

**Report of a Scottish Liberal Democrat
Just Economy Commission
September 2023**

LIBERAL PROSPERITY IN A SUSTAINABLE NATION

Chair's Introduction

In October 2021, soon after he became Leader of the Liberal Democrats in Scotland, Alex Cole-Hamilton asked me to chair a Commission on a Just Economy. He said "The Commission will, I hope, offer our Scottish party a reset of our economic policy which will create a more just and liberal Scottish economy that is fertile for business small and large whilst based in the values of Liberalism, social justice and sustainability."

I brought together a small group tasked with how we might develop our economic thinking. That group, consisting of Nigel Lindsay, Sally Robertson, Sally Pattle, John Ferry, Denis Mollison, Bruce Wilson and I have produced this paper for consideration and debate.

It argues that as a liberal movement we need to step up our campaigning for shared liberal prosperity in a sustainable nation. This will mean being champions for new liberties within a framework of justice in our economic and social life.

Jeremy Purvis
September 2023

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Members' Foreword

In November 2018, the United Nations Special Rapporteur on extreme poverty, an Australian academic, Professor Philip Alston, reported: "The UK is the world's fifth largest economy, it contains many areas of immense wealth, its capital is a leading centre of global finance, and its entrepreneurs are innovative and agile...It thus seems patently unjust and contrary to British values that so many people are living in poverty...Fourteen million people, a fifth of the population, live in poverty...Key elements of the post-war Beveridge social contract are being overturned."[1]

The statistics specifically for Scotland are deeply troubling. A report by the Joseph Rowntree Foundation showed that in the mid 1990s, 310,000 people in Scotland lived in very deep poverty, that is they had an income less than 40% of the UK median. That was bad enough, but by 2017–2020, that figure was 460,000.[2]

At the same time as hundreds of thousands more people have moved into deep poverty, the gap between the poorest and the richest society has widened. A report published last year by The Equality Trust shows that the number of billionaires in the UK grew from 15 in 1990 to 177 in 2022.[3]

In addition, the absurdly high levels of some executive pay-packets can foster resentment and unnecessary social division, while putting unjust levels of power and lobbying ability in the hands of a few people whose interests are different from those of the wider community. Scottish Liberal Democrat policy has for some years supported action against

companies where chief executive pay exceeds average pay by a multiple of 20 or more and we endorse that policy.

Across many advanced economies, the last decade has seen economic inequality grow as well as political populism. The era of ultra-low interest rates and quantitative easing increased the net worth of asset owners while those reliant on wages have not seen equivalent gains from central government support to financial shocks. At the same time a worrying growth in tax avoidance and major losses to the UK Treasury as a result means that for many the proper balance of taxation and wealth is out of justified proportion.

We have now entered a new era of difficult-to-control inflation, unstable supply chains and potential de-globalisation. Fresh thinking is needed to ensure the next decade is fairer and more economically just than the last. 'Every journey starts with a single step', and this report recommends some initial steps towards creating A Just Economy.

A liberal context

From the founding of the liberal political movement in the 19th century, Scots have been at the forefront of arguing for liberating, fair and socially just economic growth – for all people. Free trade balanced with good standards and fairness; innovation and entrepreneurialism tempered by a feeling of community justice have been the thread running through the movement’s approach from its very beginning.

From designing and implementing the early welfare state at the start of the 20th century to generational investment in education and skills in coalition government in the new Scottish Parliament at the start of the 21st, liberals and now Liberal Democrats have focused on enabling economic growth and development to have a wider social benefit: for individuals, community, nation.

Today we need to refresh our approach and this means finding a framework of policies which will encourage responsible and sustainable economic development within Scotland, while ensuring that these bring most benefit to people on modest incomes rather than to the super-rich. Our work is based around a Liberal understanding that the economy is not an end in itself, but a means of helping people throughout the country to reach their own potential. This is especially the case for the coming generation of young people, especially young women, in a climate emergency world where energy transition as well as seeking economic growth is both the challenge and opportunity of the times.

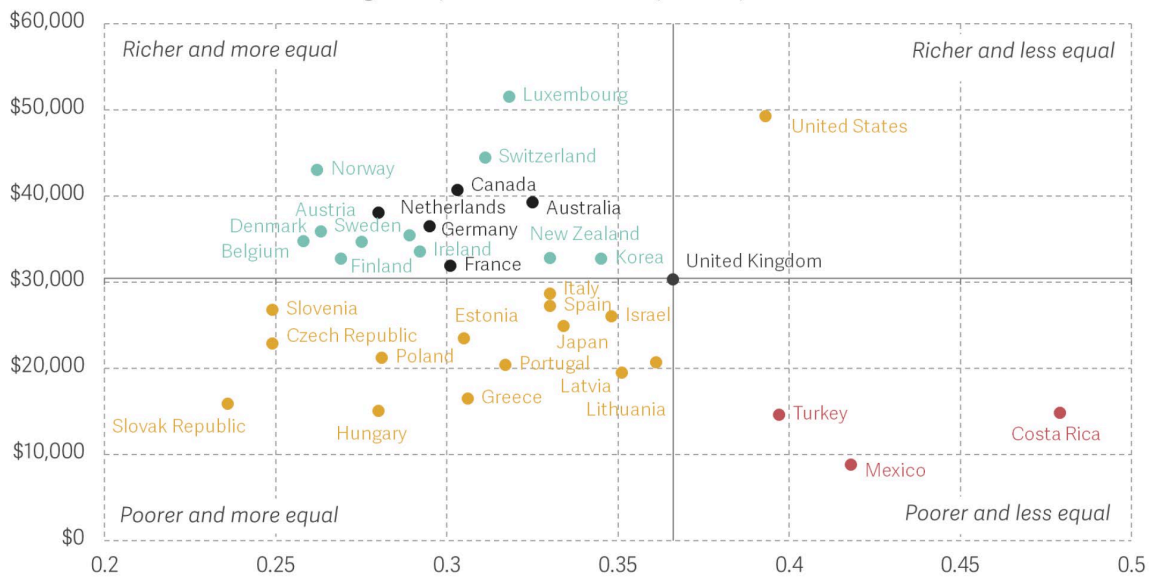
Our focus is primarily on Scotland, and actions which the Scottish Government can take to build a more just economy in Scotland. Because Scotland is not isolated from the rest of the world, our work inevitably considers also what needs to change at a UK and European level to enable Scotland to bring more justice to the way its economy works.

