

# BREAKING THE BRITISH STATE

## *The Way Forward to a Socialist Scotland*

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In Scotland today the link to the British State is being questioned as never before. People see manufacturing plants closing on a weekly basis and their sons and daughters once more having to seek employment hundreds of miles away in the south of England. They witness Scottish soldiers being killed overseas defending the interests of British oil companies. Simultaneously they see these very same oil companies dis-investing themselves of assets off Scotland's coast. This is why the question is being asked: why Scotland cannot be free – free to fulfil the socialist aspirations of the founders of the Labour Movement in Scotland, of Keir Hardie, John Maclean and Willie Gallacher.

This pamphlet considers how this freedom can be achieved: whether it must be preceded by achieving a politically independent Scottish state – or whether such freedom depends on first breaking the political grip of the rich and powerful at British level.

### **RISING POVERTY AND LOWER WAGE RATES**

Between 1997 and 2001 the number of Scottish households living in poverty (below 60 per cent of median income) rose from 21.5 to 23.5 per cent – as against the falling trend in England [New Policy Institute for the Joseph Rowntree Foundation December 2002].

In the year to April 2003 the average gross weekly pay of full-time employees in Scotland was £437 as against £476 for Britain and £637 in London. The North East had the lowest earnings of £402 and Wales £415. Scotland's median level of full-time weekly earnings was £394 per week. This is considerably lower than the £476 average for Britain showing that Scotland has fewer people at the top end of the scale with extremely high earnings. Conversely, Scotland has more on very low pay. The percentage of full-time males and females on adult rates earning less than £200 per week showed Scotland with 4.8 %, as against only 0.8% for London, 2% for East and Wales at 5%,. The percentage of full-time employees on adult rates who earned less than £250 per week showed that the average for Britain was 16.1%, England 15.5%, Wales 21%, and Scotland 18.7%. [ONS New Earnings Survey 2003].

The pamphlet will look first of all at the crisis of Scotland's economy within that of Britain, at its ownership and control, the nature of globalisation and the character of capitalist power in Britain. It will then consider what is the most feasible way of ending that power – in the context of wider, international experience of the struggle against capitalism and imperialism.

### **Scotland's economy in crisis**

The first years of this century have provided striking proof of the weakness of Scotland's economy. Previously growth had been maintained by two sectors: electronics and oil and gas. Both are now failing. Electronics and computing stalled in 2001. By 2003 output had fallen by over 60 per cent. With electronics previously supplying almost half of Scotland's manufactured exports, the consequences have been serious both in terms of employment and income. The fall in oil and gas has been less dramatic but the

damage is likely to be long-term and cumulative. Output peaked at 2.5 million barrels a day in the late 1990s and is now struggling around 1.9 million. It is forecast to fall to 1 million within ten years. The cheap and easily accessible oil went in the 1980s and 90s. Much of the gas went at the same time - flared off in the dash to maximise oil revenues. The remaining oil and gas costs more to extract and the big oil monopolies are disposing of their North Sea holdings. In winter 2003 exploration hit one of its lowest level for twenty five years.

The decline of these two sectors has revealed the weakness of the economy. Statistically in 1994 the value of output per head in Scotland was identical to the average for Britain as a whole and higher than most parts of England apart from the south and east. We were told that Scotland was prosperous and growing fast – a claim that seemed to contradict everyone’s real life experience: the terrible health statistics of Scotland’s towns and cities and the prevalence of low pay and poverty. Now it is clear that Scotland as a whole was not prosperous. The past eight years have seen growth rates for Scotland and Britain diverge sharply. Expansion in Scotland has been 30 per cent slower than that for Britain. By 2002 the value of output per head was almost 5 per cent lower and average income £3,000 less – more in line with Wales and the North West and North East. Research has also revealed the true depth of unemployment. Between 1981 and 1999 changes in benefit across Britain as a whole increased the number of men on incapacity from 500,000 to 2,500,000 – concentrated, not surprisingly, where de-industrialisation had been most brutal. Surveys have shown that over half would take a suitable job if available [Fothergill 2000]. If just half of those on incapacity are added to the regional unemployment totals, a strikingly different picture emerges – one very like the pattern of unemployment that existed in the 1930s and the early 1980s:

**Male unemployment by region 1999**

Wales	8.6
North East	8.3
North West	8.2
Scotland	7.2
Yorkshire	5.4
West Midlands	4.7
London	4.3
East Midlands	3.9
South west	2.8
Eastern	2.4
South East	2.0
Britain	4.9

Within Scotland unemployment is also highly concentrated: low in affluent Edinburgh and the Grampians; up to a third of the working population in parts of Glasgow, Tayside and Ayrshire. This brings us back to the Scotland we know. It is a country quite different from the dishonest hype of a

‘smart, successful Scotland’ peddled by the Scottish Executive – and a direct result of policies that have simply sought to service the wants of big business.

## Scotland’s Economy Today

So what is the true picture of Scotland’s economy ? The starkness of the problem is highlighted in the table below showing the value of Scotland’s manufactured exports. 74 per cent of everything manufactured in Scotland is exported and the table demonstrates just how distorted the industrial economy is. Even after the big fall over the previous year, electronics still made up almost half of the total. Far behind follow chemicals and fibres, drink and metals [Scottish Economic Statistics 2003, 58-59, 65].

Chemicals and fibres	13.8
Metals	6.3
Mechanical Engineering	6.1
Electronics	46.3
Transport equipment	5.2
Food and tobacco	1.5
Drink	9.2
Textiles	3.5
Other Manufacturing	8.1
Total	100

Industry  
Percentage share of total 2002 Quarter 3

Looking at the economy as a whole manufacturing now provides employment for only 275,00 people – 14 per cent of the working population, half as many as in the late 1970s and one of the lowest percentages in Britain and in Europe. Mining and agriculture and fisheries have also contracted drastically.

