

Institute for Public Policy Research



PROSPERITY AND JUSTICE

WHAT DOES THE
IPPR COMMISSION
ON ECONOMIC
JUSTICE MEAN
FOR SCOTLAND?

Russell Gunson

September 2018

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CONTENTS

1. Introduction	3
2. What are the findings of the final report of the CEJ?	4
3. What does the CEJ recommend for across the UK?	8
4. What does this mean for Scotland?	9
Productivity	10
Business investment and spend on research and development	11
Demographic change.....	12
5. What does the CEJ recommend for Scotland?	14
6. What are the potential implications of some UK-wide proposals for Scotland?	16
Combining national insurance contributions and income tax.....	16
Combining taxes on capital gains, savings and dividends onto one income tax schedule.....	17
Moving away from income tax bands: An incremental income tax.....	17
7. Conclusion	18
References	19
Annex A: Key UK-wide recommendations from the final report of the IPPR Commission on Economic Justice	20

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ABOUT THE IPPR COMMISSION ON ECONOMIC JUSTICE

The IPPR Commission on Economic Justice is a landmark initiative to rethink economic policy for post-Brexit Britain. The Commission brings together leading figures from across society to examine the challenges facing the UK economy and make practical recommendations for reform.

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1. INTRODUCTION

The IPPR Commission on Economic Justice was established in autumn 2016 in the wake of the UK's vote to leave the European Union. This briefing outlines some of the potential implications for Scotland from the recommendations of the Commission.

The IPPR Commission on Economic Justice was founded in the belief that it was insufficient simply to argue that economic change was necessary. The country needed to see how it could be achieved. The purpose of the Commission was, therefore, broadly conceived: to examine the challenges facing the UK economy and to make recommendations for its reform. The Commission brought together leading figures from across the UK, with representation from Scotland, and across society – from business and trade unions, civil society organisations and academia. The members of the Commission came from all walks of life and different political viewpoints. They voted on different sides of the EU referendum, and the Commission has been independent of all political parties.

The proposals developed through the Commission are deliberately ambitious. Taken together, they offer the potential for the most significant change in economic policy at the UK level in a generation.

The Commission's final report, *Prosperity and Justice: A Plan for the New Economy*, is wide-ranging, but does not describe itself as comprehensive; some fields, such as specific reforms to the welfare system and education, have been beyond its scope. Equally the report is explicitly focussed at the UK-level: while greater devolution of economic powers to the UK's nations and regions is a key theme, the Commission has not sought to write detailed plans for any of the individual nations of the United Kingdom. Furthermore, the Commission's final report does not take a position on Brexit. The analysis shows that the UK's economic problems are of long standing, and that the economy is in need of reform regardless of what happens on Brexit, as the UK's economic problems have developed over the long term under successive governments of all colours.

During the work of the Commission, a number of Commissioners and the research team for the Commission travelled to Scotland a number of times, meeting with the Scottish Parliament's Economy, Jobs and Fair Work Committee, with Scottish government officials and government agency officials, and with trade unionists in Scotland, including those on the Fair Work Convention. Furthermore, the Commission has considered a number of policy initiatives in Scotland, as part of its deliberations and as potential UK-wide proposals, including the Scottish government's economic strategy, the fair work agenda, the business pledge initiative, and proposals for a Scottish national investment bank.

The aim of the final report is to provide a vision for significant reform to the UK economy. However, it does not aim to conclude debate. As the final report of the Commission states: "This book constitutes the final report of the Commission. But it is by no means the last word. Economic change is not simple; there are no 'silver bullets' or magical solutions to remedy deep and longstanding problems. We hope that we can spark a national conversation on why we need a change of direction, and what that direction should be. We can bridge the gap between the country we are and the country we would like to be. We hope our report contributes to that task."

2.

WHAT ARE THE FINDINGS OF THE FINAL REPORT OF THE CEJ?

The central argument of the final report is that a fairer economy is a stronger economy. The final report makes the case that we do not have to choose between prosperity and justice: instead the two can, and must, go hand-in-hand. But without fundamental reform, it argues that the economy will continue to fail large numbers of people. We need to ‘hard-wire’ justice into the economy. This will mean rethinking the way the UK economy works: what it produces and how, and the rules and institutions that govern it. It will require UK governments – and decision-makers across the UK – to take a different approach to economic policy, and demand change of business workers and investors alike. But the report argues that the prize will be great: a UK economy where all can flourish, in a country that can be proud of its success.

The key findings of the report are as follows.

1. **The UK economy is not working.** It is no longer delivering rising living standards for a majority of the population. Average earnings have stagnated for more than a decade – even while economic growth has occurred at the UK level. Too many people are in insecure jobs; young people are set to be poorer than their parents; the nations and regions of the UK are diverging further. As more and more people feel economically disenfranchised, the political consequences have become plain.
2. **The economy needs fundamental reform.** Many of the causes of the UK’s poor economic performance – particularly its weaknesses in productivity, investment and trade – go back 30 years or more. They will not be addressed by incremental change or trying to ‘muddle through’. Fundamental reform has happened twice before in the last century following periods of crisis – with the Attlee government’s Keynesian reforms in the 1940s and the Thatcher government’s free market reforms in the 1980s. Ten years after the financial crash, change of this magnitude is needed again.
3. **A fair economy is a strong economy.** It used to be thought that prosperity and economic justice were in conflict; we had to choose one or the other but could not have both. The international evidence now points in precisely the opposite direction. A more equal economy generates stronger and more stable growth, lower social costs and greater wellbeing. Both economics and morality argue for an economy which achieves prosperity and justice together.
4. **Economic justice needs to be ‘hard-wired’ into the way the economy works.** It is not sufficient to seek to redress injustices and inequalities simply by redistribution through the tax and benefit system. They need to be tackled at source, in the structures of the economy in which they arise. These include the labour market and wage bargaining, the ownership of capital and wealth, the governance of firms, the operation of the financial system and the rules that govern markets. Economic justice cannot be an afterthought; it must be built in to the economy.

