

# THE ECONOMICS OF INDEPENDENCE

**This talk and discussion held on 24.6.13 was introduced by Raphie de Santos**

**Raphie de Santos, economist**

From 1991-2008, in the absence of any major economic crisis in the UK, economics was not on most people's agenda. Then came the Financial Crash and the worst slump in the UK since 1848, with record levels of youth unemployment, underemployment and large cuts in people's income. Economics has become 'sexy' again, with people asking - Can my life be made better? Is there some sort of future?

Ed Miliband has going along with the Right in laying the blame for this crisis on public spending, saying the last Labour government spent too much. There is no evidence for this. Before the 2008 Crash the public sector deficit was £30B. It now stands at £120B. This is due to the cost of bailing out the banks, and the lower tax revenues. This is what happens when private profits are the motivating force in the economy.

A Radical alternative economy would be driven by democratically recognised needs, control over our own economy and environmental sustainability. What would a Radical government do? - 1. Restore the cuts, 2) Pay down the debt, 3) Take control of the major utilities, 4) Create a currency independent of the Bank of England and the Eurobank, 5) Devote public spending to housing, public transport and renewable energy 6) Fair and equitable taxes.

In contrast, there has been £5B cuts over the last 4 years, which amount to a 14% cut in the public sector, 20% if the ring-fenced NHS is taken out of these calculations. In Scotland there is an annual deficit of £12B, even if Scotland's share of North Sea Oil is factored in. In addition Scotland's share of the National Debt is £110B. Scotland is also the HQ to two of the biggest failed banks.

The SNP government's economic strategy for independence is based on taxing the privately owned North Sea Oil companies. SNP calculations are based on a high \$140-\$150 price for a barrel of oil. However, the price of oil is highly volatile, having shifted from \$110 to \$140 to \$40 and now back to \$110.

The reason for the current high price is due to geopolitical factors, especially the instability in the Middle East and the demand from the Chinese economy. This relatively high price won't necessarily be sustained.

The Radical alternative is to nationalise North Sea Oil in the Scottish sector. This would raise far higher revenues, than taxing private companies, especially when the SNP is pledged to a low corporate tax rate. The revenue available from a government owned North Sea Oil industry, when the price of oil was \$80 per barrel, would provide income to pay for welfare and to pay down the debt. Revenue gained, when the price was above \$80 a barrel, would go into a Reserve Fund, as happens in Norway. The interest from which could also be used to invest in new industrial projects. There is a 10-20 year window of opportunity for continued North Sea Oil revenues. This could be used to manage the transition to a new economy, one much more based on renewable energy.

A Scottish economy would still have to borrow money on the international market. However, if the government were in full control of the oil revenues, this would place an independent Scottish currency in a much better position than one where the oil revenues remained in private control and were much more subject to the volatility of oil prices. Actually the SNP government knows this, which is why it wants to stay in the sterling zone, so that its proposed Scottish economy would still have Bank of England financial backing to raise money when government revenues from oil were low.

The Unionists are able to make great play of the contradictions of the SNP government in this regard. The SNP wants backdated oil revenues, but not backdated Scottish bank debts. The SNP wants to remain in the sterling zone. Yet, the Bank of England would insist on stringent controls over the economy, to guard against the risks that flow from an economy based on oil with its volatile prices.

Recently a couple of economists who had worked for the SNP government have produced a critical paper for the Jimmy Reid Foundation. This lays all the blame for the crisis in Scotland on the Union. This ignores the role of Scottish based banks, which, in the case of the Royal Bank of Scotland, ended up with \$2500B of toxic assets.

More fundamentally though, the underlying economic crisis is a wider crisis of capitalism. This originated when the post war boom ended and profit rates fell. The capitalist response to this was privatisation, the shift of manufacturing to low labour cost locations, the move to service industries, and the massive expansion of banking and housing credit. This is what is responsible for the current economic crisis. Only a genuinely Radical alternative can deal with this.

A discussion followed with contributions from Alan, Allan, Ally, Alys, Brian, Ian, Liam, Linda, Mark, Moira, Pat, Paulo, Sarah, Sophia, and Stephen. A number of questions were asked and issues raised.