Sector	Employment in thousands
Agriculture	62
Mining	46
Manufacturing	275

<b>Sector</b>	<b>Employment in thousands</b>
Construction	142
Motor Trade	49
Wholesale	68
Retail	241
Hotels	157
Transport	131
Finance	100
Business	258
Education	73
Health and Social Welfare	200
Personal Services	114
<b>Total</b>	<b>1916</b>

Services, on the other hand, have expanded. They now make up by far the biggest sector of the Scottish economy - although a great deal of the employment is low paid and part-time, particularly in personal services, retail distribution, catering and hotels. There is one major exception. This is banking and finance. This has a large share of highly paid and professional jobs and very fast growth. It now employs over 100,000 people, contributes over 7 per cent of Scotland's output and has increased in size by 30 per cent over the past decade [Scottish Economic Report June 2001, 92]. The capital value of Scotland's banks exceeds those of France, Belgium and Scandinavia. Edinburgh itself manages more investment funds than Geneva or Milan and is the fifteenth biggest centre in the world. Its existence, like electronics and oil, underlines the key characteristic of the Scottish economy today: that its islands of large scale investment are almost always externally owned and that otherwise the economy is dangerously under-resourced and vulnerable.

This is shown strikingly when we look at research and development. In manufacturing expenditure per employee is less than half the average the British average – itself one of the lowest in the developed world. But of that very small expenditure 80 per cent is spent in two industries, electrical machinery and pharmaceuticals. In fact, over half of Scotland's R&D is spent by just 26 firms and 40 per cent of it is in US-owned firms [Scottish Economic Statistics 2003 73; Crawford 2003]. The same concentration also exists in exports. A third of all Scottish exports by value is produced by just ten firms – and exports make up well over 74 per cent of all manufacturing output [Scottish Economic Report September 2003 46]. Small firms employing less than 250 people contribute only a quarter of the exports. The same picture emerges in terms of concentration of employment. Two thirds of all manufacturing employees work in firms employing over 250 workers. In retailing and transport well over half employees work in very big firms. In banking and finance the level of concentration is so high that the figures are not released 'for reasons of confidentiality'.

In general, particularly in manufacturing, less so in finance, high investment in equipment and R&D is concentrated in overseas-owned firms. In the production of electrical and optical equipment in the mid

1990s investment per employee was £13,500 per employee in overseas owned firms against £1,600 in UK owned firms, in general manufacturing it was £7,500 against £1,600 and in paper and publishing £6,400 against £2,800. In chemicals, petroleum and nuclear power, on the other hand, the balance was the other way reflecting the presence of big UK companies. Overall, however, it was £7,600 for overseas against £2,600 for UK [Peat and Boyle 1999 50]

So a fairly clear picture emerges. The Scottish economy is highly geared to external demand. It is dominated by a few firms and a limited range of industries. The dominant firms have high productivity and the lion's share of investment. Beyond are firms characterised by low investment and low wages which feed the big firms with low value components – notably in electronics. In industries such as textiles, mechanical engineering and metal goods these smaller, under-resourced firms can only seek to compete outside Scotland on the basis of lower wages and worse conditions. In so far as Scotland became a platform economy for US and Japanese electronics firms to export goods to the EU, the collapse in world demand and the restructuring of the industry has been a body blow. It is unlikely that electronics will ever recover the scale it had in the 1990s. Although Scotland does have a niche market in whisky and some remaining concentrations of high level skills in oil technology, engines, pumps and avionics, the only major growth sector is banking and finance. Otherwise all that Scotland has is a diminishing number of high productivity plants – almost all operating as satellites of industrial cores elsewhere. What Scotland needs is its own core of research-rich industrial production that is not under external control and which can fuel self-sustaining growth.

This lack, increasingly visible and serious, is a legacy of government policy over the past quarter century and more. In the 1940s and 50s Scotland did possess such an industrial core. The country was one of the world's leading centres for heavy industry, engineering and shipbuilding. Alongside coal and metal production, there was a range of specialist sectors - mining equipment, marine and aircraft engines, guidance systems, locomotives, structural engineering, alloys and steels – that formed a coherent and integrated whole. Its disintegration has a lot to tell us about the way capitalism has changed over the past half century and the operation of the capitalist state.

## **Scottish capital – what happened to it ?**

In the 1930s those who owned this heavy industry core also controlled Scotland – its banks, its civic bodies and access to the British state. The Lithgows, Colvilles and Weirs, and their regional counterparts from the North West, Tyneside, the Midlands and Wales, had a dominating influence with the National Government. They worked closely with the strategists of British finance capital in the Bank of England to run the British empire as a highly profitable and closed trading and investment bloc. They restricted output and capacity in line with markets and were willing to tolerate high levels of unemployment to prevent any repeat of the post-war industrial militancy. Their surplus capital was invested overseas through investment trusts of Glasgow and Edinburgh – which in turn gave them clout with the London bankers. Throughout the thirties these regional barons and the bankers of the City of London were staunch supporters of the alliance with Germany – which was seen as a counterbalance to the United States and its attempts to use its technological dominance to take over British empire markets [Scott and Hughes, 1980; Houston 2001].

War with Germany in 1939 brought a drastic change. As a condition for wartime support the United States demanded the end of empire protection and access to empire resources. The war also brought

political transformation in Britain. The experience of full employment, the redevelopment of a mass trade union movement and the rise in support for the Labour Party made any return to the policies of the 1930s impossible. Very quickly, within three years, the strategists of finance capital had embarked on an entirely new course. They backed full employment, fast growth and the creation of giant British companies that could compete head on with the Americans in motors, chemicals, electricals, aerospace and armaments. These Keynesian policies, developed in the final stages of the war, were bequeathed to the 1945 Labour Government. Labour's election reflected the mass demand for a new deal. Labour introduced a welfare state and nationalised a major part of the industrial infrastructure including coal and steel. At the same time the Labour government worked economically on the terms set by the City of London, fought vicious colonial wars and by 1946 had entered a cold war alliance with the US [Saville 1993]

Developments in Scotland reflected this new balance. As a condition for its post-war aid, the US insisted that recipient governments should not subsidise their exports and should provide full access for US firms which wished to set up plants. The newly formed IMF and GATT acted as policemen. This situation had profound implications for the regional economies. One way the British government could hide subsidies was through state investments in cheap energy, transport and basic materials such as steel. Consequently the newly nationalised industries were subject to strict price control in the interests of Britain's rapidly growing transnational companies. So unlike nationalised industries elsewhere in Europe, Britain's nationalised industries were never able to plough back their profits and grow. This surplus went into the private sector [Sawyer and O'Donnell 1999]. For Scotland, with its concentration of coal and steel and its big energy and transport infrastructure, this was particularly damaging. On top of this came an influx of US branch plants. British economic planners wanted to reserve the Midlands labour force for the new generation of British transnationals producing cars and consumer durables for export. They did not want US firms poaching skilled labour and pushing up wage rates. So a quite disproportionate share of the US branch plants were directed to Scotland. These incoming firms, Hoover, IBM, NCR, Caterpillar, were able to draw on Scotland's highly skilled engineering workforce [Woolfson 1986]