5. **Achieving prosperity and justice together requires a comprehensive and integrated programme of reform across the economy.** There is no ‘silver bullet’. The report includes recommendations for far-reaching measures in order to achieve the following.
- **Promote ‘investment-led growth’** by raising public investment, holding down house price inflation and restricting the incentives that currently favour short-term shareholder returns over long-term productive investment.
 - **Rebalance the economy through ‘new industrialisation’**, away from an over-dependence on the finance sector towards a more diverse array of manufacturing and other innovative, export-oriented industries, located right across the country.
 - **Give workers greater bargaining power**, making it easier for trade unions to negotiate on their behalf to achieve higher productivity and to share its rewards fairly through better wages and conditions and reduced working time.
 - **Pursue ‘managed automation’**, accelerating the adoption of new technologies across the economy and ensuring that workers share in the gains and are helped to retrain.
 - **Promote open markets**, which restrict the near-monopoly power of dominant companies, particularly in the digital economy, and make data available to promote innovation for social good.
 - **Spread wealth more widely** in society, both by widening ownership of capital and through fairer forms of wealth and corporate taxation.
6. **Achieving change means redressing imbalances of economic power:** from corporate management towards workers and trade unions, from dominant companies towards innovators and entrepreneurs, from short-term finance towards long-term investors, from Westminster and Whitehall to the nations and regions of the UK. There is a need for a more active and purposeful state, acting to achieve prosperity, justice and environmental sustainability on behalf of society as a whole. It must be decentralised, with stronger powers for the nations and regions of the UK. Managing economic change will require greater social partnership, both within companies, and between businesses, trade unions, government and civil society.
7. **Change is possible, and urgent.** Many other countries have economies that are both fairer and more successful than ours. As we confront the challenges of Brexit, of further globalisation, and of technological, demographic and environmental change, doing nothing won’t keep things the same – it will make things worse. The economy we have is a matter of choice, and changing it is a matter of democracy. Fundamental reform can be achieved, if we have the will to do so.

The report argues that the UK economy needs to be fundamentally reshaped in order to achieve prosperity and justice. Five key shifts need to be made, both to the way the economy is structured, and in the approach that governments take to economic policy.

1. From short-term finance to investment-led growth

The UK economy has an unbalanced model of growth. It is overly reliant on household consumption, much of it based on ever-rising property prices and excessive household debt. At around 17 per cent of GDP, public and private investment is around 4 per cent below the developed country average (Eurostat 2018). The stock of business capital is falling and research and development (R&D) investment is lower than our peers.

Low investment has several causes, including excessive short-termism among major companies and financial markets, a banking sector overly focussed on lending for land and property rather than to businesses, and insufficient demand in the economy. To move to an investment-led growth model will require reforms to corporate governance and the regulation of the finance sector, and a larger role for public investment, particularly in providing ‘patient capital’.

2. From trade deficits to ‘new industrialisation’

Despite some world-leading sectors, the UK economy is internationally uncompetitive. Our trade deficit (imports minus exports) has been negative for 20 years, and has exceeded 1.5 per cent of GDP in 15 of those years (ONS 2017b). Sterling has been kept high by capital inflows from overseas; its value has reflected and supported the success of the UK’s financial sector, but damaged manufacturing, which now makes up just 10 per cent of the economy’s gross value added (OECD 2018c).

To improve our international competitiveness, the UK needs to diversify and expand its innovation-leading and exporting sectors. This will require what the Commission’s report terms ‘new industrialisation’: the development of innovation-based industrial clusters across the UK, anchored around our universities. This should form the central aim of a more active industrial strategy. A new national investment bank is needed to provide long-term finance to help build successful start-up companies into major exporting businesses.

3. From flexible labour markets to raising productivity in the ‘everyday economy’

Productivity in the UK is 13 per cent below the G7 average, and has stalled since the financial crisis (OECD 2018a). Our leading firms are highly productive, but we have a much larger number of low-productivity businesses than in other developed countries.

A major cause of low productivity is the UK’s highly flexible labour market. Firms which can take on workers by the hour have little incentive to invest in the equipment or training which raises productivity. The UK needs to escape the ‘low-wage, low-productivity’ equilibrium into which much of the economy has fallen, and the belief that wage costs must be as low as possible. This means raising the minimum wage, regulating the labour market better, and strengthening the bargaining power of workers and trade unions. Industrial strategy needs a specific focus on raising productivity in the ‘everyday economy’ where most people work.

4. From technology laggards to managed automation

New technologies such as artificial intelligence and robotics have raised anxieties that increasing automation will destroy a large number of jobs. But past experience of automation is that, while many jobs change, many others are created as productivity and incomes rise. The greater risk is of growing inequality, as the rewards from automation flow to the owners of capital in profits, rather than to workers in wages. Lower-skilled workers may especially lose out.

