Scottish Affairs, no.16, summer 1996

THE BUSINESS CASE FOR DEVOLUTION

Nigel R. Smith

INTRODUCTION

The five main issues covered in this article are the Business Case for Devolution, Decentralisation, the Reaction of the Rest of Britain, Tax, and the Business Response, with an introductory note on the Constitutional Convention's Proposals and the Parliament (SCC 1995).

The question of a Scottish Parliament is rightly bound up with the issue of cultural identity. Indeed 'nationality identity' is important to several of our industries. Unfortunately the rhetoric about Scottish identity overshadows the nature of the proposed reform. The Constitutional Convention's proposals offer a decent plan for regional government within part of the UK. While Scotland is undoubtedly a 'historic' region in the European sense, justifying the fullest possible interpretation of 'regional', the fact remains that constitutionally the Convention's proposals are about regional government. The language of regionalism emphasises the difference from the SNP policy of independence in Europe; it reminds us that we need the co-operation of the rest of Britain for success, and that the rest of Britain has an interest in extending the reform.

Nigel R. Smith is managing director of David Auld Valves Ltd. In his early career he carried out staff and general management appointments at various plants in England, closing old factories, and commissioning new factories and products. He has been a member of various associations including the Scottish Engineering Employers' Association (1985-90), the Broadcasting Council for Scotland (1986-90), the Glasgow Development Agency Strategy Review Panel (1993-4), and the Scottish Office Action for Engineering Group (1995-present). The article is based on the speech he gave to the conference 'Devolution? Good for business?', organised by ***The Herald*** *and the BBC Today programme, on 22 April 1996.*

Putting the Scottish Office, its £14bn budget and 4000 quango appointments, under regional government has attractions. Scots will no longer wait years for Westminster to reform Child Law or indeed any Scots law. Scottish ministers will be more accountable, coming to the despatch box more than the present once a month, and answering more than the current 15 questions.

The voters will be right to prefer more effective democracy, but what sort of parliament will emerge?

THE SCOTTISH PARLIAMENT

The Parliament will be elected by a system of proportional representation. Contrast this with the last general election when the Labour Party won 68% of the Scottish seats with only 38% of the popular vote - a result so disproportional as to make even a Labour democrat wince.

Labour has never in its life won a majority of the Scottish popular vote in national or regional elections or in the recent Council elections. The chances of Labour winning an absolute majority of the seats in a PR parliament are remote. Moreover, the first elections will take place in the mid-term of a Labour government. Labour, in coalition with another party, is the likely resulting government.

PR will benefit the Liberals, the SNP and the Conservatives who will all gain seats. It will hold old Labour at bay. It would, on the last general election result, have produced the biggest Conservative democratic presence in Scotland for many years. For those who identify enterprise solely with the Conservatives this must be some attraction.

Thus Labour's historic concession on PR, sealed by the Liberals, will make politics in Scotland more moderate and less adversarial. And if the proposed standing orders (Crick and Miller 1995) are adopted, backbenchers will control policy and the agenda to a greater extent than at Westminster. Business will be conducted by powerful committees, readily accessible to business and to whom shared British institutions, including for the first time their London HQs, will give evidence. Decisions taken in Edinburgh will be quicker, will be at less cost, will be more problem-specific, and will more often be right than if taken in London.

This Parliament is to be neither another Strathclyde nor another Westminster. It is the model for efficient, intelligent government the business community

might have chosen itself. It will draw in new blood and that will surely mean more people from business. Indeed it is vital that business participates. Sensible working hours and shorter parliamentary sessions will make it possible.

THE BUSINESS CASE

Devolution will help business deliver prosperity - our central role at any time. But how can this be done, when all the key business powers are retained in Brussels or London? The Parliament will have no macro-economic powers, no powers for financial regulation, no power over social security, and merely the limited power to raise regional income tax which would yield only the amount the Scots spend on that voluntary tax, The Lottery.

However, the Parliament's devolved powers affecting business are economic development policy, land, planning, transport, education and training, and the environment. Determining strategy in all these areas is important to business, especially now that the local authorities' strategic role has been reduced. We still have no national policy on training (Scottish Affairs Committee 1995). The lack of a Scottish Transport policy continues to concern business. The paradox of embedding footloose investment is unsolved (Mackay 1995). The CBI, the Scottish Council Development and Industry and others have all struggled to exploit the coherence of Scotland by putting such strategies in place. Here at last is the political forum which will make them effective.