So what happened to Scottish capital ? Don't shed any tears. Their compensation money for coal and steel went into their investment trusts. Nothing was invested into what remained of their holdings in shipbuilding and engineering which they continued to run very lucratively in the post war sellers' market – but failed to match the re-equipment that was taking place in competing markets in Japan, Germany and America. They knew that the writing was on the wall for heavy industry. The US had given priority to their own shipyards and weapons systems in the rearmament drive. Nationalisation saw Clydeside firms losing their privileged access to steel while US firms locally were taking their skilled workers. In the new situation the baronial families of the 1930s became privileged shareholders in the big British transnationals – as well as in the mining companies, oil firms and empire tea and rubber plantations that were still turning in prodigious profits in the 1950s.

The next big change came in the 1960s. The big British firms in the south east were encountering tight labour markets and strong union bargaining. In response the incoming 1964 Labour government radically strengthened regional policy to direct major British companies to relocate new investment projects to the regions to exploit what were seen as reserves of under used and cheaper labour. This threatened the cheaper labour on which Scottish capital relied to sustain what remained of its production base. Its owners, still highly influential figures in the Conservative Party, were soon canvassing the Conservatives to commit themselves to end the regional direction of industry. Most specifically, they demanded closure of the now partly government owned shipyard, Upper Clyde Shipbuilders, in order to reduce wage pressures on the other Clyde yards. These policies were

implemented almost to the letter by the incoming Conservative government of 1970 – which also wanted spare capacity in Scotland to open up the oil reserves recently discovered in the North Sea. By 1971 these reserves were seen as of great strategic importance to the US and British governments in their battle against OPEC, the cartel of third world oil producers [Harvie 1993].

What happened next demonstrates the unpredictability of politics. The closure was fiercely resisted and a massive revolt permanently altered the Scottish political landscape. This revolt included not just the workers who occupied the yards, local authorities and the wider trade union movement but also a significant section of traditional Conservative supporters among small and medium business and shipyards contractors fearful of the rundown of shipbuilding. In 1972 the STUC found support for the establishment of the first Scottish Assembly. This brought together all sections of Scottish society to demand the establishment of a representative body that could provide democratic control and direction

### **1980s PRIVATEERS AND THE EDINBURGH BANKS**

Stagecoach plc is now Scotland's fifth biggest company. It controls transport systems across the world and made vast profits by buying up and monopolising privatised bus companies and then rail franchises. Its biggest single coup was the purchase of the rail franchise Porterbrook for £800m in 1996. This had a guaranteed government subsidy and enabled Stagecoach to make profits of over £100m in the first year. Where did a small Perth bus company, founded by an ex-bus driver Brian Souter, get the money ? From the Edinburgh investment trusts. The first £5m for the privatisation purchases was raised by Edinburgh merchant bank, Noble Grossart, in 1989 – with one of Scotland's oldest investment trusts, Murray Johnstone, providing the biggest investment. The bankers also provided invaluable political links to Conservative politicians desperate to push privatisation. Ewen Brown, director of Noble Grossart, has been on the board of Stagecoach from the beginning. He is also director of John Wood plc, Janes Walker (Leith) Ltd, Dunedin Income Growth Investment Trust and Amicable Enterprises Trust and was chair of Scottish Widows Bank [Wolmar 1998].

for the Scottish economy. This revolt in Scotland, backed by massive one day strikes, merged with wider struggles across Britain against de-industrialisation and the anti-trade union Industrial Relations Act. In 1972 the Conservative government was forced to abandon its closure plans and was then defeated in the 1974 election by a radicalised Labour Party.

The incoming Labour Government came to power pledged to 'an irreversible shift of wealth and power in favour of working people'. It scrapped the new Tory anti-trade union laws. It nationalised shipbuilding, aerospace and the British owned car industry. It pledged itself to take the oil industry under public control and established a Scottish Development Agency to direct the development of Scottish industry. Tony Benn as energy minister set up the British National Oil Corporation to trade oil and Britoil to produce it. This involved the government taking powers to buy up to half of all the oil produced and to decisively limit the rights of the oil companies by imposing depletion controls – requiring the slower, phased extraction of oil and gas. Had these measures been fully implemented Scotland's economy today would have been much more like that of Norway. As against Norway, Scotland had an almost perfect match between the engineering requirements of offshore oil and the pre-existing strengths of the Scottish economy. Locally-based technology could be developed for oil extraction and locally produced steel could have been used for the massive infrastructural requirements of rigs and pipelines (as it was virtually all was imported). The gas reserves could also have been preserved for long-term use [Woolfson 1996].

Of course none of this happened. The Labour government came under fierce attack and within four years was replaced by the Conservatives under

Thatcher. The US and British oil companies and the US government were deeply unhappy about the Labour Government's threat to their investments and to their use of North Sea oil to defeat OPEC. The group around Thatcher had close links with right wing oil politics in the US and in Britain represented that wing of British finance capital which wanted to use mass unemployment to regain control of the labour market. Some members, like Nicholas Ridley, had close links with old-style regional capital. The strategy of the new government was quite simple – and largely announced in the first budget statement. The pound would be allowed to become a petrocurrency - rising in value at the oil came fully stream in 1980-81. All restrictions would be taken off capital export and off oil investment. State support for industrial production would end and nationalised industries be privatised. Unemployment would be allowed to rise and the trade union movement defeated. The long term perspective was for a period of radical de-industrialisation, disinvestment and mass unemployment that would finally 'break the cycle of rising expectations'. Meanwhile, the strong pound would be used to rebuild foreign investments and the banking base of the City of London. This phase would then be followed by a repatriation of capital in a new union-free environment using new US and Japanese style techniques to transform productivity [Woolfson 1988].

This strategy required a new and more dependent relationship with the United States – in terms of military strategy, oil investment, the overseas protection of British investments and US investment in Britain. The new generation of US and Japanese branch plants, targeted at the European market, were seen as critical in terms of consolidating the new non-union culture and providing a long term guarantee for a strong British balance of payments. To facilitate their grip on the European market the Thatcher government was instrumental in the creation of a Single European Market.

