

Consideration of the Sustainable Growth Commission Report

Scotland – the new case for optimism

A strategy for inter-generational economic renaissance

Introduction

The study group comprising COMMON WEAL and InverYes had considered the Common Weal book *HOW TO START A NEW COUNTRY* during May and early June turned their attention to reviewing and commenting on the Sustainable Growth Commission (SGC) report. Prior to meeting study group members completed a *Recommendations Response form*. The results are attached as Appendix 1 and were used to focus the study group discussions and to help devise a joint response. The group's response will be used to feed into the forthcoming SGC National assemblies to be held in the autumn.

The Sustainable Growth Commission Report is divided into three sections:

Part A: Raising the Potential and Performance of the Scottish Economy

Part B: The Framework & Strategy for the Sustainable Public Finances of an Independent Scotland

Part C: The Monetary Policy and Financial Regulation Framework for an Independent Scotland

Background

It was thought best to start with consideration of the recommendations in Part C which attracted the most debate in particular *that: Currency Recommendation* the retention of Sterling and *C2: Tests For Future Currency Options*.

Concern was expressed that the Sustainable Growth Commission appeared to be too heavily tied to a free market (neo-liberal) approach¹ to economics. There is a misleading neo-liberal economic storyline that states that governments are the same as businesses and households and must act like them and manage their financial affairs by ensuring that they 'balance the books' and live within their means. A technical discussion which attempted to tease out the issues of the neo-liberal orthodoxy and its direct consequences on public finances that results in savage cuts to both welfare spending and infrastructure investment set the background for the discussion on Parts C and B of the report.

Part C: The Monetary Policy and Financial Regulation Framework for an Independent Scotland

¹ <https://revisesociology.com/2015/12/07/neoliberalism-economic-development/>

According to neoliberalism big government and too much official development aid prevent economic and social development, while deregulation privatisation and lowering taxation are required to achieve economic growth.

The discussion explored how countries that did not control their own currency might or might not become bankrupt. The case of Argentina and Greece were cited as examples. Argentina's 1998 economic crisis was the consequence of borrowing sizeable funds in a foreign currency (US dollars) and consequently it was in-hock to the international financial markets and thus its debt was outwith the country's control. The Greek 2009-16 crisis was a result of its membership of a currency union (the Euro) where it's government and central bank could not use currency devaluation to mangle it's financial problems but had to rely on the European Central Bank (ECB) ostensibly run by Germany and their economy. This placed the Greek government in a position where the ECB and other lenders imposed savage neo-liberal terms and conditions in return for bailout funding. In cases where countries have control of their own currency they are in a position to use a combination of monetary tools such as devaluation, currency controls and quantitative easing (the creation of electronic money) to get themselves out of trouble as was the case with the UK.²

Reference was made to Zimbabwe's hype-inflation in the early 2000s which is frequently attributed to its printing of money. However this is incorrect as the printing of money alone does not cause inflation, it is when government attempts to spend beyond the real economy (labour and resources) it becomes a problem. The reason for Zimbabwe's hype-inflation was due to 70 percent of its farming production collapsing due to the confiscation of private farms and it's printing of money to finance it's military involvement in the Congo war.³

Considerable discussion surrounded the issue of why the Report recommended the retention of Sterling but without a formal currency union unlike the proposal in the 2014 report - *Scotland's Future*. The Commission's Sterling proposal is to run for an initial period of at least 10 years until such times as conditions are considered appropriate to introduce a Scottish currency. (C1.7 & C1.9)

The group were unanimously of the view that this was a fundamental contradiction in the Report in that if the primary purpose of Independence is to create the opportunity to run the affairs of our own country, warts and all, why would we cede authority over the currency to the Bank of England, the Treasury and the London financial markets. It was considered that not withstanding the orthodox reasoning provided by the Commission, that such an approach would invite all manner of constraints for an independent Scotland in the way we planned and handled our affairs due to this course of action.

The group rejected the Commission's retention of Sterling recommendation (C1) and opted for the proposition that there should be a separate Scottish currency and a Central Bank at the outset of Independence. With regard to Central Bank

² <https://www.bankofengland.co.uk/monetary-policy/quantitative-easing>

24 Jan 2018 · Quantitative easing is an 'unconventional' form of monetary policy that our Monetary Policy Committee has carried out in order to stimulate the economy when interest rates are already low. ... Quantitative easing is sometimes called 'QE' or just 'asset purchases'.