The Scottish Parliament will also, in the manner of the German Länder, focus on the Scottish dimension of policies made in Europe and the United Kingdom. It provides a place for proper debate, intelligent lobbying and active contribution in London or Brussels, including through Scotland's membership of the Committee of the Regions and of the Economic and Social Committee. Nor should the influence of a Scottish Parliament on bodies like the Bank of England, Monopolies and Mergers Commission or the International Maritime Organisation after Braer be underrated. Must the take-over of a Scottish Bank really go through without any case being made from Scotland for the regional economy?

Industrial Tribunals in Scotland, with a jurisdiction quite separate and independent of those in England, deal daily with European Law and would benefit from a forum in Scotland where the Scottish aspect of Employment Law could be debated and considered. Similar benefits would follow to other bodies.

Take two European issues where our perspective might also be different from Westminster. Enlarging Europe to bring in low cost, well educated countries like Hungary poses a direct challenge to Scotland's economy, so much more dependent on inward investors than the south-east of England (Wallace 1996). And there is the debate over monetary union, in part about market efficiency. The Governor of the Bank of England warned in Luxembourg last year about the price that will be paid for monetary union by some regions in unemployment, stagnation, migration and more financial aid (George 1995). The political debate is well underway at Westminster, but where is the debate in the regions about these regional effects? The Scottish Parliament will give us a regional voice in Europe and about Europe.

All these advantages, more or less explicit in the Convention's proposals, are attractive but perhaps not decisive. Two further points are implicit in what is the most important act of political decentralisation in post-war Britain.

By creating a region in the European sense of Catalonia, or Baden-Würtemberg, Britain will, at last, have joined the near-universal trend towards regionalism. Even centralist France has devolved. Regionalism will prove no more the end of Britain than Rhône-Alpes or Brittany is the end of France. But it also signals something else: the beginning of the end of centralism in Britain. So there, in the very act of political decentralisation, lies the biggest advantage for business of this reform.

Is there a link between political and economic decentralisation? Consider three examples:

- Last year was a record year for corporate merger and take-over activity in Scotland, causing many commentators to see a new spirit in the business community. But an examination of the list soon shows the hand of government: bus deregulation, ports privatisation and electricity. Scottish Power's take-over of Manweb accounted for half the value. Electricity was nationalised in 1946, by the Labour government which centralised control in London. Conservatives, responding to 'national sentiment' in Scotland, complained of the loss of Scottish control, and so when they were re-elected they created the South of Scotland Electricity Board in 1954 and gave responsibility for it to the Scottish Secretary. To that political decision, taken all those years ago, we can trace a good part of last year's take-over activity. The contrast with the recent centralist treatment of Scottish Nuclear is striking. It illustrates that centralism is part of the culture of the British state rather than one particular party.

- My second example shows centralism can take more subtle forms inflicting collateral damage. The BBC raises £500m in licence tax from the assisted areas of Britain, and spends most of it in London. This is much more than all the regional assistance put into these areas. The BBC takes 10% of its income but only 2% of its programmes from Scotland, thus hampering our efforts to share in growing media markets. Our meagre presence on the BBC networks means little spin-off for our important tourist industry. It was no surprise that last month the Scottish Office spent £0.5m on advertisements telling Londoners where Scotland is! Centralists don't make these connections.

- My last example is from my own company. Why after more than 70 years of reconstruction by the British Treasury have our regional economies across Britain still not recovered the capacity for self-sustaining renewal? We will soon have had longer in economic dependency than we had in ascendancy. In free markets, companies must innovate and adapt to survive. To make this possible all economies need a hinterland of established products and a frontier of new opportunities. When the founder of my company, David Auld, was active in 1860 his frontier of opportunity was on his doorstep: the company headquarters, the designers, buyers - in short, those agents of change, the decision makers. He developed his patents in nearby factories. He was a founder member of the same Society as Macquorn Rankin and Lord Kelvin who no doubt added to his Research and Development. It was an informal corridor culture. His patents well record adaptive behaviour. And his brothers hived off from head office not from a branchplant!