As always, the outcome was not as predicted. British capital went out. Little came back. There was mass unemployment - but the trade union movement was not destroyed. The attempt to impose a new political culture failed – spectacularly in the case of the poll tax. In the deindustrialised regions of England, as in Scotland and Wales, the Conservative Party became unelectable. In Scotland, and to a lesser extent in Wales, the Conservatives were replaced by nationalist parties and the Liberal Democrats.

Yet profound changes did occur in the character of British capital. It became far more concentrated in banking – and in doing so far more parasitic on the US – and largely lost its own production base (apart from oil, chemicals and military aerospace). The one area of domestic investment that did see major expansion was in privatised utilities where the profit level was up to double that for manufacturing – in part thanks to guaranteed government income. British capital also became far more integrated. The old regional concentrations, previously located in industrial production complexes, largely vanished. In Scotland this was so also - but Scottish capital retained a highly structured base in banking.

Historically, Scotland always had a very strong banking sector. It had clearing banks with rights to issue notes: the Royal, Clydesdale, the Bank of Scotland. It had the biggest array of investment trusts outside London. It had a number of major insurance companies. These had historically had been closely interlocked with Scottish regional capital and were the repository of the wealth dis-invested from Scottish industry in the post 1945 period. Scottish financial institutions gained business in facilitating the oil investment in the 1970s and benefited considerably from the freeing of controls over capital export in 1979. As public utilities were privatised in the 1980s and 1990s they also played a leading role in financing the privatised companies – particularly in Scotland.

Hence, the development in Scotland as a major subsidiary banking centre of the City of London. There are today strong elements of integration: TSB Lloyds Scottish Widows; Halifax Bank of Scotland. On

virtually all the Scottish institutions there are directors from City of London institutions. But throughout there is a core of directors who represent the interests of Scottish capital and are interlocked with remaining “Scottish” firms such as Weirs, Scottish and Newcastle and AG Barr and the ‘new’ Scottish companies such as First Bus, Stagecoach, Scottish Gas, Scottish and Southern Energy.

So, to sum up, what had changed since the 1930s ?

Scottish capital was already strongly integrated strategically and politically with British finance capital in the 1930s – but this was on its own terms by virtue of its independent production base. This base has now very largely gone. Today Scottish capital is essentially rentier. However, because of its control over independent Scottish investment vehicles, it does possess a special degree of cohesion and influence within British capital as a whole.

This process has been accompanied by a widening cleavage between large scale capital and its traditional social and political base – small business and the professionals. In the 1930s there was a very direct subordination to the barons of Scottish heavy industry. The changes after the 1940s loosened these links. The subordination of the Scottish economy to the centrally determined needs of British (and Scottish) finance capital created disorientation and at times revolt. The rhetoric of the Thatcher government was designed to regain the loyalty of small business – but the consequences of its policies for Scotland had the opposite effect.

British big business, though much weaker than it was, still possesses some very significant productive assets. These are mainly in oil, petrochemicals, energy, aerospace and pharmaceuticals. It also possesses some large and internationally aggressive privatised utility companies – though these operate abroad mainly as conglomerates taking over existing technologies. Its biggest strength is in banking – though, as in oil and petrochemicals, its overseas operations are often in alliance with the US.

Capital at both Scottish and British level continues to be highly dependent on the British state. It was demonstrably so in the 1930s in terms of an empire based trading system. It remains so today in terms of its dependence on overseas oil and banking. In Britain itself its operations depend on the state for markets (arms production and pharmaceuticals), income stream (privatised utilities) and for much of its research..

Politically, the changes have been massive. In the 1930s the party of big business, the Conservative Party and its allies, possessed an overwhelming majority in parliament – including a big majority of Scottish MPs. A large segment of the Scottish working class itself voted Conservative. Today, the Conservative Party has lost much of its electoral base across the regions of Britain and almost entirely in Scotland and Wales. This process occurred in short concentrated bursts and always as a result of actual struggles in which the realities of exploitation were exposed and allegiances transformed. This was so in the 1930s and 40s and the creation of a mass Labour movement. It was even more so in the 1970s, with the radicalisation of the trade union movement and the Labour Party, and 80s with the exposure of the Conservatives. Today the proportion of people across Britain supporting public ownership and the nationalisation of utilities is far higher – by over a half – than it was in 1945. The response of big business to these reverses has been to try to secure its strategic objectives through the Labour Party. In the 1940s this was moderately successful – though it had to make major concessions. In the 1970s it was less so. Since 1997 it appears to have been almost entirely successful – colonising the entire parliamentary leadership.

This therefore brings us back to the question of Scotland as an independent state. If the British state is

so firmly dominated by big business, if the Labour Party acts as its political agent, would not striking out for a separate Scotland break up this state and start the process of liberating working people ?

## **An independent socialist Scotland**

What follows is an attempt to put the best case possible for this strategy – identifying the opportunities and obstacles and the kinds of path that might be appropriate.

### **Winning majority support**

Currently only a minority in Scotland support independence. Surveys show support fluctuates between 25 and 40 per cent of the electorate. Support is also very volatile. Up to half of those who expressed themselves as supporting independence in 1997 did not do so by 2001 – and vice versa [McCrone and Patterson 2002]. Even so, support among younger age groups is consistently higher than that among older voters, and it might be presumed that the numbers supporting independence will increase over time. The past ten years have been relatively good economically. Economic crisis at British level could precipitate a rapid change in attitudes.

However, that still leaves the problem of support for a socialist Scotland. It is certainly the case that there is somewhat more support for independence among those who describe themselves on the left of the political spectrum than those in the centre or on the right. But it is still the case that those who might back a socialist Scotland are a minority of those who back independence – who are themselves currently a minority [Bond and Rosie 2002].

None of this represents an insuperable objection to the call for a socialist Scotland. If it was, all socialists would have given up long ago. It is also likely that once independence is secured there would be a generally left of centre electoral majority. Nevertheless, it does make it important to consider how support for an independent socialist Scotland could be mobilised, what alliances could be developed and what kind of practical programme could be presented for the transition to socialism afterwards. On this would depend the character of the post-independence electorate and how quickly and effectively a majority for socialism could be created. A path to independence that involved strong conflict with England over resources and depended on anti-English rhetoric would tend to create a nationalistic rather than a class conscious perspective among a majority of voters. A path that was more internationalist and anti-imperialist would tend in the other direction.