- 1) How easy would it be for an independent Scotland to set up own banks which could offer credit?
- 2) The issue of dependence on oil was also raised, particularly in regard to its destructive environmental impact.
- 3) A parallel was made with the SNP's version of independence and those BRIC countries which had pursued growth based on foreign investment, where the majority of people had seen relatively little benefit as social divisions increased. The current demonstrations in Brazil were given as evidence for this.
- 4) What were the possibilities of adopting the euro instead of sterling?
- 5) Despite nationalisation, was there still not a problem of having an economy based on volatile oil prices?
- 6) The continued dependence of the Scottish economy on the private sector for industrial skills that have been lost through deindustrialisation was raised.
- 7) The role of the creative industries, and their capacity to adopt more socialist approach to organising was raised
- 8) It was argued that there was a link between how the capitalist crisis was being addressed and the straitjacket the UK state set-up and the Unionist parties imposed on any alternative.
- 9) The benefits of mass housing were questioned, especially where this led to social segregation.

- 10) The importance of the demand for oil nationalisation was raised, along with the failure of the Left to expose the contradictions of the Better Together campaign and their promised austerity for years on end.
- 11) The importance of taking a gradualist approach was emphasised, with independence in 2014, a Radical government in 2016 and a 20:20 vision later!
- 12) It was asked what was wrong with the Jimmy Reid Foundation analysis?
- 13) It was argued that change was possible even within the system, and that the SNP had benefitted by defending certain social democratic gains. However, to go further we needed a socialist party for the future.
- 14) The importance of water as a resource was also raised.
- 15) The question of whether Scotland would have its own nationalised bank was asked.

Raphie gave the example of Norway and Switzerland that had banks that were able to provide credit. Norway's economy was also underpinned by nationalised oil industry. These two countries' banks had hardly been affected by the current financial crisis. He also said that he was very much in favour of a move to renewable energy, but that North Sea Oil revenues could still be used to finance this transition. Raphie thought it highly unlikely that any new independent country would be able to say in the EU without joining the euro. All new EU entrants were being told to make the transitional arrangements. The EU was in a position to be able to dictate the terms of entry. Raphie thought that the combination of oil nationalisation and the creation of a Reserve Fund would enable the Scottish economy to prosper. He also thought that now that there were large areas where Scotland no longer had the skills, it would be necessary to work with outside private companies that did have these skills, say on a 80/20 basis, so that these skills could be transferred to the public sector. He agreed that there was a positive role for the arts in a future economy, which could develop better working practices. Raphie also doubted the much vaunted managerial skills in the German state model. He said that Germany's current position was helped by an earlier cut in individual and social wage provision, and that any emphasis on worker productivity misses the point that THIS just represents greater worker exploitation.

## **2. Neil Davidson, contributor to *Neo-Liberal Scotland***

Many people's understanding of Neo-liberalism has been influenced by the work of Naomi Klein and David Harvey. Some see Neo-liberalism as an ideology or set of policies, pushed by certain institutions and free market think tanks.

However, Neil sees Neo-liberalism as representing a distinct change in the capitalist economy. This stems from the pressures of the economic crisis in the 1970's and the challenge faced by the capitalist class from growing working class struggles at the time.

The move to Neo-liberalism was based on the prior post World War II growing globalisation of the economy, with increased international trade, internationalisation of production and financial institutions (particularly in New York and The City of London) with global rather than national interests.

Before this globalisation most major national corporations were in favour of state intervention. It was small businesses that opposed it. However, in the new globalised world order, big business became relatively small, and adopted a similar hostile attitude to state intervention.

The trigger for the change to Neo-liberalism was the 1973-4 Oil Shock, but there was a deeper underlying crisis of profitability. It was in this context that **Vanguard Neo-liberalism** emerged. Such thinking could not have emerged from Labour or the liberal wing of the Democrats. It came from the Right. It was first tried out in Pinochet's Chile, after the coup 1973. However, Thatcher was the most significant figure in this vanguard phase, whereas Reagan was just a front man for other Right forces in the USA behind him.