  But to-day, for the majority, perhaps 70%, of our regional economy, that important frontier is outside Scotland (Sir Gerald Elliot 1991). The growth of external control has externalised the frontier of opportunity. Initiative soon migrates too. This is especially damaging to small companies to whom we look for future renewal (Sir Donald Mackay 1995/6). It is no puzzle that our business birth-rate is so low despite the many success stories in Scotland (Crawford Beveridge 1996).

  Centralists understand the need for adaptive behaviour but not the practice. Sometime in the last 30 years they have become careless with the UK's own single market. They have heaped centralisation on top of the natural advantages of south-east England and the trends of integrating markets.

> Worse, centralists no longer wonder why the regions cannot renew themselves. There is instead a dangerous assumption of regional dependency. They opt for reconstruction by inward investment, making self-sustaining renewal even harder. They are bewitched by the economies of scale rather than the diseconomies of dependent regions.

I put this last example strongly because of its importance. These three examples show that there are strong links between economic and political centralisation, and thus good grounds to question the existing political arrangements within the UK.

If devolution ends what Mrs Thatcher's mentor, Professor Hayek, called 'the deadly blight of centralisation', our businesses' propensity to prosper will flourish in a way enterprise agencies can only dream of (see Jenkins 1995). No wonder businesses in Catalonia support devolution.

WHAT WILL THE REACTION OF THE REST OF BRITAIN BE?

The reaction is important, for anti-centralists need allies. Devolution to Scotland will bring them forth.

A less tidy solution than federalism will evolve within Britain's unwritten constitution. There will be devolution in a variety of guises - obviously to Wales and Northern Ireland. And there will be reform of the House of Lords including, if the Liberals have their way, a regional component.

Last year's report of the Trade and Industry Select Committee shows the strong demand for regional power in England. The Labour Party has set up a Commission on economic development policy in the English regions, and has published parallel work on democratic assemblies for the Northeast and elsewhere (Straw 1995). Inter-regional competition is set to rise not only in Europe but also in the UK.

London, already promised a strategic authority by Labour, has anticipated events. Labour local authority leaders and Conservative business people formed an alliance which now advises the Cabinet Committee on London's strategic development (Adonis 1996). They have their own civil servant nicknamed the Secretary of State for London. Was the Millennium exhibition award to Greenwich their first political success?.

We should not make the mistake of looking at a Scottish Parliament in isolation. It will be delivered over a few years into a thoroughly decentralist context (Gordon Brown 1992, 1995). There will be more British regions of all shapes and sizes capable of counterbalancing the centre, when acting in concert with each other. Only then will the tide of centralism turn to full ebb and all the advantages of this reform be felt in full.

This will not be interventionist planning, simply a new cast of mind in government which better understands the demerits of running Scottish ports from Whitehall or imposing an anti-regional airport tax or taxing a regional industry like whisky. Here are more few examples.

- After the last election Lord Younger (1992) asked the government to bring more Ministries to Scotland. But the government refused to move even the Oil Policy unit, one part of one Ministry, to Aberdeen to reinforce that frontier.

- Lord Tebbit suspended section 84 of the law requiring the Monopolies and Mergers Commission to consider the balanced development of regional economies, and this suspension has not yet been rescinded. The headquarters of more than 100 companies were merged out of the regions. Now the Director General of the Office of Fair Trading admits few benefits from such take-overs (Bridgeman 1996). He also warned 'that companies get big by being good not good by being big', thus undermining the argument so often used to justify take-overs in the regions.

- The lack of regional dimension in the privatisation programme is striking. BT, the Post Office and British Gas created 12 divisional HQs, not one of which is in Scotland. Is it really necessary for BT Scotland to be run from the Midlands of England?

TAX POWERS

Recently a majority of businesses in Scotland voted for devolution provided it did not include a tax power (Scottish Chamber of Commerce 1995). But is business right to reject the tax power?