³ <https://www.economicshelp.org/blog/390/inflation/hyper-inflation-in-zimbabwe/>

governance (Recommendation C2) the group's preference was for it to be under the supervision and control of the Scottish Parliament while noting that it is a requirement for admission to the EU that members have an independent central bank and their own currency.

In attempting to answer the question why the retention of Sterling was the primary recommendation of the Report rather than one of several options, the group concluded that it was seen as part of a strategy to appeal to “soft NO” voters as well as ‘economic think-tanks’ and financial markets who will seek to influence any future referendum debate.

Given these considerations it was the group’s view that a 3-year transition period to set up the Scottish state should also include the setting up of a Scottish currency to be functioning on or shortly after day one of Independence.

C2 Tests for Future Currency options were considered inappropriate and likened to constraints placed by Gordon Brown on the UK's approach to joining the Euro. They were tests that were never meant to be met and as such were in fact barriers. With the establishment of a Scottish currency on Independence the currency tests were deemed to be unnecessary.

C3 Scottish Central Bank and C4 Scottish Financial Authority: there followed a technical discussion which attempted to tease out the issues of banking reserves and the distinction between fractional reserve banking⁴ and full reserve banking⁵.

Discussion revolved around the issue of banking and financial deregulation during the Thatcher/Blair/Brown era⁶ and for an independent Scotland to establish banking and financial regulations that serves the real economy of production and households and excludes the concept of casino banking from playing any part in the real economy. The general sentiment was that 'money' should make assets rather than simply make more 'money' and that there is a major expectation that things will be different in an independent Scotland. It was therefore seen as unacceptable to simply transfer the existing inadequate UK banking and financial regulations wholesale to an independent Scotland. The group was of the view that Parliament should devise a new set of banking and financial rules that work for the real economy and are both socially and environmentally inclusive.

⁴ https://en.m.wikipedia.org/wiki/Fractional-reserve_banking

Fractional-reserve banking is the practice whereby a bank accepts deposits, makes loans or investments, but is required to hold reserves equal to only a fraction of its deposit liabilities. Reserves are held as currency in the bank, or as balances in the bank's accounts at the central bank.

⁵ https://en.m.wikipedia.org/wiki/Full-reserve_banking

Full-reserve banking (also known as 100% reserve banking) is a proposed alternative to fractional-reserve banking in which banks would be required to keep the full amount of each depositor's funds in cash, ready for immediate withdrawal on demand.

⁶ see [https://en.wikipedia.org/wiki/Big_Bang_\(financial_markets\)](https://en.wikipedia.org/wiki/Big_Bang_(financial_markets))

C4 Scottish Financial Authority: There was an acceptance of the need for fiscal rules and the essential role of the Financial Authority but not the rules of the neo-liberal elite so that the economy would embrace social and environmental responsibilities and be run on the basis of doing things better, fairer and by appealing to peoples' sense of hope.

It was felt important that the new Finance regime needs to be bolder rather than obedient to existing power and lobbying groups and that strong leadership to that end is required.

On this basis of the group endorsed the recommendation C4.5:

...In addition, the Scottish Government will take over and reinforce the UK banking legislation which will become effective in 2019. This legislation requires banks to 'ring-fence' their retail operations, ensuring that these retail activities are separately capitalised, supported by a distinct pool of assets, and are operationally and in governance terms distinct from other activities of the holding company which owns the bank. Put simply, their purpose is to separate traditional banking from the wholesale and trading activities of the financial conglomerates which most 'banks' have become.

And C4.6

The Scottish Central Bank will have a primary objective of restoring Scotland's reputation for prudent banking which services the needs of Scottish households, businesses and the Scottish economy, in a competitive market for banking services.

The group had difficulty in reconciling these statements with *"The supervisory culture and institutional structures in Scotland will remain closely aligned with the arrangements for the rest of the UK and Scotland should aim to become a natural bridge between the rest of the UK and the EU."* as stated in C3 *Scottish Central Bank & Scottish Financial Authority* summary.

C5 Scottish Financial Services Compensation Scheme: The group agreed that Scottish taxpayers should not bail out the banking sector in the future and that "too-big-to-fail" should be rejected in a similar way in which the taxpayers of Iceland had done during the 2008-11 financial crisis.⁷

It was agreed that a *Scottish Financial Service's Compensation Scheme (C5)* should be established and that *Bank Regulation (C6)* should be overhauled as outlined in the previous paragraphs including acting as the *Lender of Last Resort (C7)* for retail banking if required.