## **The economics of an independent Scotland**

To begin we must identify the main economic obstacles.

First, there is the deficit in public expenditure. Scotland depends on a transfer payment from Britain of approximately £4-5m (roughly 15 per cent of the block grant). Scotland's small tax base and its bigger numbers of sick, elderly and unemployed are the cause – themselves a product of capitalism's uneven development within Britain. Nonetheless, the deficit represents a major financial problem for any independent government [Goudie 2002; Midwinter 2002; Erickson 2003]

Second, there is the small size of Scotland's productive economy and its external dependence: only 7 per cent manufactured output goes to consumers in Scotland, 75 per cent is sold directly outside Scotland (over half in England) and 18 per cent is bought by other producers for further manufacture.

Third, there is demographic weakness. Scotland's population is much older than that of Britain and by 2011 will have more people of pension age than working age. It is also getting smaller.

Fourth, there is the depletion of Scotland's most important natural resource, oil. Output will decline relatively fast over the next ten years and by next decade will be less than half its current level.

In these circumstances what kind of economic programme can be put forward that will address these problems and develop Scotland's economy ?

The SNP's economic strategy is essentially market-based. It sees Scotland growing faster by having the freedom to promote enterprise and business investment. While the SNP does not fully accept the scale of the current transfer from Britain, it argues that any deficit could be reversed in an independent Scotland in three ways. First, Scotland could justifiably claim 90 per cent of the revenues from North Sea oil and gas – producing between £1 and £3 billion a year depending on the price of oil. Second, an independent Scotland might be able to claim compensation for not receiving such revenues over the past twenty five years. Third, an independent Scotland would have control over tax levels and therefore be able to make the country more attractive for investors. The SNP says that the relative contraction of the Scottish economy has in part been caused by the lack of freedom to lower taxes – citing the example of Ireland's low tax policy producing much more incoming investment and faster economic growth. Lowering business rates and corporation tax would, says the SNP, offset Scotland's peripheral position within the European economy, attract more investment from outside and enable locally-owned firms to compete more effectively. It points to the United States, where individual states have the freedom to modify their own tax structures in a business friendly way, as a model for an independent Scotland operating economically within the framework of the European Union. An independent Scotland would also, within the SNP agenda, be able to make significant savings on military expenditure – while the existence of a sovereign state could itself be expected to generate more directed and comprehensive economic planning [Erickson 2002]

But there would also be very decisive limitations. Scotland would remain within the EU and be subject to EU directives. These prohibit direct state support for industry and also require that social provision, transport and most infrastructure be open to private sector competition. There would therefore be only very limited scope for state-directed and controlled investment. Correspondingly, economic growth would very largely depend on winning external investment – and mainly by undercutting other parts on the EU in terms of business taxation and probably also wages and conditions. The SNP would argue that this would constitute only a limited phase necessary to kick start growth and that soon Scotland's advantages in terms of a highly educated labour force would, as in Ireland, create a critical mass of indigenously based business that could provide self-sustaining growth. Nonetheless, for some considerable time the new political elite in an independent Scotland would effectively govern on behalf of those who currently own Scottish business, almost all from outside Scotland and most from the City of London. The government would also be obliged under the EU to keep a tight lid on social expenditure. Lower business taxes would most probably mean that budgets for the public sector would have to be, in adverse demographic circumstances, even less than at present - at least until economic growth had been considerably increased.

Finally, there are the political implications of the SNP agenda. These would tend to be nationalistic and give rise to an analysis of Scotland's economic difficulties in terms of English governance rather than the operation of the capitalist market. A major part of the SNP agenda is the claim to oil revenues from the North Sea along with some measure of compensation. The key post-independence lever for growth would be competition for investment against other nations and regions.

This therefore makes the call for an independent socialist Scotland seem even more attractive. The perspective of a Scotland outside the EU and pursuing socialist policies would – it could realistically be argued – quickly gain in popularity both in the run up to independence and in the political contest over the country's direction afterwards.

## **The economics of an independent socialist Scotland**

There is a strong economic case. One major economic argument for socialism is it transforms the relationship between the worker and the means of production. Socially and psychologically the population can be mobilised to enhance their own capabilities within an economy that they now control. Today, in an increasingly knowledge-based economy, this is a factor of no small importance in terms of increasing productivity. Another major argument is that a socialist society can, through state support, develop industries that would otherwise be killed off by external market forces. For a small country that desperately needs to broaden its industrial base this is a strong argument. A further argument is that a socially planned economy would be better able to eliminate wasteful competition and that full employment would ensure that all resources are used. Together these factors do indeed explain how in the past some socialist economies have been able to achieve very high rates of growth, at least initially. They also explain how more recently the remaining socialist economies, such as Cuba and Vietnam, have been able to survive the loss of support from the Soviet Union and economic blockade by the United States. There is no reason to doubt that in a socialist Scotland they could also have a powerfully positive influence on economic growth.

At the same time it is also necessary to realistically assess the problems that a socialist Scotland would face. Cuba and Vietnam have been able to survive in part because they previously did receive very significant support from other socialist countries and were able to consolidate relatively effective socially owned production in a number of areas. Since the loss of external help, this strong core of state-owned production has enabled them to draw in external private investment on terms that has not unduly damaged the socialist character of their societies. A socialist Scotland would not have these initial advantages. It would have to go about socialising its economy with no external help and much opposition.

The difficulties are very considerable. We have already listed the general economic problems: the public sector deficit, the external dependence of manufacturing, the adverse age profile and depletion of oil. But there are clearly special difficulties for a socialist agenda. These relate to the types of industries which Scotland has and the character of their ownership. The great bulk of the economy is owned from outside Scotland – with half of all employment concentrated in a few relatively large employers. It is also highly dependent on external inputs and outputs – with two thirds of the value of computers and other electronic equipment being imported into Scotland as components made elsewhere. Much, although not all, of this externally owned capacity could be shut down and relocated with relatively little loss to the owners. Banks and insurance companies operating in sterling could relocate with minimum disruption to England. The US and Japanese owned computer companies could relocate without much loss to other venues inside the EU. The aerospace and armaments industry could also relocate – although with the loss of some capital investment. The main exceptions would be oil, gas, whisky, coal, hydroelectric and wind power, farming and fishing.

