



**The Jimmy Reid
Foundation**

The Common Weal

a model for economic and social development in Scotland

For 30 years public policy in the UK and in Scotland (though to a lesser extent) has been based on one fundamental principle; that markets should drive economic and social development, that conflict and competition are the primary drivers for that development and that the role of the state is to protect those markets and ameliorate the impact of their failings. Concepts such as that society should guide economic and social development, that development should be driven by mutuality and that the role of the state is to express the democratic will of citizens in guiding that development has been driven out of UK politics.

The current debate about Scotland's future has opened up a window to economic and social models outside the UK. There is much that we can learn from them. Many aspects of the Nordic countries, many aspects of economies such as those of Germanic countries, aspects of the large-scale cooperative model in many parts of Europe and other lessons from abroad are now informing Scottish debate. What we see in all these cases is that economic performance and social outcomes greatly outstrip the UK.

There has been much talk about how to achieve a 'more Nordic' Scotland. It is important to note that not only Nordic countries have things to teach Scotland and also that the Nordic countries themselves are very different. It is also important to note that they developed in a particular context so there is no 'standard' set of practices and policies which will make a country more 'Nordic'. However, drawing conclusions about what they and others do well provides the starting-point for an alternative model of how Scotland might move forward.

It is here referred to as the 'Common Weal', a distinctively Scottish version of the type of society that has been achieved in the Nordic area. This short note suggests a 'spine' of the key economic and social transformations that are needed to move towards a Common Weal vision. It is not prescriptive and is not 'owned' by anyone. It is a model for mutual development, onto which many other transformative ideas can be built.

So for example, a Common Weal Scotland would place a strong emphasis on issues such as a diverse and high quality media, a strong arts and cultural identity, a transformed approach to education, new attitudes to transport and urban planning, careful management of natural resources and the environment and so on. Developing all of these and more represent work ahead for those who support a Common Weal vision for Scotland.

But first there must be a fundamentally new approach to the economy and public governance.

What can we learn from the 'Nordic Social and Economic Model'

The first thing to make clear is that each of the countries generally considered 'Nordic' (Finland, Denmark, Sweden, Norway and to a lesser extent Iceland) are very different from each other and have widely varying profiles in areas such as forms of taxation, structure of the economy, employment rights and so on. However, there are some basic aspects which are consistent:

- Income and wealth inequality are low and social cohesion is high
- Pay is higher, poverty is very low and a much lower proportion of jobs are in unskilled, routine sectors
- Total tax take is higher and this enables significant redistribution and strong public services but without endemic debt and deficit
- The welfare state is strong and public services are extensive, well funded and generally universally available
- Finance is seen as a means of sustaining industry and providing financial security for individuals, not as a speculative means of profit maximisation
- Economies are diverse with a much more balanced portfolio of industry sectors, much more emphasis on product innovation, a much larger medium sized industry sector exists, there is a much more diverse ownership profile (including more extensive public and community ownership and cooperatives), and a much more mutual and coordinated approach to economic development is taken
- Society is generally more inclusive with better gender and other equality in politics, on boards of governance, in leadership positions etc.
- There is an assumption that active democracy is beneficial for all, whether that is a very highly democratic structure of local government or industrial democracy that values the input of employees in the governance of enterprises.

Transition One: Tax Reform and inequality

While there are different forms of tax across the Nordic nations with different balances between labour, corporation and consumption taxes, the consistent pattern is that they take a larger proportion of their GDP in tax. This both enables stronger public services and (through the redistributive effect of taxes) much greater social and economic equality. However, this is combined with higher pay and much less prevalence of low-skill, low-pay work, which means that even with higher taxes, people have higher take home pay.

Scotland has much higher levels of inequality than the Nordic countries. To make progress there needs to be a process of increasing overall tax take – the alternative is major and permanent cuts to public services and the welfare state. This can be done gradually, targeting wealth inequality as a starting point. However, in tandem with this it is important to pursue strategies to increase pay and to structurally reform the economy so it is much less dominated by low-skill, low-pay work.

In addition, it should be remembered that in the Nordic nations taxation is not the only source of income for government – profit from nationalised industries also contributes (the Norwegian Oil Fund sustained by a publicly-owned oil company is the best known example). Government at different levels in Scotland should pursue similar strategies (see 'ownership' below).

Transition Two: Folkshemmet: a different approach to welfare

In the Nordic countries the phrase 'Folkshemmet' is used to refer to what we call the welfare state. The literal translation is 'the People's Home', which outlines a very different attitude to welfare than the one developing in Britain. To move in that direction, Scotland should set out a

set of criteria to underpin the welfare state – that public services and cash benefits are part of one seamless system, that this is then delivered on universalist principles of from the cradle to the grave and from each according to ability to pay to each according to need etc. This should then be redefined not as a relationship between the state and the people but a contract between the people themselves, delivered through the state. The principles underpinning that welfare state will then enable a discussion about how it can expand. It will then be helpful to identify some core areas where expansion makes sense, particularly in childcare but probably also in the provision of housing and of local amenities.

Transition Three: Finance

The UK finance sector has completely failed the economy. Scotland needs a proper national investment bank for industry. However, just as important as establishing such a bank is getting its governance right – it must be run on mutual principles (including all stakeholders in the economy working together to set long-term strategic approaches) and must under all circumstances be prevented from drifting into a role similar to the existing banks (run on the lines of profit maximisation). This should be linked to national strategies for industry development. The investment bank should look very seriously at using pension funds as a foundation for creating investment capacity.