Rephrasing these positively, we find that the issues we raise in this report on food, health, education, housing and employment all feature prominently in the UN list of 17 Sustainable Development Goals.

The starting-point for our work must be an honest appraisal of exactly how restrictions on creating prosperity, supporting social mobility and creating a fairer and more just economy remain prevalent in Scotland and the wider UK.

Today the challenges of Scotland far outpace the uninspiring approach of the current Scottish Government and addressing them is hampered by erratic UK fiscal and economic policies.

Gini coefficient and average disposable income per capita: OECD countries, 2018



Notes: Income is equivalised and PPP adjusted.
Source: OECD, Income Inequality Database.

The UK's commitment to free trade, shaped over many generations by our movement, has been seriously damaged by a UK Government committed to the hardest of hard Brexits, regardless of the economic harm this does to our people and the restrictions on trade it places on business, small and large.

The re-emergence of high inflation in advanced economies, along with other trends such as de-globalisation and protectionism present a new and serious challenge for policy makers. The cost-of-living crisis is an immediate challenge that requires bold action be taken to alleviate it now, but in the longer term it also signals a need for new thinking on economic resilience. Strategies that aim to support sustainable economic development and more stable and fairer societies, by, for example, reducing inequalities, can play a role in creating a more resilient economy.

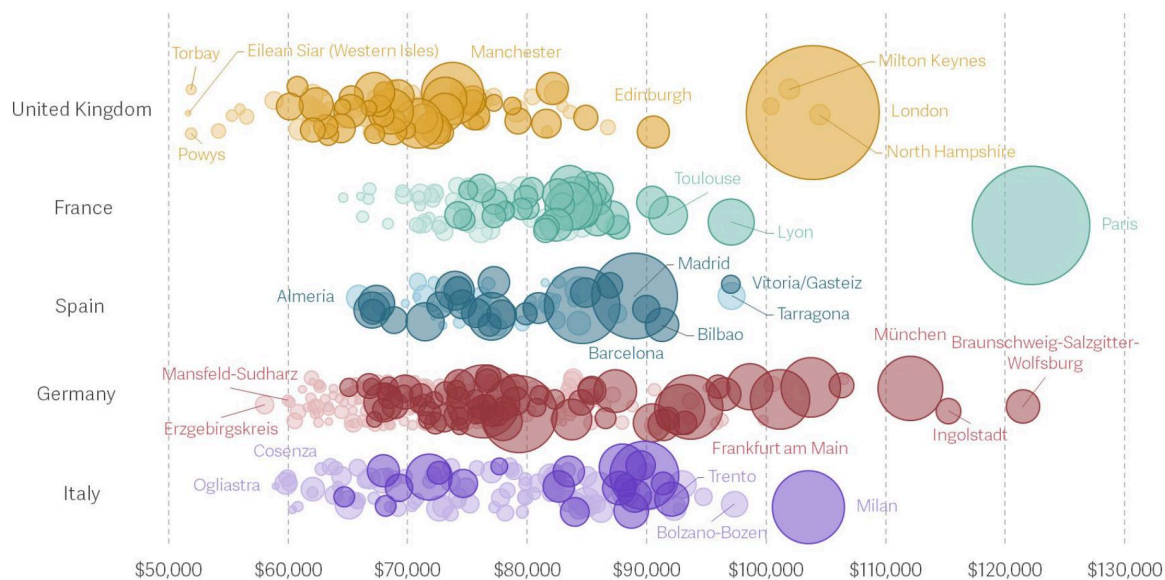
Our starting point is not one where we wanted to be, nor would have been with different policy choices. Using data presented

by the Resolution Foundation the UK finds itself in the wrong place when viewed by the Gini coefficient and average disposable income per GDP. [5] This widely accepted set of indicators show the UK as less equal compared to our near neighbours and key trading partners. This lack of equality is of importance for economic regeneration as much as social cohesion, as we discuss later.

When analysed further we see that the position of Scotland shows severe internal imbalances. The disparity between the Western Isles and Edinburgh is almost as marked as Torbay and Milton Keynes.[5]

The task for Scotland therefore is not simply to achieve economic development, but to ensure that it is done in a way that decreases rather than increases inequality. Later in the report we suggest some policy areas which may be the basis upon where we can move forward.

Gross value added (GVA) per worker by country and area: 2018



Notes: PPP adjusted. Spatial units are a combination of OECD metro regions and NUTS3 for non-metro regions. Metro areas are shown in darker bubbles in the figure. Bubbles are proportional to the number of workers in each region. Gross value added (GVA) is the value of a unit's outputs less the value of inputs used in the production process to produce the outputs. Source: Analysis of OECD, Regional Economy Database.

The task is considerable. Using OECD data, whilst the UK as a whole sits 25th in global life expectancy (81.4), Scotland is around 37th or equivalent of Estonia (78.9). Average income in Scotland sits at \$25,558 adjusting for GDP per capita whereas it is \$31,901 for the UK as a whole (the UK figures being distorted by the very high figures for Greater London and, for Scotland, Edinburgh). The UK has a tax level of approximately middle of OECD rankings and though Scotland has higher rates of income tax at the top end, lacklustre economic performance has led to smaller revenues from the tax base.

“Economic constraints are also on liberty and opportunity”
- Russell Johnston

The Beveridge Report of 1942 identified 'five giants on the road to post-war reconstruction' – “Want, Disease, Ignorance, Squalor and Idleness”. What are the freedoms against the giants we must now campaign on? We would

nowadays use the words poverty rather than want, and unemployment rather than idleness. Although the wording has changed, these issues are still as relevant today. Beveridge – who was Liberal MP for Berwick-upon-Tweed - identified the threatening giants correctly.

So we start by restating the need for a relentless focus on securing the time when no child in Scotland is born into poverty.

The other side of the equation is the need to ensure that child is born into an economy seizing the opportunities of addressing the climate emergency. Freedom from climate harm is our second freedom.