Any immediate and outright take-over of all sectors of the economy would therefore see big business, Scottish and external, simply transfer operations. The loss of banking and computers alone would deprive Scotland of well over half its external income within a very short period. Economic crisis, poverty and unemployment would then be used to destabilise the government.

In terms of strategy therefore a movement committed to socialist transition, as against the current SNP policies, would probably find its most feasible approach as moving first, as has been done in a number of socialist countries in the past, to a mixed economy with a strong state sector. Significant areas of private enterprise would remain – and benefit from the improved infrastructure. The obvious areas for nationalisation would be oil and gas, whisky, coal and energy from wind and water. In all these areas there is significant levels of Scottish skilled labour and expertise and relatively strong external markets. They are also areas very largely owned by external transnational companies and there would be a strong moral case for their ownership and control by the Scottish people. Assistance would be available, in terms of oil and gas for external marketing by third world countries with similarly state controlled production facilities.

### **Directors of the Royal Bank of Scotland**

The Royal Bank is now Britain's second biggest bank and is expanding aggressively abroad – particularly in Spain and the United States. Major shareholders are Aviva (previously CGNU – major shareholder Legal and General), and Guardian Royal Exchange (now owned by the Dutch firm Aegon NV).

The Chair is Sir George Matthewson, previously Chief Executive of the Scottish Development Agency (also director Scottish Investment Trust), Vice Chair Sir Iain Vallance, former chair BT, non exec director Mobil, European Advisory Committee NY Stock Exchange Vice Chair Sir Angus Grossart, md Noble Grossart, d. Scottish and Newcastle, Edinburgh Fund Managers, Scottish Investment Trust

Directors include Jim Currie (EU Director General Environment), Eileen MacKay ( ex Principal Finance Officer Scottish Office; Edinburgh Investment Trust), Steve Robson (ex Second Permanent Secretary HM Treasury), Robert Scott (Chair Association British Assurers), Peter Sutherland, chair BP and ex EU Commissioner and William Wilson (Lloyds, Edinburgh US Tracker Trust, Noble Grossart).

The revenues generated could then be used to develop a publicly owned productive sector, to provide

help for small business and co-operatives and to improve the infrastructure to make it more attractive for external producers to maintain their presence meantime. Some scope might also exist for higher taxes on big business operations and at least £1.5 billion could be saved on defence. In addition, the government would control the existing public sector and, if was outside the EU, be able to rescind the PFI schemes in housing, water, schools, transport and roads to the benefit of improved services and employment provision. The configuration of the economy at this stage would be somewhat like that of Norway today. Having consolidated an economy with a large and viable public sector, this could then be used as a platform for progressively expanding social and cooperative production into new spheres. With a socialist and progressive ethos dominant in society, the more general factors assisting productivity and growth under socialism could be expected to play an increasing role.

This seems the most feasible path towards socialism. But even here there would be very formidable difficulties. The additional industries and services specified for social ownership constitute at most only 9 per cent of Scotland's GDP and oil, as we have noted, is in decline. Although global oil prices may well rise over the next fifteen years the costs of extraction will also increase. So although in 1979 this road, as it proved for Norway, would have been very viable, it is much more problematic for Scotland thirty years later. In hard figures, the amount of surplus available from whisky, oil, gas and other energy ten years hence might just reach £4 billion and hence compensate for the loss of transfer income from England. It is unlikely to be enough to subsidise other sectors of the economy or transform the infrastructure. This does not condemn it. Political and social mobilisation might be able to sustain expansion in these sectors. But it does underline the difficulties for a separate Scotland embarking on a socialist road.

So it is useful to sum up the problems that would have to be encountered

A majority does not exist for an independent Scotland. In politically winning this majority it would be necessary to ensure that the politics of this movement did not build a chauvinist nationalism and instead deepened a socialist understanding. Otherwise there would not be a political base within this majority for a socialist Scotland.

To win a majority for a socialist Scotland, a feasible economic programme will have to be offered. The only feasible programme would seem to be one that would for the first period represent a mixed economy with a majority of the workforce still employed by private capital, most of it in non-Scottish transnationals. The major area to be nationalised would also tend to be productive of nationalist rather than class argument: 'it's Scotland oil'.

Sustaining a mixed economy for perhaps two decades, still very largely dominated by external capital, would pose major difficulties in terms of reaping the economic benefits of socialist political mobilisation. It would also pose major risks in terms of political stability and the opportunities for hostile forces to create economic crisis and to reverse the political balance.

None of this makes an independent socialist Scotland by this route impossible. It does, however, make it very difficult.

## **The British State**

At this point it is useful to shift our focus and consider the other objective of an independent Scotland.

This is the break up of the British state.

It stands to reason that, if Scotland were independent, 'Britain' would no longer exist as a geographical-political entity. But would this really mean breaking up the base of British imperialism and capitalist state power in and over Britain? There is a grave danger here of confusing the institutions of a geographically-defined political entity with what Marx described as capitalist state power. This distinction is particularly important today at a time when the forces of imperialism are themselves seeking to manipulate boundaries and national and supra-national institutions in their own interests.

To clarify this point it is necessary to return to basics and look, very briefly, at how Marx analysed the development of class society generally and capitalism in particular.

History, said Marx, was the history of class struggles. By this he meant that it was the struggle between classes that provided the motive force that drove history forward. He defined these classes by their opposed positions within particular modes of production – that is systems of production specifically organised so that one class was able to exploit the other. They were in turn slave society, feudal society and capitalist society. In each there was a ruling class that was able to extract surplus from the subordinate class by virtue of the way society was economically and politically structured. In slave society a minority class of slave owners were the direct beneficiaries of the labour and skills of a majority slave population. Under feudalism a population of peasant producers were held in legal subjection and forced to hand over all they produced beyond subsistence. Under capitalism labour was free – but in order to subsist had to sell its labour power to those who monopolised the ownership of the means of production. In each case the conditions for extracting the surplus were different and mutually contradictory. Feudalism depended on tying producers to the land and thereby precluded a market in labour. By contrast, the capitalism depended on such a market and a permanent pool of unemployed.