⁷ https://en.wikipedia.org/wiki/Icelandic_financial_crisis

Part B: The Framework & Strategy for the Sustainable Public Finances of an Independent Scotland

In considering Section B the results of the survey indicated much less disagreement with the Commission's recommendations but a need for clarification and discussion on: *B9 Debt Management; B10 Asset Liability Management Office; B12 Deficit Reduction Policy; and B13 Transitional Fiscal Stimulus.*

The group was divided on its views on *B1: Annual Solidarity Payment*. There was the slimmest of majorities in support of the Commission's proposal with a recognition that any payment would be the result of negotiation and would depend upon the approach the UK took towards the sharing of joint assets. Some thought that as this was payment for debt incurred on our behalf and not necessarily with our explicit approval this should be re-branded "Foreign Aid".

There was clear support from the group that Scotland should not, as part of the Annual Solidarity Payment contribute funds to the UK's international aid programme as proposed by the Commission. It was considered important that Scotland create its own policies and approaches to international aid that reflect our distinct approaches to equality, social solidarity, climate justice and humanitarian assistance.

B2 Comprehensive Review of Inherited UK Spending Programmes: The group agreed with the Commission's proposal as it makes sense to look at both the ways in which the UK current spends and what it spends funds on to determine if this is what an independent Scottish government would wish to continue doing.

The Report provides little information on its proposal *B3: Standing Council on Scottish Public Sector Financial Performance* other than calling for: 'an institutionalisation of the pursuit of high performance and best practice (compared internationally) and benchmarking across the public sector incentivising, celebrating and rewarding where it delivers better outcomes and efficiencies.' The group chose not to express a view given the limited information on the proposal.

B4 Fund for the Future Generations: was seen as the Scottish equivalent of the Norwegian Sovereign Wealth Fund and was welcomed unanimously. It was agreed that supporting future investments in the green economy and national infrastructure should guide the use of the Fund.

B5 Fiscal Targets: The discussion concluded that these should be set over a longer period than 5 to 10-years and should not copy the UK's austerity approach. It was also expressed that the Commission's proposals of bringing the deficit down to below 3 percent of GDP from an assumed starting point of 5.5% in 2020-21 was likely to result in significant challenges for the public finances with regard to delivering on Part A of the Report - *Growing the Scottish*

economy. The Scottish Government's 2016-17 Government Expenditure and Revenue (GERS) report estimates a Scottish deficit of 8.3 percent of GDP. Given the challenges of economic forecasting and the extent to which unfavourable headwinds (e.g. Brexit, trade wars, lack of population growth, etc) can drive GDP growth projections off-course a range of growth and deficit reduction forecasts (high; medium; and low) would have been a more useful way to address the Fiscal targets.

The Commission places particular emphasis on the establishment of a strong set of fiscal institutions. A *Scottish Fiscal Commission (B6)* was created in 2014 but with a limited role. The Commission proposes that the Fiscal Commission's role and powers be extended. The group agreed with this along with recommendation *B7 Budgetary Process Review & Implementation*. However it was felt that those appointed to the Fiscal Commission and the Budgetary Review and any economists employed to work on these initiatives should include a broader school of thought than those tending to favour free-market capitalism and include: environmental, gender, labour, and social market economists and individuals.

B8 Comprehensive Taxation Review: There was general agreement that the current UK tax system is both grossly inefficient and expensive to collect. Rather than trying to adjust the UK tax system the Commission's proposal of devising a new comprehensive tax system was considered the best approach. There was particular interest in tackling tax loop-holes and special treatment for international corporations and large businesses including wealthy landowners and the very rich. In addition any new tax system should address the issues of: tax havens; the abuse of Scottish Limited Liability Partnerships as vehicles for fraud and money laundering; the outsourcing of the design of tax regulations to large corporate tax and accounting firms; and closing the revolving door between lobbyists and corporate tax accountants and appointees to tax governance and advisory boards. The work of Prof. Richard Murphy for the *Common Weal Tax Paper*,^{8 9} the 2011 Mirrlees Review of the UK Tax system, and the 2013 Fiscal Commission's *Principles for a Modern and Efficient Tax System for an independent Scotland* provide a solid basis for the design of a comprehensive and fit-for-purpose tax system.