Our third theme is de-centralisation. Liberal Democrats have always believed in empowering individuals and communities. Yet at both UK and Scotland levels, there have been strong centralising trends in recent years. We consider what steps could be taken to reverse this illiberal trend.

Finally, we believe that the aim of a just economy can only be achieved when the public sector, the private sector, and civil society work harmoniously together in pursuit of agreed goals to reduce inequalities. In our report, we set out what some of these goals should be.

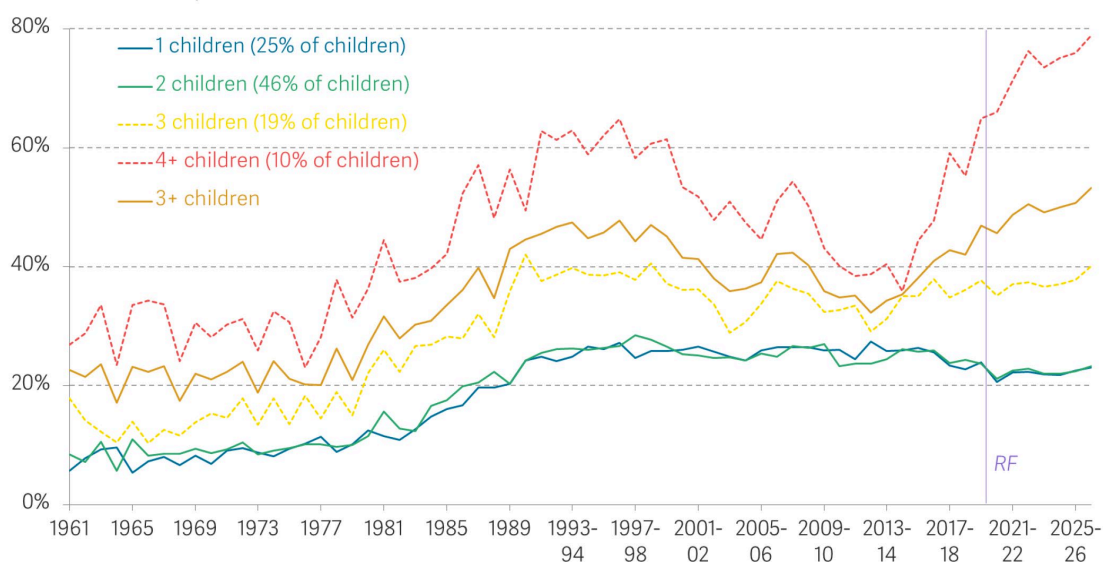
Freedom from poverty, freedom from climate

harm, freedom from restrictive centralism and freedom from stifling inequality. These are four new freedoms we need to secure. They are how we propose to frame new ambitions for Scotland. Within these new freedoms - which should underpin Scottish liberal economic policy - we need the policy responses to address them.

Freedom from poverty; bringing new policies for prosperity

In the context of the economy, we aim to liberate people from structural elements that hinder them from realising their potential — structural rigidities such as accidents of birth, poverty and prejudice. And we aim to provide individuals with the tools they need to be effective economic agents in a modern and changing economy, such as education and training of the highest standards. This is even more acute in larger families where economic pressures are even greater.[5]

Proportion of children living in relative poverty, after housing costs, by number of children in the household: GB/UK



Notes: Data source changes in 1994-95. GB from 1994-95 to 2001-02. Source: RF analysis of DWP & IFS, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and Bank of England and OBR forecasts.

Successive Scottish Government policies since devolution have helped in isolation, but without shifting the overall picture. Often early years and then school education policy has been hampered by uneven investment, administrative and bureaucratic reform and an aspiration from nationalist politicians simply to be slightly better in performance compared to England. This is not working as we see relative educational decline.

We need to see changes to education and skills policy to increase workforce participation and see our education workers as key to our economic success.

Stimulating inward migration to Scotland is

not just in our interest to offset Brexit challenges but also to ensure we have a growing workforce, and one where we focus on investment and training. With key sectors already unable to find the staff they need, and an ageing population, Scotland needs immigration for our businesses and public services to flourish, from our farms to our NHS. A forward looking national workforce plan will respond to the post-Covid changes to the economy and ways of working. It would also allow for proper debate on the proper balance of risk/reward between worker and employer, investor and entrepreneur.

We should be far more prepared to back innovators, and absorb risk, but insist that

injections of public money require that these should benefit stakeholders as much as shareholders with the aim to link reward more closely to effort. Scotland now needs a gendered innovation policy where all the direct and indirect investment levers are pulled to support female participation in the private sector workforce. A feminist investment policy will begin to address the structural elements in Scotland which have meant that female entrepreneurs have been unable to realise their full potential.

This helps improve the living standards of most people as well as encouraging innovation, risk and reward. Scotland has historically been seen around the world as an innovative nation but at present, regrettably, it is not. This is particularly important for market sectors such as scientific research, artificial intelligence open source coding, pharmaceuticals and life sciences. A feminist investment policy will start to redress the balance whilst recognising it is in our collective interest for promoting prosperity. We need to ensure that we implement many of the Rose Review recommendations for Scotland.

Globalisation has liberated so many, but regrettably elements of the gig economy, such as pseudo-self-employment, exploitative zero-hours contracts, lack of holidays and pension contributions have locked too many into poor working conditions. This needs to change as they are, in too many instances, inhibitors to individual prosperity and productivity. Regular government productivity reviews across all sectors need to have supporting individual prosperity at their heart.

As part of this process we also will need to reinvent the Scottish high street and level the playing field on which physical and online retailers compete. Reform of business rates

could be a platform for growth and ensure they get a fair deal. Shopping is now just one part of our town and city centres and innovation planning policy and business support should focus on making them interesting, rewarding, sustainable and accessible places to visit. A strong high street makes for a strong community.

The 'race to the bottom' for prices with online retailers & supermarkets has led to real harm for producers and those involved in contributing fairly to how the circular economy could be run efficiently. Producers and manufacturers, particularly food producers involved in farming and fishing, have been disproportionately and negatively affected by recent shocks such as Brexit and the war in Ukraine. We would seek to ensure these vital contributors are paid a sustainable amount for their products.

