjoins many currently excluded institutions and stakeholders and abandons our reliance on interest rate adjustments as a primary tool for stabilising demand.