Question of investment underlies Scottish election contest

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7 May 1999

What is the best institutional and political framework to attract investment? In the background of the elections to the new Scottish parliament, this is the issue that has dominated debate. The four main parties—Labour, Liberal Democrat, Conservative and Scottish National Party (SNP)—all agree that what really counts is how to increase the profits of big business. The differences between them are primarily whether this is best achieved through independence, or within the altered constitutional framework of the United Kingdom. Only the SNP propose outright independence, at some stage in the future.

Two months ago, the *Scotsman* newspaper hosted a debate in the Playfair library in Edinburgh between Alex Salmond and Donald Dewar, the leaders of the SNP and Scottish Labour respectively.

Appealing directly to business interests, Salmond noted the benefits of independence: "What is the key difference between devolution within the United Kingdom and independence within the European context? Well, one key difference is that a devolved parliament will control little over 10 percent of Scotland's total revenue-raising ability. In contrast, an independent parliament would control well over 95 percent."

He went on, "I'm a former economist of one of Scotland's major financial institutions. I know full well that the financial sector doesn't just trade in a UK-wide basis, or a European-wide basis of which we have a single market ... of 400 million people, but trades on a worldwide basis.... It doesn't matter where you're located but it's your ability and ingenuity to trade that counts."

The connection between control of state spending and global competitiveness was reiterated in the SNP's election manifesto:

"Scotland should be a fully employed, high value, high growth economy, capable of competing effectively in global markets and achieving a high standard and quality of living for all those who live and work in Scotland. Scotland can be such an economy, but we will need to recover full control over economic, fiscal and monetary policy in order to fully achieve such a goal."

Essentially, the SNP proposes that Scotland should not only have full control over the £15.8 billion of state funding which the new parliament will command, but a rejuvenated independent Scottish state apparatus, with a proportion of the entire UK's political, military and tax resources. On this basis, they claim investment would flood to Scotland, attracted by cheap labour, tax breaks, an educated work force and a relatively advanced infrastructure.

The other parties argue that investment is best attracted within the UK framework and that secession would both damage other British interests and undermine Britain's political weight in world affairs. During the final weeks of the election campaign, Labour assembled an alliance of business and the trade unions to campaign against independence. The unions were persuaded to drop any criticism of Labour's plans to encourage private financing of hospitals and schools, whilst a poll of business interests found that fully 75 percent opposed independence because its potential benefits were outweighed by the uncertainties inherent in breaking up the UK.

Both positions point towards a fundamental change in the focus of state spending. During the post-war period, when production was still primarily based within the nation state, a limited recycling of profits was expedient in two respects. Economically it provided a base of support for "national" industries whilst politically—through public spending on health, education and welfare—it ensured relative social stability. Within the framework of national production, the interests of the various regions were so intertwined that regional differences ceased to have any real significance.

Over the last decades, however, the development of global production under the hegemony of the

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transnational corporations has radically changed the situation. The struggle for international investment and a share of world markets has not only increased competition between nations; it has led to sharp struggles between various regions within a single country. They now have the possibility of plugging their economies directly into the world market, bypassing national government, and are less inclined to shoulder the costs of developing a national infrastruture.

Scotland wins or loses an electronics factory at the expense of Wales, or the North of England, and so on. State-funded investment agencies in one county bid against identical organisations less than 100 miles away. The resources they direct into this regional war—fought with low pay and bad living standards, tax breaks, and infrastructure projects—are the same resources once directed to moderating social inequality and spreading wealth around within the national environment.

This can be seen in the discussions over the rather abstruse subject known as the "Barnett Formula." Until 1976 social spending within the UK was allocated, in part, according to need. Scotland, for example, on account of its large geographical area relative to its tiny population of 5 million, its bad housing conditions, high levels of ill health and decrepit industry, received significantly more state spending per head of the population than the UK average.

In 1978 Joel Barnett, then treasury minister in the Labour government, proposed a formula whereby Scotland would receive around 10 percent of all UK social spending, Wales 5 percent and England 85 percent. Since then, the Scottish figure has varied between 10 and 11 percent despite having less than 9 percent of the total UK population. Subsequent population decline has meant that the latest figures suggest that, at £4,826 per head, annual spending in Scotland is 20 percent higher than the English figure of £4,049.

While not reflecting better living standards in Scotland compared to the rest of the UK, these figures refute the consistent nationalist claim that "poor" Scotland is "robbed" by England. However, the opening of the Scottish parliament will coincide with a "Barnett squeeze", in which the total resources allocated to the Scottish parliament will decline relative to the rest of the UK. Scottish expenditure on health, education, housing, transport, police, and spending on attracting inward investment will increase at the rate of only 1.4 percent compared to the UK total of 4.4 percent.

This will inevitably provoke demands for greater cuts in social spending in Scotland, and other measures to increase its competitive position. The same process will be repeated in England and Wales. Eyeing Scottish success at attracting investment, the North Eastern Constitutional Convention was inaugurated on April 17, with the intention of forming a regional assembly in the North East of England. Leading lights of the Convention cite the unfairly favourable treatment given to Scotland compared to the North East of England, where unemployment figures are comparable, if not higher. A North East Regional Development Agency began operation on April 1.

This is only one of a series of new agencies to be formed by the "Invest in Britain Bureau". The IBB was set up specifically to emulate agencies such as Scottish Enterprise and Locate in Scotland. The IBB advertises "economic stability, a deregulated and flexible economy, low taxation, a skilled and adaptable workforce." Their web site notes the UK's success in attracting investment, particularly from the US. The *Financial Times* noted that with the expansion of the European Union into Eastern Europe, grants for setting up and attracting investment will be both thin on the ground, and competition from former Eastern Bloc countries will become much more intense. A committee in the UK Treasury is to be set up to arbitrate on disputes between different regions in the UK, to decide who gets investment projects. The IBB's chief, Andrew Fraser, anticipated Treasury intervention on no "more than four or five occasions a year, in major projects of more than 500 jobs, when it comes to the crunch."

In addition, regional divisions are developing within Scotland itself. The relatively oil-rich areas around Aberdeen and the financial centre of Edinburgh are, according to the *Economist*, 60 percent richer than the poorer regions around Glasgow. The Shetland Islands have let it be known that they want nothing to do with an independent Scotland.

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