We want to see companies and organisations be forward-thinking in how they provide the best working environment for their staff, helping to retain and recruit talented people. Both employers and employees benefit from flexible workplace policies and respect for a health work-life balance. Staff who are happier are more motivated and creative.

It is why we also want to see the evidence built up around reforms to working practices, and how they are protected. For example we retain open minds on four-day weeks which can have benefits including increased productivity, reductions in work-related stress and sick days, reduced childcare and commuting costs, and a better work/life balance. Prosperity is not just about the entrepreneur who can become a significant wealth creator, which we encourage, but also the individual worker who can make greater gains from their labours.

We argue for the expansion of apprenticeship schemes, especially in energy, education, health, care, hospitality, and arts and sport. Over a five year 5 year period we would see people's earning power increase by improving skills.

We want to restore further education college places that have been cut under SNP administrations. This has been short sighted and we are seeing now the impact. Colleges support the broad economy, and those who 'peaked' later in life, or desire or need career changers. This cannot be done immediately but over a 5 year period we want to see colleges restored to their proper place in our economy.

Our world class universities are perhaps the best shot we have to be at the forefront of the technological breakthroughs that will deliver high wage, highly skilled jobs across Scotland. Widening access will mean that these opportunities are open to everyone. They must be robustly funded in order to retain the competitive advantage and expertise that has been built up over centuries, be accessible to everyone no matter your background, and resolve the problem of the cap on places for Scottish students.

Over the last decade the proliferation of economic bodies or political structures for economic development have become deeply confusing. Under the guise of simplification there is now more bureaucracy and duplication than ever before. We argue to reduce the lengthy list of national agencies, strategic boards & Scottish Government economic strategies, to be replaced by a single Scottish Economic Commission delivering strategy. Local agencies and enterprise bodies, which are dedicated to the success of their communities and locally

accountable, will be empowered to make a difference to their areas through support, advice and funding. This should also have at its heart the ways our key sectors are supported but should also secure equal benefits for businesses in rural communities.

During our considerations the UK-wide Liberal Democrat Business and Economic Council were also discussing what they considered to be the immediate priorities for the British economy.[6] We endorse their recommendations as outlined in the Annex.

We want to see a major shift towards encouraging greater business investment in Scotland. We fall behind other parts of the UK, and the UK falls behind comparative nations. Government is a partner and facilitator and our approach on the first freedom is to create the conditions whereby business wants to invest more because they know government is investing in their priorities too. In addition to our proposed feminist investment policy we want to see a comprehensive Scottish Industrial Strategy linked with reformed subsidy and procurements policies which are aligned with it. The current approach is far too fragmented and recent poor political decisions in these areas are testament to it.

Finally, we need to unleash and harness the talents of disabled people in our economy through a reframing of the government's approach. Too many disabled people still need to fight for rights. Too many government initiatives view disabled people as recipients of support rather than producers, innovators, consumers and workers in their own right. We favour a deep policy review led by disabled people to identify and then systematically remove barriers to prosperity for disabled people in the Scottish economy.

Freedom from climate harm; bringing a sustainable Scotland

In keeping with basic Liberal Democrat principles, we should look for climate solutions that involve the public at the most local level possible – communities and individuals. We should recognise at the outset that the greatest environmental damage is caused by those with the greatest wealth and incomes. Large and well-heated homes, big cars, and long-haul flights produce carbon emissions far beyond what lower income people can afford. The tax system needs to reflect this.

Individual action alone will not solve the climate crisis, and so changes in government and economic policy will be needed to bring about lasting change.

We recognise many thousands of jobs in Scotland, directly and as part of the supply chain, depend on the fossil fuel industry. Moreover, our entire economy is dependent on fossil fuels in one way or another and will be for some time to come. It is seeing transition as an opportunity which will be key. We believe that bringing forward investment will pay dividends in terms of reduced emissions, the early adoption and development of technologies, and the creation of green jobs.

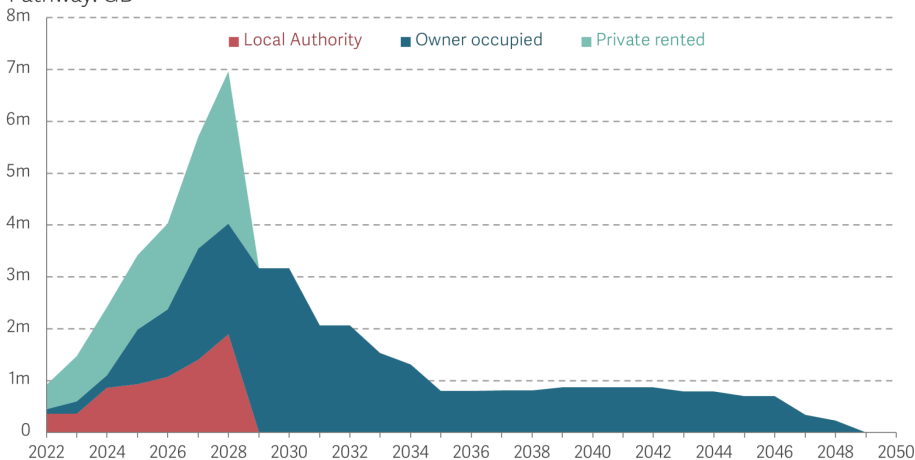
We must therefore outline explicitly the types

of jobs we expect people to move to, as well as how we will enable them to do that.

We must be clear what our energy sources are going to be for the next 20-30 years. This will necessitate help for people to afford to move to low consumption heat pumps and other sustainable solutions when many can't even afford to heat their homes in winter. We need to support measures that will encourage us – via a just transition – to make choices that reduce our carbon impact. This needs to include fiscal measures that will make the burning of carbon financially unattractive and increase the viability of alternative technologies. We need to continue to invest heavily in Research & Development for innovative non-carbon energy solutions.

[7]

Forecast annual energy efficiency installations in residential property by tenure in the CCC's Balanced Pathway: GB



Poorest fifth of home owners have disposable income of around £9,100 a year

They face an average upgrade costs of around £8,600

Notes: Efficiency investment and installations in line with the CCC Sixth Carbon Budget Balanced Pathway assumed. Imposing PRS regulations later, as media reports suggest, as well as continued lack of support and incentives for local authority and owner-occupied properties would see a different route to achieving a well-insulated building stock.
Source: Analysis of CCC Sixth Carbon Budget data.