B9 Debt Management office and B10 Asset and Liability Management office: were seen as essential functions of the Ministry of Finance and should report to the Scottish Parliament and not just to the Scottish Government. These functions were seen as an important check on spending Ministries and to demonstrate prudence to the financial and bond markets when running the public finances of an independent state.

⁸ <http://www.taxresearch.org.uk/Blog/2017/08/30/a-scottish-tax-system-imagining-the-future-my-white-paper-for-common-weal/>

⁹ <https://www.commonspace.scot/articles/12812/richard-murphy-tax-scottish-growth-commission-report>

There was discussion about the importance of community ownership and the need to balance the requirement for the sale of surplus government assets at market value with the need for a mechanism to ensure a reduced price for any public asset when a community body seeks to take it over for the benefit of their local community. Examples suggested were disposal of surplus government land for affordable social housing and the re-use of public buildings for social and economic ventures.

B11 National Balance Sheet Review: Concerns were raised that this was setting-up public assets for privatisation. However it was generally agreed that this was needed as part of the basis for negotiating assets/debt liability and the efficient use of government borrowing. A essential building block for this type of initiative is a comprehensive and accurate inventory and valuation of public assets and liabilities held by the Scottish Government.

B12 Deficit Reduction Policy: This appears to be a repeat of *B5: Fiscal Targets*. The Commission uses the 2016-17 Government Expenditure and Revenue Scotland (GERS)¹⁰ estimates as its base figures to devise its proposed deficit reduction projections. It should be noted that GERS is a set of economic estimates and not a set of national accounts based upon actual public expenditures and revenue collected. Furthermore the majority of the GERS figures are economic estimates produced on the basis of UK Treasury figures that provide a snap shot of a regional economy not that of a national economy. It is generally agreed that an independent Scotland would have: a different set of spending priorities; a full set of national accounts and not regional estimates; and would prioritise policies that would grow the economy and increase revenue. Currently the GERS data is incomplete due to for example VAT paid in Scotland being accounted for by national supermarkets and fuel stations as being recorded at their respective headquarters offices (outwith Scotland) and not as a revenue identified in Scotland. There is significant doubt that the pro-rata allocation of VAT is representative. The group were unanimously agree that *“We need to get our own truth as the only basis for making policy”*

The Commission's deficit reduction targets are ambitious. It proposes that the deficit would be reduced from 5.9% of GDP in 2021 to 3% of GDP in a period of 5 to under 10 years. However to do this the GDP growth rate would have to be 2.5% annually over the 5 to 10 year period. This is a big ask given the challenges of economic forecasting and the extent to which unfavourable headwinds (e.g. Brexit, trade wars, lack of population growth, etc) can drive GDP growth projections off-course a range of growth and deficit reduction forecasts (high; medium; and low) would have been a more useful way to address the deficit targets. Furthermore to avoid austerity if the 2.5% growth rates do not materialise reducing the deficit over a longer time period and increasing public expenditure by 1% above the annual rate of inflation provides a small measure of growth.

¹⁰ <http://www.taxresearch.org.uk/Blog/2017/09/10/its-time-for-the-gers-debate-to-move-on-it-seems-that-everyone-with-any-sense-now-agrees-that-its-just-not-good-enough/>

Discussion focused on whether given that all advanced economies use deficit financing as an integral part of managing the public finances it was suggested that the term *Deficit Reduction Policy* should be more appropriately referred to as a *Deficit Management Policy*.

B13 The Transitional Fiscal Stimulus: The Commission proposes to use public borrowing immediately after Independence to provide the economy with a short term stimulus should it be required. Immediately prior to independence the Commission proposes that the Scottish Government should consult with business and other key economic actors to establish if a stimulus is required. The stimulus funds would be directed towards infrastructure investment and tax incentives to enterprises to create or retain jobs. It was agreed that this was a useful fiscal tool to have at such a critical period in the country's development.

Part A: Raising the Potential and Performance of the Scottish Economy

A1 National Economic Strategy: There was general agreement that such a strategy was a necessity given that the UK Government appears to have had neither an economic nor an industrial strategy for several decades apart from a dogmatic ideological attachment to free market capitalism led by the City of London and bankers. The group was uncertain as to what the difference was between a national economic strategy and a *Next Generation Economic Model*.