During the 1979 referendum on the last Scotland Act, Lord Home, a life-long devolutionist, made what all concerned felt was the decisive intervention of

the campaign. He rejected the Act on the grounds that it did not have tax powers. He said 'representation without the power to tax is a recipe for political irresponsibility' (**The Scotsman** 15 February 1979).

His intervention shaped the work of the Convention and means that politically speaking the principle of a tax power is here to stay. It will temper the relationship with Westminster. Any unreasonable demand for extra resources from London will be met with the advice to use the power. Since PR will squeeze out extremists, that potential response will replace the talk of rancour between the two Parliaments with a more businesslike relationship. It will help concentrate the minds of politicians on just how important a particular piece of expenditure actually is. It will force the executive to control its spending with greater care in case a budget overrun causes an unpopular tax hike.

Which party will be bold enough to use the tax power? None yet. It will prove close to a hypothecated tax used only for specific purposes by general consent. But used or not the tax ought to be practical, bearing in some direct way on a majority of the electorate. This particular power should be about responsibility not redistribution

Varying income tax by up to 3p would yield £450m per year - exactly what the Scots spend on sweets and considerably less than the excess business rates which Scotland has borne over the last twenty years. But £450m does give some elbow room, at the margin, for it is also the size of the Scottish Enterprise budget.

Without the power the Parliament might, however unfairly, be seen as a talking shop. The electorate might then cast votes in a more emotional manner. Those who worry about the slippery slope might be oiling it by arguing for no tax power.

Lord Home was right. Tax powers will induce responsibility all round. We should keep a due proportion in the matter of tax and not lose sight of this effect. As to the question of which tax to give the parliament an influence on, the Institute of Fiscal Studies (1996) thought that a power to vary income tax was the best form it could take. If the current proposal can be bettered, let us make sure it is. There is, however, one other tax. Business rates raise more than three times the sum the regional tax power ever could. Giving what is now a national business tax to Local Authorities is not attractive nor effective under the new local authority structure. We should take up the Labour party's offer to review it and recommend it stays under politicians elected by PR.

THE BUSINESS RESPONSE

Business is in the rather awkward position of criticising proposals having declined the invitation to help draft them. Where else in our business life would we be so reactive. If a take-over hove into view we wouldn't be out of politicians offices! We should take the advice of Sir Bruce Pattullo (1995) and 'be a little pragmatic'. We are ready to be proactive with a Conservative Government, for example when Bill Hughes devised the concept that became Scottish Enterprise. Should we not also be pro-active with alternative governments?

All business sectors need to conduct, with some political imagination, a line-by-line analysis of the proposals, on four fronts: tax, rates, shared powers, and sectorial interests, forming a Task Force across business if necessary and go to the politicians with our solutions. We must remember that the trend towards careers in politics has made politicians of all parties (especially those without access to civil servants) more dependent on business for detailed input. That way we start at the right position and shape the outcome. We will be surprised at how far we get provided we neither endorse nor reject the reform as a whole.

The danger in waiting until the outcome of the next general election makes such action no longer 'too political' is this. Labour, having promised the Scotland Act within a year, will have to publish its Bill early in the new Parliament, long before any business committees have ground to a conclusion. As any lobbyist knows, the time to make a real impact is before the Bill appears. The Convention's document is in effect the Bill's White paper, which civil servants and opposition are already discussing. We must end our long absence from the political process, take an active part in turning problems into opportunities and thus avoid the charge of failing to lead.

SUMMARY

Time has not been on the side of the anti-devolutionists We can see that the status quo is not static: centralisation has defied a string of Scottish Secretaries. The companies they warned would go if devolution came, have gone anyway. The big inward investors like Chung-Hua have made their political risk assessments and come. Alarmism has clearly failed. Devolving administration alone is seen to be neither democratic nor accountable. Nor can it be in the long term interest of business that people generally should be discontented with the system of government.

Our major market in Europe has shown us that regional government is the norm not the exception. Strong regions are either a natural reaction to globalisation or a concomitant of it. Reform offers us more efficient, more democratic, more accountable government and a way of regaining the initiative in our affairs. As centralism recedes in the face of spreading reform, it will reveal more enterprise in Britain not less. It will prove to be a British solution to a British problem. Above all it will bring a new vitality to Scotland, certainly enough to respond to new opportunities.

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April 1996