Though strong in technology start-ups, the UK lags far behind other developed countries in adopting automating technologies. To avoid falling further behind, we need to embrace ‘managed automation’ – accelerating the uptake of new technologies to boost productivity, while ensuring that the rewards are shared with workers and protecting and retraining those whose jobs are lost. This will require new social partnerships between employers and trade unions, at both firm and sector level.

5. From market power to open markets

Over the past 40 years, the market power of leading companies has grown in all developed countries, leading to lower rates of investment and innovation, and

often worsening conditions for suppliers and workers. Eight out of 10 of the UK's major consumer markets are now highly concentrated. The huge market power of the major digital 'platform' companies (such as Google, Apple, Facebook and Amazon) risks excessive concentration, both of the collection of data and of the development of new technologies such as artificial intelligence.

Countering market power requires reform of the UK's competition regime, with a stronger focus on open markets that better promote investment, innovation and entrepreneurship. In some areas, the major digital platforms operate in a manner comparable to utilities and should be regulated as such. At the same time, data created by us all should be managed as a 'digital commonwealth' – a common resource for entrepreneurs, citizens and government to use for public benefit.

The report argues that, in order to achieve these fundamental shifts in the economy, and to deliver prosperity and justice, the UK will require major changes to the way it is governed and managed, developing a more active and purposeful state which takes responsibility for the direction and outcomes of the economy as a whole. This means a responsibility for more than correcting individual 'market failures', seen by many as the limits to state intervention. Markets fail in systemic ways, in areas such as financial instability, insufficient investment, inequality and environmental degradation, which the report argues only governments can address. Doing so will benefit the private sector, whose profitability depends on public spending and the predictable expectations created by fiscal and industrial policies. In a modern economy there are no such things as 'free markets': wealth is co-produced by the public and private sectors together.

Crucially for Scotland, the report also argues that a more active state must be a more decentralised one. Despite devolution to Scotland, Wales, Northern Ireland and London, the UK is still one of the most centralised states in the developed world. UK government departments in Whitehall cannot understand the challenges or capabilities of a country as large and diverse as the UK. There should be stronger economic powers in Scotland, Wales and Northern Ireland. Equally, England needs a new tier of democratically accountable regional economic executives, alongside combined authorities in cities and counties. These need the resources and powers to develop regional and local industrial strategies.

Delivering change of the magnitude proposed cannot be done by government alone – it will demand greater partnership across the economy. Businesses need to be understood as 'communities of interest' in which shareholders, managers and workforce work together to raise productivity and share its rewards fairly. Trade unions are vital both to secure better pay and conditions for workers and as means to engage employees in workplace innovation. Therefore, government, businesses, unions and civil society, along with the nations and regions of the UK, should be brought together in a National Economic Council responsible for agreeing a national economic plan.

3.

WHAT DOES THE CEJ RECOMMEND FOR ACROSS THE UK?

Part II of the final report offers a 10-part plan to build an economy of prosperity and justice through 10 areas of policy reform:

1. reshaping the economy through industrial strategy
2. securing good pay, good jobs and good lives
3. turning business towards long-term success
4. promoting open markets in the new economy
5. raising public investment in a reformed macroeconomic framework
6. strengthening the financial system
7. spreading wealth and ownership across the economy
8. designing simpler and fairer taxes
9. ensuring environmental sustainability
10. creating a new economic constitution.

The report sets out how the economy can be reshaped through industrial strategy: raising productivity and boosting exports, and creating more, better-paying jobs across the whole country. It outlines how the UK can create such jobs, improve the quality of work and fairer access to it, and support a better work-life balance. It proposes wide-ranging reforms to corporate governance to create more purposeful companies focussed on long-term success, and reforms to create more open and competitive markets, including a new regulatory framework for the digital economy.

The report also proposes to boost public investment alongside reforms to fiscal and monetary policy and sets out new measures to improve financial stability. It shows how financial wealth, housing and company ownership can be more fairly shared, and makes proposals to make the tax system simpler and fairer for both individuals and businesses. It describes a new framework to put the economy onto an environmentally sustainable footing. And it concludes with proposals for a new economic constitution for the UK to shift economic power away from Westminster to the nations and regions and widen participation and consultation in economic decision-making.

The final report outlines what the Commission describes as a long-term plan for the country, not for one parliament nor any single party, stating: “The economy belongs to all of us, and change is in our hands. We can have an economy where prosperity is joined with justice, if we have the courage to create it. In this report, we seek to show how.”

The annex to this briefing sets out some of the key UK-wide recommendations in the Commission’s final report in more detail.

4. WHAT DOES THIS MEAN FOR SCOTLAND?

Many of the themes identified over the course of the work of the Commission on Economic Justice, apply to Scotland as much as the UK as a whole. In many ways, over the last 20 years, Scotland has moved to be ‘best of the rest’ in economic terms, with the strongest economic performance of any part of the UK outside of London and the South East. Yet despite economic progress across a range of measures since devolution, in the last few years Scotland’s economy has underperformed against the UK average. Nonetheless, there are key strengths within the economy in Scotland, as there are in the UK economy, including employment rates at near-record levels in both Scotland and the UK.

Table 4.1 below shows that Scotland performs well on a number of economic measures, with extreme geographical variations within other parts of the UK, particularly between regions in England.