A2 Next Generation Economic Model: the group were concerned that the Commission did not acknowledge that a GDP growth model based upon higher growth rates and the increased consumption of finite resources was both unsustainable and destructive to the planet. It was felt that the Commission should have been bolder in its approach and advocated that the *Next Generation Economic Model* should be focused on acting as the bridge to enable Scotland to pivot from an unsustainable GDP growth model to a sustainable green and circular economy model.

In addition any *Next Generation Economic Model* also requires to address:

- inequality and a fairer distribution of wealth and assets between society in the new Scotland
- inter-generational fairness; and
- global climate justice issues.

Furthermore the new model needs to be bench-marked not just with existing conventional GDP markers but incorporating other indicators such as quality of employment, well-being, environment and life style related carbon emissions, fairness and health and happiness index as in Denmark. There was a majority who thought this should be incorporated into the written Constitution. A simple adoption of the Scandinavian model would be inappropriate given Scotland's attractive destination for international investment with its endowment of natural resources, quality of educational infrastructure and its English speaking population.

A3 Delivering Cross-Partisanship & Collaboration: should be taken as a given particularly since Scotland's approach is different from that of the UK and with some additional efforts could be more like the collaborative European model of three-party (government, employers and trade union) social dialogue. In this model government, employers and trade unions seek to resolve differences and promote an economic and social approach which benefits all parties and the wider society.

A4 Identifying Comparative Advantage & Strategic Priority Sectors: The group agreed with this recommendation and noted that Scotland had a number of sectors such as: food and drink, oil and gas, renewables, computer games, financial services, chemicals, life-sciences and tourism where it had comparative advantages in both regional and global markets.

A5 Productivity Commission: The SGC report identifies that businesses that are involved in exporting maintain and improve on their productivity due to global competition. Sectors of the economy not exposed to global competition such as retail, wholesale, construction and the public sector require other means to drive productivity. Therefore the role of a Productivity Commission is to focus predominantly on these sectors. The SGC proposes that this be done initially by establishing a part-time Commission using independent experts and a rolling work programme that tackles specific productivity issues. The group agreed that a part-time Productivity Commission along the lines of the Norwegian and Danish Commissions should be the preferred option rather than the full-time New Zealand model.

A6 Frictionless Border and Market Access: The group considered this to be an important objective but noted that it requires goodwill and commitment on the part of both the UK and Scottish Governments.

A7 Population Growth: It was recognised that Scotland had a declining economically active population due to ageing and that there is a need to enhance the declining tax base through support for population growth including immigration. Moreover there was agreement that Scotland should seek to be regarded as a talent friendly outward looking country. However concerns were raised that the Commission appeared to see the solution to population growth as being achieved entirely through the development of a range of immigration policies.

The group considers that an enhanced Population Growth strategy should firstly encourage domestic population growth through a combination of financial incentives and policies for young couples by increasing access to housing, welfare and childcare provision. Secondly, it needs to create an active labour force policy for young workers many of whom often consider their employment opportunities are constrained and or lacking in Scotland and therefore seek employment outwith the country. Thirdly, it should through the provision of positive opportunities and conditions seek to encourage family formation by enabling young couples to manage their careers when interrupted by having a

family. And fourthly it should encourage young emigrant Scots to return through positive policies on housing, health and other benefits.

The group raised the concern that care needs to be taken on how immigration policies are presented and promoted in the current UK Brexit and anti-immigrant climate where immigration has become a tabloid media and rightwing (UKIP and Tory) political cause. When addressing population growth and immigration policies the Commission needs to adequately consider the broad concerns of many voters with regard to pressures on social housing, public services and job and wage competition. A balanced approach to addressing these voters concerns and perceptions needs to be considered as a means of defusing social tension and fostering a positive approach as to how we achieve population growth.

A8 A new 'Come to Scotland' package should be created with a package of incentives: The policy should emphatically only benefit business entrepreneurs investing in the productive economy and certainly not those seeking to invest in the property and sporting estate markets. There was unanimous concern that given the strong international market for sporting estates it was not acceptable to mimic the UK model and offer this type of investors incentives such as buying visas and residency rights. The focus of any incentives for investors and entrepreneurs should be on their capacity to contribute to the growth of the productive economy and in particular to the priority sectors (see A4 above).

No mention is made by the Commission of effectively managing Scotland's land and sea borders. Elaborating on how our borders are to be effectively managed is an important counterweight to the populist media and anti-immigrant rhetoric.

A9 Marketing of Come to Scotland: was considered a useful policy proposals for any ambitious economy seeking to attract skilled workers and entrepreneurs.