It was because the requirements of each mode of production were mutually contradictory and had to be sustained by state power that Marx argued that the transition from one to the next required a revolutionary transformation. He argued that the functioning of a new mode of production required the systematic removal of all the politico-economic supports for the old system and their replacement by what was required for the new. State power therefore meant class power. The first task of each new ruling class was to create the type of state power that would satisfy the economic needs of the new system. Each system of state power would be distinct.

At the same time, Marx did not see modes of production as arriving out of the blue. Each mode derived from the specific contradictions of the previous system, and no mode of production could be replaced until its potential for developing the material forces of production had been exhausted. Initially, for instance, the feudal mode of production had a progressive role. Feudal landlords transformed agricultural productivity by freeing slaves to become peasant producers. But this process itself became contradictory as agricultural improvement reached a point when some peasants accumulated land and equipment beyond what could be used by their immediate family. From this moment these peasant producers began to form a new class that saw feudal relationships as holding back further development. They needed a labour market. They demanded an end to feudal control. In this way they began to embody as a class the realisation that the existing feudal social relations of production fettered, to use Marx's term, the further development of the material forces of production. It was on this basis that Marx saw class struggle as driving historical change [Marx 1859].

The role of state power is therefore to maintain the conditions needed for the extraction of a particular kind of surplus and to respond to that system's emerging contradictions. It is not simply an administrative legal structure. It is, to use Marx's phrase, 'the executive committee of the ruling class'. It unites and concentrates the power of the ruling class to isolate and destroy any direct opposition. At its heart are the mechanisms that link the ruling class to the active, intelligent process by which its collective class interests are enforced [Marx 1848]; Lenin 1917]. Accordingly, state power is not something fixed and static. As class power, its precise form will change in line with the challenges it faces. Marx saw the transition from feudalism to capitalism as stretching over three centuries. In many instances anti-feudal forces failed in their efforts to uproot the basis of feudal power in the countryside and the emergent capitalist market suffocated. On these occasions feudal state power was re-organised on a new, much more centralised basis that sought to accommodate but also contain the emergent commercial forces. Marginal elements within the feudal class were sacrificed. Some concessions were made. But feudalism itself was reinstated.

You do not have to look far to find parallels with attempts to overthrow capitalist state power. Success will depend on how far the system's material contradictions have matured and, as a result, how far the balance of class forces can be shifted against the old order. The mark of a revolutionary situation was the ability of the revolutionary class, even if itself a minority, to unify a majority for a rejection of an old order and in favour of a new. In doing so the revolutionary class had to universalise its vision. The working class, said Marx, had to win the battle of democracy and 'make itself the leading class in the nation, make itself national – though not the bourgeois sense of the word' [Marx 1848]. It was precisely in the process of creating such revolutionary alliances that nations themselves were redefined and, in some cases, new nations formed - a point to which we will return.

First, we must finish with the question of British state power. This has to be understood, as we have seen, as the entire system of constraints and controls needed for the capitalist system to function in face of its emerging contradictions. Over the past century Britain's ruling class has repeatedly changed its methods of rule in response to such contradictions. It was one of the very last in Europe to concede full democracy and it was this that triggered the key changes in the character of state power that continue to the present. Earlier, in the nineteenth century, Marx had seen the demand for democracy as a critical one because, unlike Germany or France, wage labour in Britain already formed a majority of the population. It was exactly for this reason that Britain's ruling class opposed democracy. Still in the 1900s less than half the male working population had the vote while property owners had multiple votes on the basis of property in different constituencies. Full democracy for all women only came in 1928 and for all men in 1918.

Previously the House of Commons directly represented capitalist property and thereby acted as a representative body expressing the interests of the capitalist class as a whole. As such, it constituted the core element of the capitalist state and the struggle to enforce its authority was critical for the consolidation of capitalism in the 1600s. Equally, from the late 18th century the demand for the extension of the vote had been one that united working people across Britain. By the time of the Chartists universal suffrage was seen squarely in class terms: the only way of securing the interests of organised labour against those of capital. It was this that really frightened Britain's ruling class: the spectre of the vote being used collectively and linked to an organised party of the working class. From the 1860s the ruling class strategy was to extend the vote gradually so that the new voters attached themselves to the existing parties of capital. At same time every effort was made to integrate the trade union movement into an acceptance of the existing system. Britain was the first country in Europe to give legal recognition to trade unions and to legislate on hours and working conditions despite being one of the last to concede democracy. In the event none of this could stop the eventual radicalisation of

the trade union movement during the economic crises of the 1890s and the formation of a united party of trade union movement in the 1900s. The political turmoil of the first world war and the formation of the first socialist state then made it impossible to delay full voting rights or halt the emergence of a mass Labour Party.

This democratisation had, however, been well prepared for – coinciding as it did with a key change in the character of the capitalist class brought about by the emergence of monopoly. Monopoly, by which markets were subordinated to a small number of great companies, enabled one fraction of the capitalist class to secure super-profits at the expense of lower profits for the rest. This brought with it a basic divergence of interest within the capitalist class – demonstrated in the 1920s by policies which grossly penalised small domestic producers to the benefits of the banks and the great imperial companies. The challenge for the small fraction of the capitalist class that now exercised economic power was how to sustain control politically in a period when the House of Commons no longer represented capital – let alone monopoly capital - and increasingly threatened to become a forum for antagonistic class forces.

The solution, developed over the thirty years up to 1920, was to restructure state power in a way that withdrew policy making to a Cabinet executive and created a new nexus of links with ran directly to the institutions of monopoly capital by-passing the Commons. The central elements of the new structure were:

A permanent ‘administrative grade’ to control the civil service directly recruited from the top echelon of the ruling elite and based in the Treasury

The Bank of England, still owned and controlled by the leading City of London merchant banks, which managed key areas of financial and economic policy in conjunction with the Treasury

A consolidated intelligence service that brought together the intelligence services of the armed forces and the Home Office controlled metropolitan police – again staffed by recruits from the top echelons of the elite

A new array of expert policy bodies and journals, ultimately responsible to the finance capital elite, such as the Economist, the Times, the Royal Institute of International Affairs and later the National Institute of Economic and Social Research - again similarly staffed

A cabinet committee system that brought together representatives of all the above groups on daily basis to determine policy along with government ministers