There is also a very strong case for either that bank or a national social enterprise investment bank to function as a major lender to social and community enterprises (which might include local authorities) and to cooperatives and mutuels. This must be a large-scale initiative.

Steps must be taken to ensure stable and secure private banking for citizens both to ensure stable provision of credit (mortgages not designed to fuel unsustainable house price rises etc.) and to encourage secure savings. If the private sector is unable to provide this, consideration should be given to a publicly owned solution.

Finally, we must work to reclaim the genuinely innovative and effective banking tradition that Scotland had before massive deregulation encouraged them to drop innovation in favour of speculation. This must be the basis for repairing and developing Scottish banking.

Transition Four: Ownership

The ownership of Britain's industry is monolithic and by many measures, failing. It has led to a massive 'hollowing-out' in the middle of the employment spectrum with the dominance of low-pay sectors (often large foreign-owned multinationals) at one end and high-pay 'executive' jobs at the other with little in between. There are pitiful levels of investment in research and development and staff development and a general lack of long-term reinvestment.

Reversing this requires a much more diverse economic ownership profile. More domestically-owned medium sized enterprises with a long-term ownership strategy focussed on innovative and productive enterprise (along the lines of the German Mittelstand industries) are key to this.

Equally, there are many parts of Scotland where good-quality employment is almost entirely unavailable. Social and community-owned enterprises must be supported as a long-term key structural part of the economy, particularly where the private sector has failed to generate quality employment opportunities. Mutual and cooperative industries at a large scale also have an important effect of 'countercyclical economic balance' since they do not tend to disinvest during economic downturns in the way large private enterprises do.

Finally, the British rejection of the concept of nationalised industries is harmful. Models of public ownership have moved on from the 1970s model of large, centralised industries remote from customers. There are many extremely positive impacts of publicly-owned enterprises and these must be part of industry strategies.

Transition Five: Economic Diversification

It is essential that the unbalanced and unproductive UK economy is diversified in Scotland. The massively damaging impact of over-reliance on financial services is now well known and the social and economic dangers of over-reliance on the housing market are also understood. The retail and personal services sectors are also much too large in Scotland and must also be diversified (these are a large part of the structural cause of low pay).

The key sector is the medium sized enterprise sector. Scotland's economy should of course continue to seek inward investment but unless industrial strategies can develop a strong, productive, innovative domestic economy, economic precariousness and low-skill, low-wage employment will continue to dominate.

Mutual development strategies in which all stakeholders work towards industry policies focussed on diversification, industrial development and properly financed growth strategies in the productive medium-sized sector are essential.

Diversification strategies are also necessary to deal with declining industries such as shipbuilding. Linking ownership, finance and diversification, it is possible to develop models which are win-win-win. For example, if wind farms are developed as community (or local authority)-owned assets they can provide income for public services and/or provide cheap energy for citizens. But they can also use R&D opt-out clauses in public procurement to secure a manufacturing supply chain in Scotland, choosing to buy from Clydeside manufacturers with a focus on innovation. This also has the potential to develop a powerful export industry. Strategies such as these can capture the full economic benefit of a great Scottish natural resource, increase energy security, diversify employment away from declining industry sectors, create new and dynamic industry sectors with major export potential and fund public services, all at the same time.

Transition Six: Democracy and Governance

The concept of participative democracy and diversified governance are important to the strategic themes outlined above. Industrial democracy (including strong trade unions working collaboratively with employers not only on employee remuneration issues but also on strategic management issues) has the effect of improving the economic performance of enterprises and avoids the monolithic 'group think' failures that have been revealed in the UK economy. Employee representation on management boards is welcomed by Nordic industry and is an important part of governance arrangements. Strong trade unions in a mutual rather than conflict relationship are also key to income and wealth equality. Generally, achieving more diversity, equality and representativeness across public and private life is seen as key – on boards, in politics, in leadership and so on.

At the national level, greater participation by citizens in governance helps to mitigate the stultifying effect of unchallenged corporate political influence. It helps to produce better decision-making, less captured by producer interests. At the local level, it is essential that Scotland has significant democratic reform to move local decision-making into local communities. The Nordic countries all have more effective local government based on local people having direct control of decisions

in their own communities. These sorts of 'empowered citizens' are key to social development in the Nordic countries.

Conclusion – what next?

These are broad themes for a transition from the current, failing free market model of economic and social development to a new and distinctively Scottish model of the Common Weal. Scotland is buzzing with people thinking about a better, more equal future and there is lots of work being done in different places. Just as the concept of neoliberalism encompassed a wide range (from Thatcher's 'can't buck the market' to Blair's 'we can help with the worst impacts of the market'), so the concept of Common Weal is broad and can encompass different ideas and different approaches. However, its very basis is that it is not simply a different version of what we have now. The last five years in the UK were simply a story of repeating the same mistakes from before. Without a fundamental change in our behaviour, we are going to continue to repeat the same mistakes indefinitely. Scotland - independent or not - must make a decision. If we continue on the current path the inevitable destination is greater inequality and ever fewer public services on which to rely. If we want something different, we have to choose it.

The Common Weal is an idea that belongs to anyone who wants that something different. It is for each person or organisation to say what that model means to them, to contribute their ideas to that model and to explain how they believe that transformation can be achieved.

None of this is a leap in the dark; all the concepts contained in the Common Weal are normal practice in nations all over Europe. We know they work and we know what it is like to live and work in that kind of society. Above all, the idea of Common Weal is intended to make clear that there is an alternative, that public debate can rise above debates on how to implement and manage the failing orthodoxy. The people of Scotland want their nation transformed. The Common Weal is an expression of the kind of transformation they want to see.