TABLE 4.1
Selected economic indicators for UK nations and regions

	Average weekly earnings (April 2017)	Manufacturing as a % of GVA (2016)	Public sector employment as a % of total (2016)	Unemployment rate (2017)	Economic inactivity rate (ages 16–64, 2017)
Scotland	£547	10.7	20.9	4.1	22.5
Northern Ireland	£501	14.4	25.9	4.4	27.7
Wales	£498	18.0	22.4	4.8	24.0
England	£556	9.8	16.2	4.5	21.4
London	£693	2.1	14.0	5.3	21.8
South East	£575	7.7	15.0	3.2	18.6
East of England	£546	11.4	15.3	3.6	19.2
South West	£520	11.0	16.4	3.3	18.6
North West	£514	16.1	18.0	4.4	23.5
West Midlands	£515	15.6	17.3	5.2	23.6
East Midlands	£499	16.6	16.1	4.4	22.4
Yorkshire and the Humber	£503	14.7	18.3	5.0	22.7
North East	£504	14.3	20.3	6.2	24.6

Sources: ONS 2017a, ONS 2017b, ONS 2018a

The Scottish government has developed an economic strategy for Scotland, which it refreshed in 2015 with a clear focus on inclusive growth (Scottish Government 2015). It has also developed a series of strategies and policies of relevance to Commission on Economic Justice, which the Commission studied as part of its work. This has included the Scottish government’s Business Pledge and Scotland’s Fair Work Framework (Fair Work Convention 2016). The Scottish Government also recently announced the creation of a new Scottish national investment bank, with an intended capitalisation of £2 billion over the next 10 years, in line with one of the key recommendations of the final report (Scottish Government 2018c).

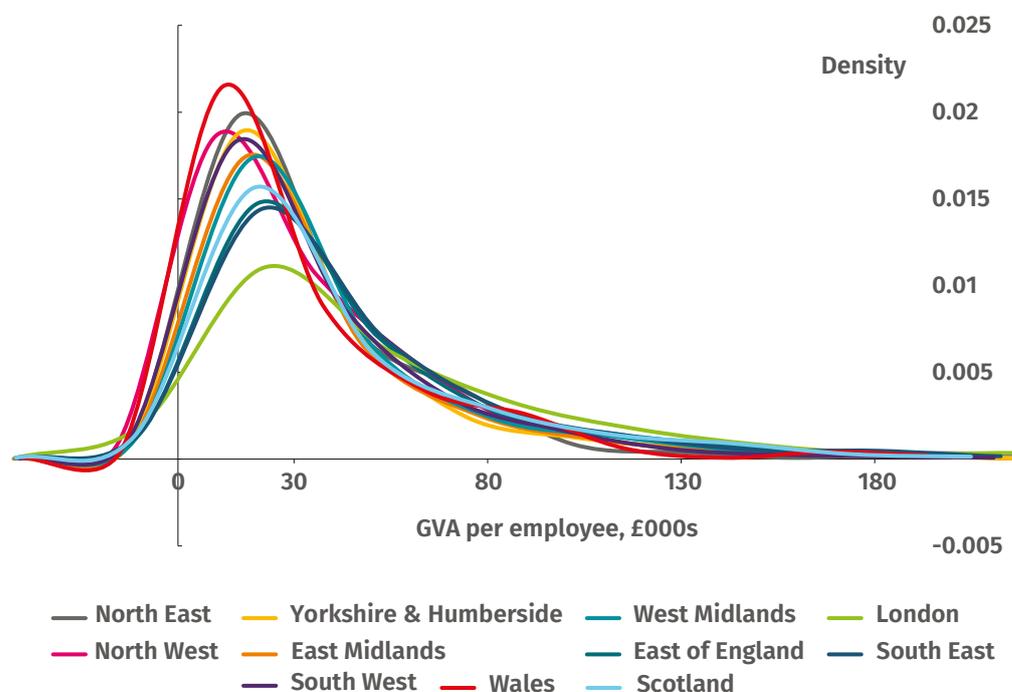
However, as with the UK economy, there is a case for fundamental reform in Scotland, to address some of the key weaknesses within the Scotland economy. For this briefing we have identified three key trends in Scotland that echo the findings of the Commission on Economic Justice for the UK as a whole.

PRODUCTIVITY

Over the last 20 years, productivity levels in Scotland have moved from among the worst in the UK to now around the UK average. However, since the financial crash of 2007/08 – as with the UK as a whole – productivity levels in Scotland have flat-lined. This leaves Scotland’s productivity levels below many international competitors. At the same time – again in line with the UK as a whole – Scotland’s economy is characterised by a small number of high-productivity ‘frontier’ firms, and a long-tail of low-productivity firms (as figure 4.1 shows). However, outside of London, the South East and the East of England, Scotland has a better distribution of productivity at firm level than the rest of the UK.

FIGURE 4.1

Distribution of firm-level productivity (GVA per head) by nation and region of the UK