We need to turbocharge the process of insulating Scotland's housing and make changes that will see Scotland live up to the promise of becoming a renewable powerhouse. We recognise that initial outlays will often be rewarded with lower long-term costs.

The opportunities of green jobs, such as the workforce required for the massive programme of retrofitting homes and businesses for the climate emergency, will require government and business investment. Training must be coordinated and accelerated so that industry can access the skilled workforce needed to conduct this critical work.

There is an urgent need for changes to building regulations so that all new properties are built in ways that are appropriate to new climate conditions. The expectation should be that they insulated against the cold, capable of generating electricity through solar and that they slow the run-off of rainwater into saturated systems that have become reliant upon discharging sewage into rivers.

The process of insulating and retrofitting climate-friendly heating systems must be determined and methodical throughout Scotland. We advocate a street-by-street and village-by-village approach, reaching out to ensure nobody misses out. Finance, approvals, advice and information on trusted installers must be fast and accessible.

Consumers should be helped to make choices for the long-term at key switch points. Government schemes should be capable of responding quickly. For instance, there are government schemes to help people change their boiler to a greener heating system, but none that are capable of helping people in the event that their boiler breaks down, which

makes the purchase of a new one with a 20-year lifespan inevitable.

We feel Scotland has far too low an ambition on insulating social housing and retrofitting on sustainable technologies. A more ambitious programme would, in the medium term, protect lower income households in social housing as we have seen how exposed people have been to the energy price shocks in recent months.

We need a green industrial revolution to boost wind, tidal and solar power. It will make our energy supply more resilient, put us on the path to net zero and cut costs for households long-term.

There should be a solar canopy which realises the reported potential to produce 11GW from roof-mounted solar PV – nearly a third of Scotland's current electricity needs – up from 410MW currently.[8]

We need to quickly drive down reliance on fossil fuels. Every new home built with a gas boiler and every new car running on petrol only lengthens demand. There must be a phasing out of the traditional oil and gas industry hand-in-hand with concerted demand reduction, the expansion of renewables in a manner that guarantees security of supply, and real jobs for the workers that fully utilise their engineering expertise and transferable skills.

We also believe there is insufficient thinking in Scotland in building local circular economies: regional and seasonal food specialities, more locally-owned businesses, and keeping business profits in the local economy. We support the concept of 20 minute neighbourhoods, building local living into how we plan and invest in communities.

Liberal Democrats were the first to call for a windfall tax on the super profits of the energy giants. We could not understand the delay and why others moved so slowly (then albeit partially) as companies were making profits from activities they did not create and additional profits were unjustified. We argue for this to be looked at now as there may be longer term opportunities to look at predictable supplemental charges on unjustified profit from unearned activity which could then be invested in the wider economy for the longer term.

It is clear that where sensible policies like the plastic bag charge and bans on harmful single use plastics are implemented, it is possible to change our waste culture. Penalising waste is not only sustainable but if it is done in a circular way we can use resource to support organisations and companies who are instead being innovative in sustainable manufacturing and usage. Scotland must build up its processing infrastructure and capacity to take responsibility for Scotland's waste mountain, reducing the export of recyclable waste and ruling out the offshoring of non-recyclable waste.

The climate emergency means we have to shift our state investment into addressing the

challenge of net zero, backed by a powerful Scottish National Investment Bank focused on ethical, sustainable and renewable businesses and technology. Sitting under the National Economic Commission strategy it will be a lever through which we can focus investment to what will have a long term and sustainable return.

The only thing the SNP would change about Air Passenger Duty is the name. Aviation taxation should increase as people fly more and fly further. The imperative to tackle the climate emergency should mean that this is reformed by the next Scottish Government.

Future financial support in agriculture should be built around the principles that it will encourage active farming, promote environmental sustainability and restore biodiversity, support profit and employment, enhance critical mass in the supply chain and associated industries to increase the processing of food within Scotland and reduce food miles, and fully support the vibrancy of rural and remote communities. Farmers' commitment to environmental stewardship should be rewarded and agricultural businesses helped to make investments that will rapidly reduce emissions.

Freedom from restrictive centralism; bringing new connected communities

There are some aspects of government which are best done centrally – setting the rate of VAT, combatting money-laundering, cyber security and establishing national standards of health and safety, for instance. But governments both in the UK and in Scotland have taken too much power to themselves and this trend now needs to be reversed. We believe that our economy is more likely to thrive where decisions are devolved to the lowest practical level.

In keeping with long held Liberal Democrat principles, we should look for solutions that involve the public at the most local level possible – communities and individuals. Power is safer when it is shared.

The Council Tax system is in desperate need of reform to ensure it reflects the current realities of the UK property market. There are people eligible to vote who weren't even born when reform was promised by the SNP. In the expectation that no meaningful reform will occur in the remainder of the current Scottish Parliament, reform will be all the more urgent post-2026. We support the replacement of Council Tax and a shift to a land value based system which does not penalise homeowners for making their homes more environmentally friendly.

While he was Leader of the Scottish Liberal Democrats, Willie Rennie commissioned research (funded by the Joseph Rowntree Reform Trust) on new ways of paying for local government. That research identified methods of taxing land and property to fund local council expenditure. We should adopt such methods as a way of moving towards greater taxation of wealth.[9]

The current system of non-domestic rates is completely outdated – we are operating a Victorian system in the 21st century which is

not fit for purpose. We support a land value element for this new tax to avoid penalising businesses which improve their properties or install renewables.

All too often the flipside to this is that multinationals in the internet age do not pay their fair share of tax, thereby not contributing to the communities from which they are profiting so massively. By working in partnership together with our European neighbours, as a market of hundreds of millions of customers, we can ensure the tech giants and multinationals play by the rules, pay their fair share of tax, and allow for small businesses to innovate and interrupt their market dominance.

When it comes to business support packages, businesses do not want last-minute rescue packages (well-meaning as they are) as we lurch from crisis to crisis, but rather predictable and sustainable support in areas which will help generate growth.