A10 Celebration of the contribution of migrants: was considered to be a questionable policy. Such a policy has the potential to create blow-back both from resident workers and communities who may currently be feeling isolated and overlooked. In addition many migrants may feel uncomfortable with being given such visibility where their inclination is to want to quietly fit-in and not draw attention to themselves. Whilst the aspiration of a welcoming and an open society is to be celebrated it should be led by Scottish civil society, local authorities and local communities and not by the Scottish government. Scottish Social Attitudes surveys for a number of years have indicated that while a majority of the Scottish population has a favourable view of immigration there is a substantial minority who have concerns.

A11 International Students and Graduates: The attraction and retention of international students should be a priority of an immigration policy and makes sense given our universities strong international standing. It is also important to alleviate the constraints caused by the current UK policy which removed the right for graduates to extend their stay and take up employment. We do not

agree to the Commission's proposals on tax or housing incentives as this discriminates against indigenous graduates. This is seen as inappropriate for a society seeking to pursue fairness and social equality. In addition the group were emphatic that there should be no policy development that would or could be considered poaching of international student talent from developing countries.

A12 International Government and Multi-national Organisation Strategy: This was seen as standard practice in foreign affairs with regard to the establishment of embassies and consulates in Scotland. The group were not persuaded that there were many such opportunities available for the headquartering of multi-national organisations in Scotland. Moreover they agreed with the Commission that providing low tax incentives to multi-national corporations was not a direction that an independent Scotland should pursue.

A13 Commission on Gender Pay Equality: the well established inequality of the UK economy and the gender pay gaps are nothing like the 12 benchmarked countries in the Commission's report. In addition no mention is made of the debilitating effects of zero hours contracts. The group agrees with the Commission that inequality and poverty are best tackled by joined-up approaches that seek to have the Scottish government establish the enabling and redistributive policies and frameworks and for local authorities and local communities to be in the driving seat with regard to implementation decisions and accountability.

A14 Target of a 50% Reduction of Poverty to 10%: The group agreed with the target but considered that the policy should be elevated to that of central strategic importance in the overall Growth Strategy and prioritised accordingly with regard to resource allocation.

A15 Long term strategy on participation and inclusion: Whilst the Report noted the need for a number of core policies: fiscal policy; industrial strategy; social security; economic participation and fair work; education and skills; and community engagement, to work together to achieve such a long term strategy on participation and inclusion. However it fails to mention two important components: monetary policy with regard to employment creation and reducing unemployment rates and the vital role that trade unions and employers' associations play in creating positive approaches to social dialogue and contributing to active labour markets.

A16 Labour Markets and Flexicurity: The group believes that the proposals in the document to copy the Danish labour market and flexicurity model will take considerable time to achieve. This is because of the significant variations between the UK and Danish labour markets including the differences in the levels of social security payments and the tripartite means through which trade unions, employers and government resolve labour issues. For instance the levels of trade union participation in Denmark are around 70% while in Scotland it is around 30%. Moving to a Danish flexicurity model would mean a substantive shift away from the insecurity of zero hour contracts and minimum wages.

A17 Competitive Rankings: Having reviewed the two other rankings (Global Competitive Index and Venture Capital and Private Equity Attractiveness Index) the group considers that the Global Sustainable Competitiveness Index (GSCI) is the preferred option. It was selected because of its emphasis on measurable data and analysis and its smaller reliance on the perceptions of business leaders. The index uses five concepts: natural capital (environmental sustainability); governance; intellectual capital; resource management; and social capital. Furthermore it includes measures on the quality of education, quality of healthcare, and environmental protections. The five highest ranked countries in the GSCI index are all Scandinavian.

A18 Competitive Business Taxation: The Commission recommends a refocusing from the current UK tax system which favours giving tax deductibility for interest on debt. This tax policy has created an uneven playing field for equity investment and tends to favour large businesses. The Commission makes the case for introducing a targeted tax allowance or deduction for equity investment based on the cost of capital. It would be particularly beneficial to Scottish family owned businesses that have a higher aversion to debt while at the same time giving encouragement to equity financing for new businesses as well as expanding existing ones. The group also agreed with the Commission that Corporation tax should not be lowered as a means of attracting foreign businesses.

A19 Engagement of International Companies and Sectors: There was support for this recommendation but the group was unclear as to why the Trade and Foreign Affairs was not included as part of A12 *International Government and Multi-national Organisation Strategy* or combined with A22 *Export Growth Strategy*.