In every case of Vanguard Neo-liberalism, the first feature has been big defeat of a significant section of the working class. For Thatcher it was the miners, for Reagan the air traffic controllers, in Italy the car workers, in India the cotton workers.

In the UK, the anti-trade union laws have rarely been implemented. Attacks were made on the miners by using much older legislation, e.g. on affray. Even today, picket lines still regularly have more than six (the legal limit). The central feature of the anti-trade union laws has been to scare the union bureaucracy away from mounting any fightback, fearing the loss of union funds. In taming the union bureaucracy, the anti-trade union laws have been overwhelmingly successful.

The second feature of Vanguard Neo-liberalism was to create mass unemployment as a deliberate policy to get workers to accept lower wages and poorer conditions.

The third feature of Vanguard Neo-Liberalism was to move production to new greenfield sites, e.g. Silicon Glen in Scotland and Silicon Fen in England; and from the Rustbelt to the Sunbelt in the USA.

Glasgow was effectively deindustrialised, 1 in 10 workers now work in call centres. There was an expansion of finance jobs in Edinburgh and jobs in the oil industry, particularly around Aberdeen. Aberdeen is the second most prosperous area in the UK. So, it is not true, to say that all of Scotland has suffered disproportionately.

Once Vanguard Neo-liberalism had become more firmly established, then some social democratic parties were prepared to undertake this role too. One of the most vicious Neo-liberal attacks occurred in New Zealand, under the Labour Party. In Glasgow, at a time when other Labour councils were still fighting for more government funding to defend services, the local Labour Party went along with accepting reduced state funding and tried instead to reorientate the city's economy on to the service, media and information technology sectors, at the cost of abandoning traditional industry. The social costs have been massive.

However, the Vanguard Neo-liberalism hit certain social and political barriers. This was highlighted by the Poll Tax revolt, followed by the protests against the Criminal Justice Bill. In response to this a new **Social Neo-liberalism** emerged in the form of New Labour. This accepted capital's already achieved economic gains, but opposed the Tories' social agenda. They offered support to particular oppressed groups, e.g. gays. This was actually pioneered in the USA under Clinton's Democrats, and is very much part of Obama's approach today.

Now, we have a reaction against this Social Neo-liberalism in the form of the Tory Right, UKIP, BNP and the Tea Party - or a return to Vanguard Neo-liberalism.

To understand the turn to Social Neo-liberalism, it is necessary to see the changes that have occurred in Social Democracy. Between 1917-45, Social Democracy was seen as an alternative reformist way to achieve Socialism; an answer to the revolutionary road promoted by the Bolsheviks. From 1945-70's, Social Democracy saw the achievement of a mixed state and welfare state as sufficient in itself, and its role was now to defend these or make some limited additional reforms. However, since the late 1970's, and the re-emergence of capitalist crisis, Social Democracy has seen its first job to be keeping the capitalist economy afloat, even at the cost of the reforms it originally implemented.

Today, they are prepared to go further still. Devolution is no longer seen as a means to defend certain old Social Democratic reforms, but a way of making communities responsible for implementing the cuts by devolving the axe. In Labour Hackney, voters are being balloted on what cuts they would like to make.

The SNP has been able to grow in Scotland by claiming to be the inheritor of second phase Social Democracy now abandoned by Labour. The SNP has been responsible for maintaining some of the older reforms abandoned by Labour at Westminster (and Holyrood too under Johann Lamont) and has introduced some limited but beneficial reforms of its own.

Furthermore, the Tories in Scotland have collapsed to the point they may never make a recovery –from 55% in the 1950's to 13% today. This is as large a collapse as that of the Communist Parties in Eastern Europe.

As a result of this collapse of the Tories, official politics in Scotland is considerably to the left of those found in England.

The new Social Democratic politics has been based on the growth of a new middle class. Unlike the supporters for the Tories, who are largely from private business and the banks, the new public sector and media managers were often appalled by Thatcher's social crassness. They have given their support to New Labour and thence to Social Neo-liberalism. Such middle class attitudes flow over into the trade unions, mainly through their officials, particularly in the public sector.