For many communities public transport links are the essential means by which the economy functions. If we are to move away from reliance on cars, public transport must be accessible for all. It is also notable that those employed in sectors who have easily transitioned to working from home are typically those who can best afford public

transport. The recent rail strikes didn't hit white collar workers the most, but care workers, hospitality workers and those in the retail sector - those that have no choice but to travel to work. This shows how reliant the lifeblood of our workers is upon transport and we must now have a re-energised approach to public transport in Scotland.

Accessible, affordable and reliable transport is key to our economic future and is an area which needs considerable attention. Electrification of all inter-city rail routes in Scotland and upgrade of lifeline services will assist in this.

For Scotland's most remote communities and islands, core connectivity is essential for sustaining businesses, maintaining populations, accessing public services and equality of opportunity. This should be transformed through new measures to strengthen island resilience, a reliable new fleet of greener ferries and fixed links such as short tunnels. We recognise that this is also in the national strategic interest, given their contribution to food, tourism, the United Kingdom's space sector and more.

A national card open to any citizen to buy that allows unlimited travel on public transport for a nominal monthly fee is being actively explored in competitor nations and they are finding it lowers commuting costs, allows for more flexible working, and will boost rural communities. Scotland should learn from the best schemes around Europe. However, both public transport and cheaper fares offer little in the way of freedom if it isn't reliable or doesn't go where and when you need it. It is why we need to build up public transport routes through new railway lines and stations and by putting communities in charge of when and where buses go by adopting the Transport for London model.

Our transport support system in Scotland is complicated and we would look to streamline as well as expand. Scotland has been lagging behind other parts of the UK on the use of smart technology and open data for empowering customers. So much of the Scottish transport system is still designed around rigid contracts, focused on government policy or company profit. We need a wholesale shift towards empowering transport customers.

Policies aimed at economic development outside the Central Belt need to be given priority. Government spending needs to help our rural communities and small towns survive, just as much as it needs to help cities thrive. Superfast reliable internet and better transport links need to be central in building a more just economy. This will re-invigorate the Highlands and Islands, the Borders, and rural central Scotland. It will spread wealth more fairly, beyond the centre of gravity around Edinburgh/Glasgow and the east coast.

Communities should be encouraged to apply for further powers, with legislation capable of meeting the appetite and ability to take on additional responsibilities.

Across Europe there are examples of local mayors and councils, serving populations far smaller than the vast majority of Scotland's councils, capable of delivering change for their communities. There are opportunities therefore to strengthen local decision-making in partnership with local councils. Community councils should be reimagined with the freedoms they need to innovate and serve their communities, recognising their status as the closest form of representation and participation. Local development trusts must have a stronger voice in representing the needs of local economies and supporting local innovation and entrepreneurialism.

Budget overruns and delays have become the hallmark of the SNP's mismanagement of the ferry construction programme. It has been a disaster for the Scottish Government's reputation for good procurement.

Communities should get a meaningful say on the solutions being offered to them through procurement and all processes must be independent, demonstrate integrity and professionalism, and free from the kind of political interference we have seen in recent years.

There needs to be a much more transparent monitoring and publishing of the balance of spending in urban compared to rural areas, and we need to redress the balance as necessary. The accepted means by which relative need is determined is of course necessary to ensure pockets of deprivation are supported but in many ways rural communities are left without the same level of government direct support that their urban counterparts receive. Addressing this issue will not mean reducing direct support for the most deprived postcodes but it would mean that we now adopt a clearer way of capturing the factors which hurt the rural economy in particular, and then allow us to address them.

Our economy and society continue to suffer the damage of the Conservatives' hard Brexit. The best future for Scotland and the whole of

the UK is one that walks in step with our European neighbours. It is why we have forcefully challenged miserable attempts to compensate for that and the dampening effect it has had on individual rights, the economy and our public services. We must continue to make the case for closer ties with our European neighbours. We now seek the closest possible alignment between the UK and the EU, including the maintenance of strong trade, educational, health and scientific co-operation with the EU. These should form part of a roadmap towards re-joining the EU and initially re-joining the Single Market and Customs Union.

Scotland has to have a global economy. It is extremely vulnerable to the damaging impacts of Brexit and now further constrained by the UK Internal Market Act. We need to retain EU and international standards wherever possible. Businesses that want to export and those with customers/suppliers in the EU and those importers would find this approach easier to understand, even in the more complex trading environment. When making regulatory policy the Scottish Parliament now needs a special process to consider the trade impact. A proper trade impact assessment on domestic regulations would shift our mind towards making our traders' lives easier.

Freedom from stifling inequality; bringing new social opportunities

An active state has a crucial role to play in achieving these aims, but well-run and organised markets are also critical. Liberal Democrats are liberals, not libertarians. A society completely free of state organisation would be unjust, as monopolies of power, influence and wealth are interlinked and restrict the freedom of the individual to realise their potential and personal fulfilment, while negative externalities would destroy our environment. But equally, an overbearing state creates rigidities and inefficiencies that also prevent individuals realising their potential. Liberal Democrats seek to balance these elements to the benefit of individuals and wider communities.

We want to see a radical expansion of early learning and childcare and post-maternity/paternity provision. This will improve the economic opportunity for parents and women in the workforce. It will also have a beneficial effect on opportunity for those in less affluent areas, rural areas and those with bigger families. This will of course require significant capital expenditure on provision of hours at both public and private level over 2-4 years but we argue it should be a budget priority. Returns on early investment are now well established. It will remove barriers to parents returning to work, should they wish, and generate tax revenue. Provision must also be flexible and accessible for those currently outside of the labour market and who work irregular hours.

High investment in education and keeping people in work helps maintain a high tax take. Policies such as parental leave, subsidised full-time childcare supported by government rather than private industry helps even the playing field with large and small companies. Nordic nations consistently spend more per head on early years. It ensures people's careers grow as opposed to stagnating due to childcare commitments and results in higher returns from income tax.

It is more common than ever for people to have multiple careers, either concurrent or sequential. People of all ages must be given the opportunity and means to train and retrain to acquire the futureproof skills they need, boosting Scotland's credentials as having an adaptable and well-educated workforce. They should have guarantees that they will have enough to live on while they endeavour to rise to their potential and establish rewarding careers.