Source: Haldane 2017

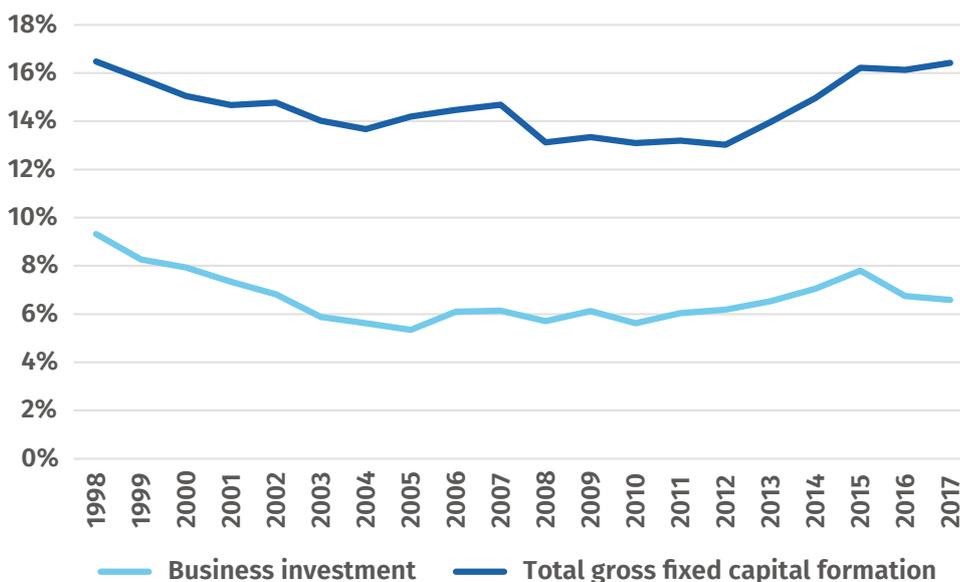
BUSINESS INVESTMENT AND SPEND ON RESEARCH AND DEVELOPMENT

The Commission's report outlines that the UK has a serious investment problem. At around 17 per cent of GDP, the rate of public and private investment in the UK economy is around 4 per cent below the OECD average. This gap has widened over the last 50 years; indeed, the UK investment rate has been falling for most of the last 30 (World Bank 2018a). A similar gap exists for private sector investment alone at the UK level: business investment fell from 10 per cent of GDP in 1997 to 9 per cent in 2017 – below the rate of capital depreciation, meaning that the stock of business capital is actually falling (ONS 2018b). The comparable rate of corporate investment in the US in 2016 was 20 per cent (World Bank 2018a).

In Scotland, as figure 4.2 below shows, business investment for 2017 was 6.6 per cent of GDP, far below the UK level. Business investment in Scotland dropped from highs at the turn of the century, and having gradually increased from 2010 to 2015 it has dropped back markedly over the last two years (Scottish Government 2018b).

FIGURE 4.2

Business investment and total investment (total gross fixed capital formation) as a proportion of GDP in Scotland over time (not seasonally-adjusted)



Source: Scottish Government 2018b

Note: these statistics have the classification of 'experimental statistics'

The UK's record of investment in R&D is an area of particular concern. R&D is the engine of innovation: it drives long-run productivity improvement and keeps the economy at the frontier of globally competitive sectors. Over the last 20 years, as a proportion of GDP, UK spending on public and private R&D remained more or less flat, while those of our major competitors has risen (World Bank 2018b). In 2016 the UK invested 1.7 per cent of GDP in R&D, compared to 2.9 per cent in Germany, 2.7 per cent in the US, and 3.1 per cent in Japan (OECD 2018b). Some of the gap can be accounted for by the UK's proportionately larger service sector, but not all – and, given the importance of R&D and innovation to overall economic performance, that is little consolation.

In Scotland, R&D spend amounted to 1.54 per cent of GDP in 2016, below the UK average, with a significant proportion of R&D spend coming through higher

education investment. However, overall R&D spend in Scotland increased by 10 per cent in real terms between 2015 and 2016, taking it to levels not seen since records began in 2001. Looking at business spend on R&D alone, Scotland trails most of the rest of the UK in terms of spending per head, with the exception of Wales, Yorkshire and the Humber, and North East regions of England (Scottish Government 2018a).

DEMOGRAPHIC CHANGE

Projections by the OBR show that, over the next 30 years, there will be a widening gap between expected public spending and forecast tax receipts in the UK. Without changes in policy, the public sector deficit is set to grow throughout the 2020s and beyond, rising to over 5 per cent of GDP in 2056–57; as a result, overall debt is projected to rise from around 90 per cent of GDP today to 172 per cent by 2056–57. This ‘fiscal gap’ will continue to widen until 2066–67, the final year of the OBR’s projections. The OBR warns starkly that this is “an unsustainable fiscal position over the long term” (OBR 2017).

This widening deficit will be driven largely by demographic change, as the proportion of the population aged over 65 rises from 18 per cent in 2016 to 26 per cent by 2066 (ibid). An ageing population – particularly the much larger numbers of the very elderly – means rising demand both for public pensions and for cost-intensive health and social care. These two factors alone are expected to contribute to an increase in public expenditure of as much as 3.9 per cent of GDP between 2021–2 and 2036–7 at the UK level (ibid). At the same time, demographic change will also reduce the proportion of the population who are in work. In effect, a proportionately smaller working-age population will be required to pay for a larger (and more costly) non-working one.

Over the coming decades, the population of Scotland will age more quickly and steeply than the UK as a whole. Between 2016 and 2041, the population aged 75 and over is projected to increase by 79 per cent (NRS 2017). This may bring new opportunities for those who can and want to work longer, and beyond retirement, in paid or unpaid roles.