A20 Improved Data and Analysis: The Report narrowly focuses on the need for improved data on Scotland's trade balances and the wider balance of payment position. The group is of the view that in addition to trade and balance of payments data there should be a focus on preparing a full set of National Accounts and strengthening the National Statistical System. This was considered an important omission in the Commission's report as such data will be required to feed into both national reports and for international reporting to multilateral organisations such the United Nations, International Monetary Fund, World Bank and other institutions.

A21 Infrastructure Commission: The Commission recognises that an investment in infrastructure of 0.8% of GDP is the typical level for advanced economies. Currently the UK and Scotland do not achieve this level of infrastructure investment. For Scotland to achieve the 0.8% it would require to spend £1.2 billion per year.

The Commission proposes that the Scottish government should take a much broader approach to infrastructure planning and investment along the lines of Ireland's 5-year National Development Plan. The plan sets out a range of

spending priorities covering national roads and public transport, environmental infrastructure, sustainable energy, telecoms, housing and health facilities in order to meet a number of objectives:

- maintaining sustainable national economic and employment growth;
- the consolidation and improvement of Ireland's international competitiveness;
- fostering balanced regional development; and
- promoting social inclusion

In addition to moving to a National Infrastructure Development Plan the Commission recommends the establishment of an Infrastructure Commission to provide strategic advice as a means of aligning investment with the long term economic development objectives. The group agrees with the Commission's proposals on infrastructure.

A22 Export Growth Strategy and A23 National Brand Strategy: The group considered that these two strategies could benefit from working in tandem. However the group noted that no mention was made in the Commission's report of Scottish re-exports through England such as whisky as these export commodities could make a significant contribution to Scotland's trade data.

The group was supportive of the Commission's proposals with regard to the establishment of a Trade and Foreign Affairs ministry to help drive forward the country's export growth strategy.

A 24 Digital Strategy: The group were supportive of the adoption of the target to become a world leader in digitalisation by 2030 through building on the Scottish government's Digital Strategy. This seems particularly relevant given Scotland's rapidly growing and diverse digital technologies sector involving over 1,500 businesses spanning from software development to game design and production, to data management and analytics cluster and telecoms.

A25 Universities Growth Strategy Review: Given the central importance of Scottish universities to both the growth of the economy and their leading role in research and innovation with Europe. The group supports the proposal.

A26 Government Led Innovation Review: The group supports the proposal but would wish to see a clearer link to the preceding A25.

A27 Top Five Strategic Development Projects: The group supports this proposal.

A28 Scottish National Investment Bank. The group noted that the Scottish government is currently working on this proposal and it is due to become operational in 2021.

A29 Housing and Growth: In the Commission's main report there appears to be no analysis or discussion on housing although it appears as a recommendation.

The group considered this to be a major omission by the Commission given the shortage of affordable homes both to rent (particular in the public and social housing sector) and starter homes for purchase.

A30 Stop Strategy: The Commission considers that to achieve improved growth through the execution of the National Economic Strategy and the Next Generation Economic Model it will be important not simply to identify more tasks, resources, and initiatives that need to be done. It will require that decisions are made to stop peripheral activities and less impactful work and focus on core actions that produce results and have impact. The group agrees with this proposal.

Please note:

The original document was produced in Pages for Apple and whilst the hyperlinks were operational prior to conversion they may not be in the final PDF version.