As Scotland takes over a raft of benefits powers from the UK Government, it is notable that whilst many Nordic countries have more generous benefits they never consider themselves states which simply provide state aid and do not encourage wealth creation. Generous benefits are coupled with a strong social contract between government and governed, and this goes hand in hand with innovation and business investment.

Scotland has a considerable social mobility problem. Despite higher public spending per head the outcomes for Scots are worse across the board. To look at the rates of government spending between countries, Iceland spends 43.4% of GDP vs 40.3% in the UK not accounting for higher spending in Scotland. The differences in spending are not as stark as

one might expect. Where the money is spent matters. So with fairly comparable state spending, mobility is not considered a priority within it. There is now ample evidence that wealth creation comes with social mobility. This now needs to be a major focus of all the elements in our report, especially on the climate transition and feminist investment policy.

Social mobility allows for all life development. Instead of just going to school, college and university in order to learn individuals will be equipped to design their own learning environments based on a mixture of academic, social, and physical requirements.

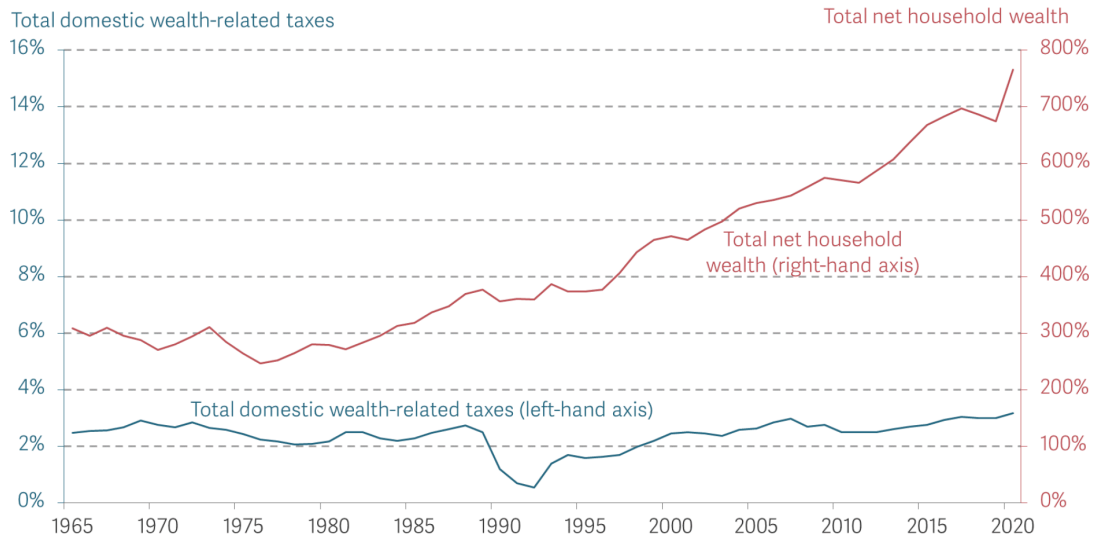
Schools, colleges, and universities must be considered not only the places people go to be taught but also the places they go to learn how to learn, and to learn how to think critically. Teachers and lecturers need the freedom to help people learn. Much learning will be delivered in virtual reality classrooms offering people the opportunity to meet people from across the world who want to learn what they want to learn at the level they are capable of learning. Scotland should lead the way in provision of these VR settings and supported learning structures. Learning will change from being a pre-packaged, age

specific, time specific 'off the peg product' to being 'made to measure for ever'. This means our education services are far more aligned to how the private - and increasingly how the public sector should – see workforce development.

After more than 5 years of being responsible for very considerable taxation powers the Scottish Government has been unwilling to engage in wide public debate about how our system can both provide for fairer treatment but also encourage sustainable economic growth, development, innovation and entrepreneurialism. Raising top income tax levels and bringing in higher council tax rates by themselves do not equate to growth. Equally, legitimate economic growth activities can be encouraged through the Scottish taxation system both to take more people out of tax and also incentivise economic activity.

The Scottish Fiscal Commission needs to be resourced to inform the debate on shifting tax from income to unearned wealth (including land & property). It should now be a priority for securing resources and redirecting state support towards entrepreneurialism and education investment.

Total wealth and wealth taxes as a proportion of GDP: GB, 1965-2020



Notes: Estimated 2020 value calculated by multiplying the value of wealth as a proportion of GDP from the Wealth and Asset Survey by the growth rate in this value found between 2019 and 2020 in the National Accounts.
 Source: Analysis of D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics 9, 1999; ONS, UK National Accounts, ONS, Total Wealth, Wealth in Great Britain, ONS Gross Domestic Product at market prices; Current price: Seasonally adjusted £m; OECD, Details of Tax Revenue.

[4]

We argue that progress needs to be made for payment of a real Living Wage and while this is being implemented we should ensure the payment of the real Living Wage is a condition of procurement contracts and grant-aided projects.

The emergence and rapid development of artificial intelligence will require new partnership between government and business. Scotland and the UK should seek to show leadership in how we manage and use new technology so that it is developed and deployed ethically, wealth is shared and opportunity is spread. This will be even more important in the new age of advanced machine learning. A fit for purpose Scottish artificial intelligence legal framework, acting

alongside the UK, is now a pressing need. Liberal Democrats have a key role to play to ensure that such regulation is both liberating and also protective of human rights and freedoms.

We endorse the federal party's proposals on ending deep poverty, including a radical overhaul of the welfare system so nobody ever has to use a food bank. After immediate steps to repair the safety net including restoring the £20 uplift to Universal Credit and introducing emergency grants (not loans), there must be fundamental reforms that would introduce a Guaranteed Basic Income by increasing Universal Credit to the level required to end deep poverty within the decade and remove sanctions.

Conclusion

This paper was never intended to be a fiscal plan nor a prescriptive macro-economic blueprint. Rather, it sought to be presented to our fellow party members, councillors and parliamentarians to help them make economic policy, within a set of guide rails on the areas where we believe we need to campaign.