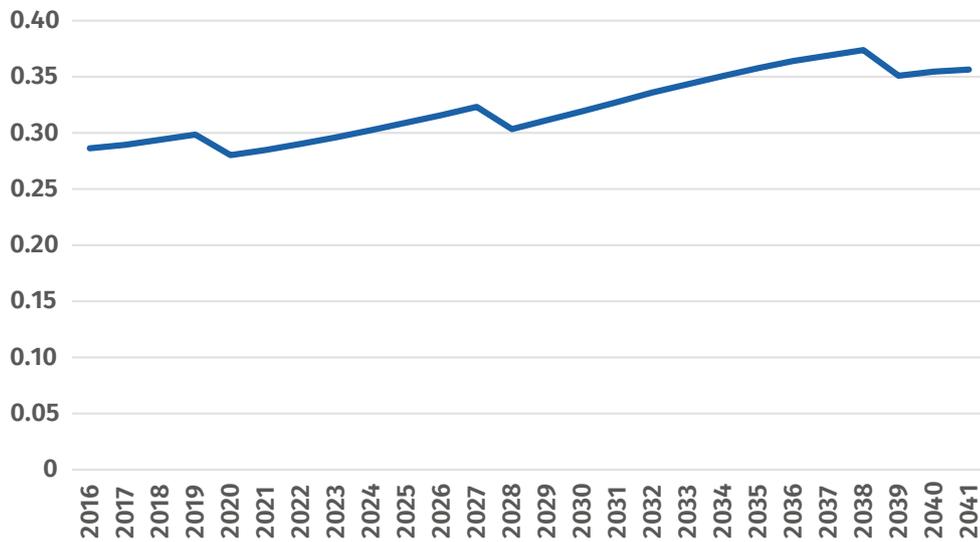
Nonetheless, as for the rest of the UK, an ageing population will also pose significant financial challenges in Scotland with the higher costs of an ageing population borne by a proportionally smaller number of workers in Scotland. Figure 4.3 below shows that the number of pensioners per 100 working-age adults is expected to increase between 2016 and 2030 from 29 to 32 in Scotland (even after taking into account increases in the pension age). By 2041 we will see substantial further increases in the ratio between the working age and over 67-year-old population with around 36 pensioners per 100 working-age adults in Scotland. This will place significant pressures on public finances for the foreseeable future, as spending on health and care, and older peoples’ entitlements, increases.

To maintain Scotland’s 2016 dependency ratio, by 2041, Scotland would need to see an increase of over 860,000 in its working-age population above projections.¹

1 Projections already include over 400,000 net-migration from the rest of the UK and outside of the UK over this time.

FIG 4.3

The ratio between the working-age and pensioner-age population in Scotland over time



Source: IPPR Scotland calculations using NRS 2017

Note: We have not included the phasing of the increase in the UK pension age in these calculations which will take place between Oct 2018–20 moving from 65 to 66, and is planned to take place between 2026–28 for the rise to 67 and 2037–39 for the scheduled rise to 68. Instead we assume an increase to 66 in 2020, 67 in 2028, and to 68 in 2039.

5.

WHAT DOES THE CEJ RECOMMEND FOR SCOTLAND?

The Commission's final report places a high priority on tackling geographical imbalances across the UK, stating: "It violates our goal of justice that economic opportunities and life chances should differ so greatly between people living in different parts of the country. Such an unbalanced pattern of growth is also not economically efficient, since it fails to make best use of the talents and capabilities of many people and places."

It states that driving equitable and sustainable growth right across the UK cannot be done from Whitehall given the assets and capabilities – as well as the present and future challenges – of different parts of the country are diverse. Equally, the requisite levels of local knowledge or commitment will not be found in central government departments. The Commission believes the only way this can be done is through decentralisation of economic powers and resources across the UK.

The report notes that the Scottish government still has relatively few economic policy levers and limited (though recently increased) capacity to borrow, while labour market regulation and immigration policy, as for the rest of the UK, are set from Westminster. The lack of economic levers are even more pronounced in Wales and Northern Ireland, with very little devolution within England.

As a UK-wide Commission, the Commission deliberately did not seek to define economic strategies for the devolved nations, conscious that the devolved governments in Scotland and Wales, in particular, have been pursuing active economic development strategies.

The Commission sees a good case for devolution of further powers in three areas.

1. Devolution of immigration powers to Scotland

The Commission sees a particular opportunity to devolve some aspects of immigration policy. This would allow the governments in Scotland, Wales, and potentially Northern Ireland to develop new visa arrangements for non-EU nationals, and EU nationals following Brexit, to help tackle demographic change and align immigration with skills policy. As with devolved immigration systems in Canada and Australia, the UK Government would continue to issue visas (including the devolved nation visas) and undertake security vetting.

2. Further borrowing powers to the Scottish Parliament

The Commission believes there is a good case that further borrowing powers should be devolved to the Scottish parliament, to take its annual capital borrowing limit to 1 per cent of GDP (around £1.5 billion per year) and its total capital borrowing limit to 10 per cent of GDP (around £15 billion in total). This would allow the Scottish government to capitalise the Scottish national investment bank more quickly, and to boost infrastructure and business investment in Scotland.

3. Productivity Scotland

The Commission recommends the establishment of a new devolved social partnership body in Scotland, Productivity Scotland, to focus on raising productivity in the everyday economy. It would undertake business advice, training, funding and consultancy services with the core objective of accelerating 'managed automation' and the diffusion of digital technologies across the economy. This would work alongside equivalent bodies in England, Northern Ireland and Wales but would be fully devolved to the Scottish parliament.

6.

WHAT ARE THE POTENTIAL IMPLICATIONS OF SOME UK-WIDE PROPOSALS FOR SCOTLAND?

The proposals developed through the Commission are deliberately ambitious. If implemented they would have significant impact on economic justice in Scotland too. Many of the recommendations are in policy areas reserved to Westminster, and as such would apply across the UK, including in Scotland.