Appendix 1

PART A: RAISING THE POTENTIAL AND PERFORMANCE OF THE SCOTTISH ECONOMY					
Nos	RECOMMENDATIONS	AGREE	DIS-GREE	UNCERTAIN	Remarks
A1	National Economic Strategy	10	2	1	Unhappy about GDP growth on environmental grounds No to continued austerity: being sold as £4000+ per family (but not for 25yrs!)
A2	Next Generation Economic Model	12		1	Debate between Growth Commission neo-liberal model and Commonwealth vision
A3	Delivering Cross-Partisanship & Collaboration	11		2	I'd have more faith in this if trade unions and green reps had been on Growth Commission
A4	Identifying comparative advantage & strategic priority sectors	6		7	Agriculture, fishing, Industries, Tourism, Renewable energy, Financial services Didn't understand
A5	Productivity Commission	12		1	NZ model?
A6	Frictionless borders and market access	12		1	Good luck with that
A7	Population growth	13			
A8	A new 'Come to Scotland' package	12		1	Beware those that take package then disappear 3 years later
A9	Marketing of 'Come to Scotland'	12		1	
A10	Celebration of the contribution of migrants	12		1	A positive effect on Scottish economy but schools receiving highest number are in deprived areas
A11	International students & graduates	13			Except these are the brightest students from their own countries. OK to take down barriers UK have erected to prevent them staying - but not OK to poach.
A12	International Government & Multinational Organisation Strategy	12		1	
A13	A Commission on Gender Pay Equality	13			
A14	Target of a 50% reduction of poverty to 10%	13			10% Still seems high Within a realistic time scale
A15	Long term strategy on participation & inclusion	10	2	1	Not sure what this means Unhappy about GDP growth on environmental grounds
A16	Labour markets & flexicurity	9	1	3	Flexibility for neo-liberals means exploitation Flexible labour markets just sounds like a boon to unscrupulous employers More information needed
A17	Competitive rankings	10		3	Rankings with whom

A18	Competitive Business Taxation	7		6	Don't know about the Dutch scheme to comment Not if it means a race to the bottom Include Land Value Tax & Development Windfall Tax (where landowners benefit from public investment like a new link road)
A19	Engagement of International Companies & Sectors	9	1	3	More information needed
A20	Improved data & analysis	13			It has to be much better than GERS
A21	Infrastructure Commission	12		1	.
A22	Export Growth Strategy	12		1	
A23	National Brand Strategy	13			Promote long term initiative Scotland the brand campaign
A24	National Digitalisation 2030 Strategy	8		5	Digitalisation of what?? Not sure what this means Skilled personnel required
A25	Universities Growth Strategy Review	11		2	
A26	Government Led Innovation Review	13			
A27	Top Five Strategic Development Projects	10		3	Good to have only a few targets rather than too many
A28	Scottish National Investment Bank	13			
A29	Housing & Growth	12		1	Areas? Long term funding of affordable housing Social housing a priority
A30	Stop Strategy	8		5	More information needed

PART B: THE FRAMEWORK & STRATEGY FOR THE SUSTAINABLE PUBLIC FINANCES OF AN INDEPENDENT SCOTLAND

Nos	RECOMMENDATIONS	AGREE	DISAGREE	UNCERTAIN	Remarks
B1	Annual Solidarity Payment	5	4	4	Sounds like an unnecessary commitment to endless future payments to Westminster for debts run up by UK governments Independent overseas Aid Programme
B2	Comprehensive Review of Inherited UK Spending Programmes	11		2	
B3	Standing Council on Scottish Public Sector Financial Performance	10		3	
B4	Fund for Future Generations	13			

B5	Fiscal Targets	5	2	6	Not if it means copying the UK Didn't understand!
B6	Scottish Fiscal Commission	9		4	Didn't understand!
B7	Budgetary Process Review & Implementation	9		4	Didn't understand!
B8	Comprehensive Taxation Review	11		2	Design of new tax system Cut out tax havens. Do you need a review with the best expertise globally etc to produce a simpler tax system
B9	Debt Management Office	6		7	Didn't understand!
B10	Asset & Liability Management Office	7		6	Didn't understand!
B11	National Balance Sheet Review	12		1	Setting up public assets for privatisation?
B12	Deficit Reduction Policy	5	4	4	Not if a copy of the UK Didn't understand!
B13	Transitional Fiscal Stimulus	6		7	Didn't understand!

PART C: THE MONETARY POLICY & FINANCIAL REGULATION FRAMEWORK FOR AN INDEPENDENT SCOTLAND

Nos	RECOMMENDATIONS	AGREE	DISAGREE	UNCERTAIN	Remarks
C1	Currency Recommendation - Sterling Retention	2	11		For no more than 3 years Limited time only Not extended For as short a period as possible Need own currency asap Commonweal proposal preferable
C2	Currency future options: governance & tests		11	2	At present too much under banker control As long as tests are not designed to prevent implementation Sounds like potential unnecessary future blocks to a Scottish currency These are deliberate obstacles Achieving these targets even less likely if we use sterling
C3	Scottish Central Bank: should be established	11	2		This is not really a central bank if currency is controlled by the Bank of England
C4	Scottish Financial Authority	12		1	
C5	Scottish Financial Services Compensation Scheme	11	1	1	
C6	Bank Regulation	10	1	2	
C7	Lender of Last Resort	10	1	2	