There exist in Scotland too many inhibitors to the individual meeting their own economic potential. Some of the barriers are hardwired into the way our economy operates and they need to be tackled in a systematic way. This can be seen in our suggestion of a feminist investment policy and a radical shift towards supporting communities where people live and will want to work. Other areas are a result of successive government policies which have not brought about results we want to see in productivity and performance. This is why we need a sea change in opportunity investment. And finally, we know that external factors, most pressing of all the climate emergency, will mean we need to frame the response to the threat as an opportunity for economic development.

Freedom from poverty, freedom from climate harm, freedom from restrictive centralism and freedom from stifling inequality. These are four new freedoms we need to secure. They are how we propose to frame new ambitions for the economy of Scotland and the role each person plays within it.

The members of the Just Economy Commission were:

Jeremy Purvis (Chair)

John Ferry

Nigel Lindsay

Denis Mollison

Sally Pattle

Sally Robertson

Bruce Wilson

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Annex

EXTRACT OF THE LIBERAL DEMOCRAT BUSINESS & ECONOMIC COUNCIL BUSINESS PRIORITIES PAPER (FEDERAL) THE FOUR KEY BUSINESS PRIORITIES

Creating a business climate to drive investment and growth. Liberal Democrats believe that basic principles of stability, pragmatism and integrity are essential for business confidence - and so does LDBEC. We believe that stable economic policy, led by evidence and not ideology, and where corrupt practices are not tolerated, are essential for boosting investment and driving up the UK's productivity. We argue that a focus on creating a new, stable business-friendly climate is long overdue.

Supercharging the technology-enabled green economy. Technology investment and innovation must be at the heart of a new economic approach and LDBEC recommends a target of boosting Research & Development spending to 3% of GDP. Within that shift, we strongly believe in the need to focus industrial strategies on the green economy, especially new technologies and sectors like the hydrogen economy, cabling manufacture and storage technologies. These industrial strategies can focus on regional innovation clusters to drive prosperity and jobs in less prosperous communities in the UK's nations and regions. We recommend focusing on scaling-up key green technology and infrastructure - partnering especially with energy intensive sectors and SMEs to deliver net zero industrial and commercial investment. For lower energy bills for consumers, a new long term strategy for home insulation, retrofit and home-based renewable energy generation is urgent. We propose establishing an independent Net Zero Delivery Authority to oversee the

implementation of such a long-term, stable approach to our new green industrial strategy.

Empowering small businesses to create prosperity in local communities. The Liberal Democrat commitment to competition and enterprise is particularly demonstrated in their long-held support for small business and self-employed people. We believe the party's traditional strength here needs to be developed further, with a specific focus on communities, high streets and technology. We recommend a new strategy to place small businesses and entrepreneurs at the centre of reinvented, vibrant high streets and communities, with a new network of community business exchanges. The strong Liberal Democrat local Government presence could help trial a network of business exchanges, working in partnership with their local SME communities. We strongly support Liberal Democrat proposals to replace business rates with a fairer commercial landowner levy, as a key way of reviving the high streets. The successful Regional Growth Fund introduced by the Liberal Democrats in Government should be revived, with a focus on turbocharging local business support services. We would also use the new subsidy legislation to co-invest with SMEs to enable them to grow.

Restoring the UK's reputation as a reliable trading partner with the EU and globally. The damage to the UK's trading performance and reputation since Brexit has been a serious blow to many businesses, and the Liberal

Democrats were right to vote against the disastrous Trade Deal signed by Boris Johnson. So we endorse the Party's policy of rebuilding trust and cooperation with our European partners through a four-step process, starting with repairing the damage caused by the Conservatives, and ultimately applying for membership of the single market, after the trading relationship has been deepened. We strongly believe that a closer trading relationship with our European neighbours is key to helping the UK's economy return to sustainable growth. The UK must work rapidly to reverse the explosion of red tape that has resulted from the disastrous and non-business friendly Brexit.

THE FOUR KEY ENABLING PRIORITIES

Enabling the workforce of tomorrow. The skills, training and employment agenda has never been more important. We should better prepare young people to take part in the exciting growth sectors of our economy and we urgently need to tackle the UK's staff shortages in specific skills and specific sectors. We must see a boost in apprenticeships, and ensure that they are available to all young people who wish to start one. LDBEC wants to work in partnership with business to restructure and refocus the apprenticeship levy to support the achievement of this goal. We recommend providing a reskilling grant of £10,000 for every adult who wants to upskill to enable greater participation in higher technology, higher skilled and higher salaried parts of the economy. We need to work with employers to encourage the new flexible practices that will assist recruitment and retention.

Investing in key infrastructure fit for 2050. The Government must undertake an ambitious investment programme to support a thriving and interconnected green and

digital revolution. In 2019 the Liberal Democrats recognised the scale of this challenge, proposing a £130bn capital infrastructure budget. LDBEC believes that an investment of key importance will be the completion of our rail connectivity, South-North & East-West – including the Eastern leg of HS2 to Leeds and Northern Powerhouse Rail. We propose the adoption of a full infrastructure investment plan, through to 2050, with an independent body responsible for keeping it up to date and holding Governments to account on its delivery. Our proposal for a Net Zero Delivery Authority will be key to that delivery.

Scaling the UK's digital innovation ecosystem and boosting technology adoption. We recommend significantly boosting innovation activities in core digital technologies that enhance productivity and enable the green economy, such as industrial 5G, AI, quantum computing, big data and data analytics for improved integrated and sustainable supply chains. These productivity-boosting technologies, which impact all sectors of the economy, will lead to rising wages and will support the decarbonisation of industrial processes.

Financial markets to support UK business and the green industrial strategy LDBEC recommends working to restore credibility in fiscal policy, to complement the monetary policy and financial stability remit of the Bank of England. The damage to the UK's reputation during this Government's watch resulted in a massive cost to the Treasury and the country, which still endures. A focus on repairing that reputational damage, not least to the UK's commitment to the rule of law, is a central task for the next Government. We recommend the regulatory framework for pension funds is reviewed to encourage a shift from gilts to UK corporate investment.

We support new climate-friendly regulation to enable the City to become the world leader

in green finance, supporting our proposed green industrial strategy.