Increases in the minimum wage, reform to trade union legislation, company law reform – including workers on boards, and rules around take-overs – and regulation of new digital industries would deliver huge benefits in Scotland. Equally, increased public investment and new fiscal rules for the UK government would change the landscape of public spending in Scotland too, also offering consequential increases in Scotland’s block grant and budget.

Moreover, a new ‘Economic Constitution’ for the UK as a whole would offer new ways for Scotland, under current constitutional arrangements, to have a stronger voice in UK-wide economic matters in which it has an important stake, with the Scottish government given key roles, alongside representatives from other UK nations and regions, in a new National Economic Council tasked with developing a 10-year plan for the UK-wide economy. Under the proposed new ‘economic constitution’ there would also be a new cross-UK Inclusive Growth Fund, administered by the devolved administrations in Scotland, Wales and Northern Ireland.

The final report also makes a number of recommendations for tax reform, bringing taxes on income from wealth in line with income from earnings, replacing inheritance tax with a lifetime gift tax, and ensuring companies pay their fair share of tax through a new minimum tax rate on the largest. These would deliver a simpler and fairer tax system across the UK, including in Scotland. Some of these tax changes would be clearly in reserved policy areas. However, there are a number of proposals for tax reform within the Commission’s recommendations that could potentially lead to significant strengthening of the tax powers of the Scottish Parliament.

COMBINING NATIONAL INSURANCE CONTRIBUTIONS AND INCOME TAX

The Commission proposes that the rates and allowances for employee national insurance contributions (NICs) and income tax should be combined into a single tax schedule, and applied to all incomes on an individual, annual basis. Given the devolution of non-savings and non-dividends income tax to the Scottish parliament (above the personal allowance), the combining of employees NICs and income tax onto one schedule would likely lead to the devolution of a new combined national insurance and income tax schedule to Scotland as a consequence. NICs employees’ contributions amount to over £4 billion in Scotland each year (HMRC 2017).

COMBINING TAXES ON CAPITAL GAINS, SAVINGS AND DIVIDENDS ONTO ONE INCOME TAX SCHEDULE

The Commission proposes that all income, whether from work or from wealth, should be taxed in the same way. This would mean abolishing capital gains tax and the separate rates of tax on dividends, and incorporating income from dividends and capital gains into the income tax schedule. As with combining NICs and income tax, given current devolved powers over income tax in Scotland, this would likely lead to the devolution of a new combined income tax on capital, dividends, earnings and savings to Scotland as a consequence. These taxes, taken together, amount to around £300 million of tax revenue in Scotland each year (HMRC 2017).

MOVING AWAY FROM INCOME TAX BANDS: AN INCREMENTAL INCOME TAX

The Commission also proposes that the present system of marginal income tax bands be replaced with a 'formula-based' system, abolishing tax bands and applying instead a gradually rising marginal rate of tax as incomes rise. Again, given the devolution of non-savings and non-dividend income tax to the Scottish parliament, this would be within the power of the Scottish parliament to decide. Indeed, theoretically, the Scottish parliament could move to such a system (above the personal allowance) through existing powers.

7. CONCLUSION

The final report of the IPPR Commission on Economic Justice makes ambitious and achievable recommendations to deliver economic justice across the UK. If adopted by government, the proposals would lead to significant changes across the UK, including in Scotland. The UK-wide recommendations in reserved areas would aim to rebalance the UK economy towards delivering prosperity and justice, 'hard-wiring' justice into the economy as a whole. This would have significant impacts in Scotland.

Furthermore, some of the UK-wide recommendations could lead to a significant strengthening of the Scottish parliament's devolved powers. This can be seen in particular in relation to the final report's recommendations on reforming income tax which could see further tax powers over NICs employees, capital gains, savings and dividends devolved to Scotland as a consequence.

Finally, the Commission makes specific recommendations for Scotland which would see the further devolution of economic powers around immigration, borrowing and productivity. These would help the Scottish government to tackle the challenges Scotland faces, as outlined in this briefing, in relation to the ageing population, business investment and R&D and productivity levels in general and in the everyday economy in Scotland in particular.

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ANNEX A:

KEY UK-WIDE RECOMMENDATIONS FROM THE FINAL REPORT OF THE IPPR COMMISSION ON ECONOMIC JUSTICE

Key recommendations include the following.

1. Reshaping the economy through industrial strategy
 - The establishment of a national investment bank (NIB) to invest in infrastructure, innovation and business growth in England. This is in line with the Scottish government's proposals for a Scottish national investment bank (SNIB). The NIB would have regional divisions in England accountable to the regional economic executives we propose, and work with parallel institutions in Scotland, Wales and Northern Ireland. We propose that the NIB should initially be capitalised at £20 billion, enabling it to lend between £50 and £200 billion.
 - The establishment of a new social partnership body, Productivity UK, to focus on raising productivity in the everyday economy through business advice, training, funding and consultancy services with the core objective of accelerating 'managed automation' and the diffusion of digital technologies across the economy. This would see the creation of Productivity Scotland (and Wales and Northern Ireland) to undertake this role in Scotland, under the control of the Scottish government.
 - The establishment of a 'good jobs standard' for England, based closely on the Fair Work Convention. Accreditation under the standard could be used as a requirement of public procurement.
 - The adoption of a new immigration framework aimed at supporting the UK's economic strategy, the vitality and cohesion of our communities and the dignity of migrants. This would include devolution of immigration powers to Scotland, Wales and Northern Ireland (and over time England regions) to give greater control over immigration policy at the sub-UK level.
2. Securing good pay, good jobs and good lives
 - Raising the national living wage to the level of the 'real living wage', based on the actual cost of living (£8.75 an hour outside London).
 - A 20 per cent higher minimum wage to apply to zero hours contracts and other uncontracted hours.
 - A trial of auto-enrolment into trade unions within the 'gig' economy, on the model of auto-enrolment into workplace pensions.
3. Turning business towards long-term success
 - The 'directors' duties' in Section 172 of the 2006 Companies Act be reformed to make explicit that the primary duty of directors is 'the promotion of the long-term success of the company'.