Many workers have remained cowed because they have taken on huge debts to compensate for falling wages. The low levels of profitability in industry has led capital to concentrate on financial products or fictitious capital, which as greatly encouraged this extension of debt.

The effect on society has been catastrophic too. Neo-liberalism has increased social fragmentation with more mental illness and greater criminality. There has also been a growing marketization of everything, including personal relationships.

One attempt to overcome this social fragmentation and marginalisation has been the far Right's attempt to bring people together on the basis of racism and homophobia. This is obviously something Socialists should oppose by promoting other forms of unity, which challenge the real class enemy and the system they uphold.

There are hopes. In Alan Bisset's article in Unstated, he points out how many of his friends, brought up in a Falkirk council housing scheme in the 1980's and 90's, bought into the Neo-liberal idea of upward mobility, consumerism and hedonism. Since the 2008 Crash, they feel cheated and realise their economic and social position has never really been secure. They

have a growing dislike of those who conned them. These are the people Socialist need to address.

### **Discussion**

A discussion followed in which Alys, Allan, Chris, Iain, James, Neil, Pete, Raymond, Ross, Sophia, Stuart and Willie contributed.

The issues covered were the importance of North Sea Oil - i) to finance Thatcher's Neo-liberal offensive (welfare benefits to cover mass unemployment, ii) the UK state's constant attempt to hide or underestimate North Sea oil reserves and their current or future value, iii) how compatible dependence on North Sea oil is with promoting a greener future, iv) what support there is for the nationalisation of oil, and who that would benefit (with different views being expressed), v) whether the capitalist class would tolerate either increased taxation or nationalisation of oil (with one argument that that an independent Scottish state would have the power to make these moves).

This led to a secondary discussion on the degree to which Socialists support nationalisation and the degree to which such measures benefit the capitalist rather than the working class (e.g. the current nationalisation of banks, which are in effect, under bankers' control).

It was also suggested that, unlike Thatcher, who concentrated her attacks on selected groups, whilst buying off others, the current Tory government felt confident enough to attack the whole class with its unfolding massive attack on the benefits system.

The issue of Scotland's relationship with the rest of the world after independence was raised. The Unionists have been making telling points about an independent Scotland's lack of control over its economic future if it adhered to the SNP's pro-sterling policy. The need for a separate currency and RIC's attitude to the EU was raised. It was argued that Scotland has enough wealth to make a success of independence.

Unionists concentrate their fire on possible short-term consequences, and ignore the increased financial, economic, social and human costs of remaining within the Union. The Unionists' dependence on the selfishness promoted by Neo-liberalism was also raised.

It was suggested that the independence debate seems to have gone off the boil. It was argued that RIC needed to put forward some key points which emphasised the need for a different type of society, including the raising of non-economic points, e.g. culture.

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Neil summed up by comparing today's situation under the Tories with the days of Thatcher. Instead of having the same levels of mass unemployment, there is now far more underemployment. Thatcher was smarter than Cameron, and indeed Socialists could learn something from her tactical acumen.

The Left's position had changed on the EU because the EU had more survivals of social market protection than still remained in the UK. However, that did not mean the EU was not pro-Neo-liberal. There are contradictions between big business in the UK, which wants to remain in the EU, and the growing Tory Right and UKIP, representing smaller business

interests, which want to leave. However, in the current climate of rising xenophobia and racism, the Right could win a future referendum, leading to the UK's exit from the EU.

Nationalisation has to be seen in context. Back in 1945 there were state capitalist nationalisations, such as the coal industry, undertaken for the benefit of other capitalist industries needing reliable energy supplies, and there was 'socialist nationalisation' like the NHS based on the principle of meeting people's needs (despite certain shortcomings).

The most significant gain from Scotland's independence today would be the challenge to the existing US/UK imperial alliance. Although the ruling class could live with the economic consequences of Scottish independence, it was the political consequences they feared, particularly the removal of rUK from the UN General Council, and the further unravelling of the UK

Neil argued there was a case for Socialists to adopt certain neo-Keynesian policies, e.g. to end fuel poverty, promote green energy, as well as calling for the abolition of the anti-trade union laws.

However, this raised another issue