- A new statutory public interest test be introduced for takeover bids above a certain size, including consideration of issues such as the likely consequences for innovation, employment, the UK's industrial base and regional development.
 - Public and private companies of more than 250 employees should have at least two workers, elected by the workforce, on their main board.
- 4. Promoting open markets in the new economy**
- The establishment of a new regulator, the Office of Digital Platforms (OfDigi) to regulate the major digital platform companies in specific areas, such as searching, connecting, matching and digital infrastructure, where their services are comparable to those of utilities.
 - The establishment of a Digital UK public service to organise and curate public data as a 'digital commons' in which publicly-generated data is made more widely available to serve the common good and encourage innovation, including the creation of local digital commonwealth strategies and an upgrading of digital infrastructure in rural areas.
- 5. Raising public investment in a reformed macroeconomic framework**
- An increase in annual public investment spending by at least £15 billion over and above the current forecast by 2022, doubling the currently planned increase and taking public investment to 3.5 per cent of GDP, the average for G7 countries.
 - The introduction of new fiscal rules:
 - a current spending rule to balance day-to-day government spending with revenues over a rolling five-year period in normal economic circumstances
 - a minimum public investment spending target, subject to appropriate project appraisal
 - a sustainable debt metric under which the sustainable level of government debt would be independently assessed on the basis of interest rates, debt maturity and expected tax revenues.
- 6. Strengthening the financial system**
- That the government investigate whether the Financial Policy Committee (FPC) of the Bank of England should be given an explicit house price inflation target, as part of its macroprudential responsibility to counter systemic risk.
- 7. Spreading wealth and ownership across the economy**
- The establishment of a Citizens' Wealth Fund: a sovereign wealth fund owned by and run in the interests of the whole UK population. Capitalised over a 10-year period from a variety of sources, this could provide all citizens with a small annual dividend, or a £10,000 'universal minimum inheritance' to all young people at the age of 25.
 - Abolishing the cap on local authority borrowing to finance housebuilding in England.
 - Reform of the tax incentives available to Employee Ownership Trusts, under which companies can be majority-owned by their employees.
- 8. Designing simpler and fairer taxes**
- That the rates and allowances for employee NICs and income tax should be combined into a single tax schedule, and applied to all incomes on an individual, annual basis; and that the present system of marginal tax bands be replaced with a 'formula-based' system, abolishing tax bands and applying instead a gradually rising marginal rate of tax as incomes rise.

- That all income, whether from work or from wealth, should be taxed in the same way. This would mean abolishing capital gains tax and the separate rates of tax on dividends, and incorporating income from dividends and capital gains into the income tax schedule. The exemption from capital gains tax for first homes should remain. This has the potential to raise an extra £27 billion a year.
 - That inheritance tax be abolished, and replaced with a lifetime gifts tax levied on the recipient, with a lifetime allowance of around £125,000. This could raise an additional £9 billion a year.
 - An increase in the rate of corporation tax to the lowest effective rate of corporation tax in the G7 (24 per cent), while simplifying the system of reliefs and allowances to increase the tax base. This could raise an additional £13.3 billion in tax revenue in 2020–21.
 - The introduction of an Alternative Minimum Corporation Tax (AMCT) as a ‘backstop tax’ levied on multinational corporations which consistently reported low profits in the UK and were unable to show these were genuine. It would be levied on the company’s UK sales at a rate derived from its global profits relative to global sales.
- 9. Ensuring environmental sustainability**
- The introduction of a Sustainable Economy Act that would require the adoption of statutory short-term and long-term targets for a broad range of environmental challenges. Modelled on the 2008 Climate Change Act, it would require governments to produce plans on how they would meet the targets, and set up an independent Committee on Sustainability to monitor progress.
 - The adoption of a green industrial strategy. This would integrate demand-side policies on decarbonisation, achieving a zero-waste ‘circular’ economy and sustaining natural capital with supply-side support for UK businesses and innovation to meet these goals. Such a strategy should support a ‘just transition’ for workers and communities affected by the process of change.
- 10. Creating a new Economic Constitution**
- The creation of four ‘economic executives’ (regional economic authorities) in England to be responsible for regional industrial strategy, including infrastructure planning, inward investment and immigration. Two would be based on the current Northern Powerhouse and Midlands Engine, the other two in the South West, and East and South East. Each should be governed by a regional council indirectly elected from their constituent local authorities.
 - The creation of combined local authorities throughout England, in both city and county regions. These would be responsible for place-based elements of industrial strategy, including labour market planning, further education and skills, business support services and the development of ‘local wealth-building’ strategies using public procurement.
 - The creation of an Inclusive Growth Fund (IGF) of £10 billion over five years. This would replace the European Regional Development and Social Funds. It would be administered by the devolved governments, new regional executives and combined authorities in England.
 - The establishment of a National Economic Council (NEC) as a forum for economic policy consultation and coordination. This would have responsibility for drawing up and agreeing a 10-year plan for the UK economy, to provide a coordinated framework for the management of economic policy.

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