In the minutes of these cabinet committees for the 1920s and 30s can be read the frankest exchanges on the day to day tactics of class control and the management of British finance capital’s global structure of economic and political dominance [Jones 1969]

In essence this has remained the key configuration of capitalist state power in Britain ever since. It links finance capital directly to the levers of executive action and provides a range of forums in which its ‘best minds’ can debate the way forward. It would, however, be quite wrong to suggest that these structures operated with effortless success or without sharp internal conflicts. In fact the difficulties have magnified as the dilemmas of class control have deepened. Take the Labour Party. Immediately after the first world war every effort was made to force the trade union movement back into a limited, purely industrial role and prevent the emergence of a mass Labour Party. When this tactic looked as if

it would prove seriously counterproductive, a new strategy was advanced which sought to colonise the leadership of the parliamentary Labour Party and use it to control and deradicalise the trade union movement. This strategy in turn almost met disaster in the 1926 general strike. In 1931 when the Labour government of Ramsay MacDonald attacked public sector wages, the trade union movement used the links to purge MacDonald and the right wing from the Labour Party. In the 1940s, as we saw earlier, deals were struck with the leaderships of the trade union movement and the Labour Party to introduce a radically new stage in the management of the economy. Yet by the 1970s the result was a radicalised trade union movement that sought far reaching changes in state structures and the economy. This particular episode produced ferocious internal conflict within the British state apparatus – eventually won by the those who wanted a frontal attack on the whole Labour Movement. While this assault did great damage, it did almost as much to the Conservative Party as the one remaining political party directly based within monopoly capital. The response was again to colonise the Labour Party – but this time with even more unpredictable consequences.

Behind these deepening difficulties have been two underlying trends. One has been the growing weakness of British imperialism in face of its rivals and the increasingly damaging and parasitic alliances it has been forced to make. The second trend has been proletarianisation. An ever bigger section of the population is directly exploited as employees. Small business has been squeezed. Independent professions have increasingly become employees of companies or the state. Economic crisis has eroded conditions and intensified work. Political attitudes and trade union allegiances have changed correspondingly. In all this there has been one constant. From the beginning to the end of the twentieth century the British state apparatus has been centrally concerned with keeping a grip on organised labour. Whether this has been through a right-wing trade union leadership controlling the Labour Party or vice versa, the most basic objective of the British state has been to ensure that the collective power of working people was never united behind any programme that challenged capitalism. In this it has shown a consistently clear class understanding. As Marx argued, only a class, organised as such, can effect a transition from mode of production to another. The increasingly abrupt changes of tack over the past twenty years have exemplified the dilemmas now faced by the strategists of finance capital in maintaining this grip. Its options are now much fewer and the basic crisis of British imperialism much greater. This has one more brought into focus the problem of democracy and the dangers posed to the British ruling class by a constitution in which sovereignty is still vested in an elected house of commons.

It is in this context that we must see the recent constitutional changes resulting from membership of the European Union and the wider process of globalisation.

Globalisation has been portrayed by its proponents as the inevitable result of economic change. It is in fact essentially political. As a new phenomenon, ‘globalisation’ has virtually nothing to do with global flows of trade and capital. These were the basis of capitalist development 300 years ago. ‘Globalisation’ as experienced since the 1980s is in essence the removal of political controls over capital and capital movement that were imposed as a result of the post-1945 balance of class forces. It marked a return to the neo-liberal, monetarist policies of the 1920s and 30s and was initiated by the governments of Thatcher and Reagan. These new freedoms for capital are indeed policed by international organisations, the IMF, World Bank and WTO (previously GATT) but this enforcement is on behalf of the finance capital elites of the main imperialist states including Britain. And its effect is essentially negative. It prohibits democratically elected institutions from interfering with the prerogatives of capital. It thereby strengthens the ability of capitalist state structures in Britain and the US to act on behalf of ‘their’ banks, armaments producers or oil companies – which could not operate for a day without the state power support of their own country. Far from ‘hollowing out the nation

state', it represents a hollowing out of its democracy and safeguards the state power apparatus of monopoly capital from popular challenge.

The European Union serves exactly the same function. As we noted earlier, the prime mover for the Single European Act was the British conservative government in the 1980s. Under these treaties the EU prohibits interference with capital movement and requires the opening up of the public sector to monopoly capital. It thereby blocks any programme of progressive economic transformation that could otherwise mobilise anti-monopoly forces around the working class. While the EU does also reflect inter-imperialist conflict (principally France and Germany against the US), it is its prohibition of democratic control over capital that unites finance capital in its favour. At a time of intensified economic crisis the EU provides a crucial protection for the state monopoly capitalist apparatuses of France, Germany and Britain from challenge from below [Griffiths 2003].

This hollowing out of democracy by finance capital represents the most important modification of the capitalist state of the present time. The EU constitution and the consolidation of the eurozone represents a critical new phase.

### **To sum up this discussion of state power**

The state, in Marx's terms, represents those structures by which a ruling class is able to enforce and reproduce the specific conditions needed for its extraction of surplus. Its form will change in face of the evolving material contradictions of that system

Capitalist state power in Britain was originally based in parliamentary structures that directly represented capital. The democratisation of parliament was delayed until the third decade of the twentieth century. Over the previous century every effort was made to prevent the organisation of the working class on a politically independent basis and keep the trade union movement within the confines of capitalist state institutions

The eventual concession of democracy coincided with the development of monopoly and the consolidation of finance capital control over the economy. The state power response was to bypass parliament and create a nexus of links that ran directly between the executive and the institutions of finance capital. This remains the basic form of capitalist state power today.

The viability of these state monopoly capitalist structures has always depended on their ability to subordinate the Labour Party and organised labour. This has become progressively more problematic as British imperialism has weakened and the size of working population grown

The key moments of advance for working people in Scotland and in England have been when their collective organisations as a class, the trade unions, have been most united and radicalised across Britain: between 1917 and 1926, in the 1940s and in the 1970s. On each occasion finance capital has had temporarily to give ground and then change its method of rule.

The current phase in the maintenance of capitalist state power in Britain involves removing any democratic content from parliament by subjecting it to the negative constraints of the EU. This step

protects the key nexus with finance capital. But is also very risky. It holds the danger of open conflict between nationally-based democratic institutions and what could be perceived as externally enforced state power structures of monopoly capital.

This now takes up back to the question of breaking the British State.

## **Breaking the British State**

In light of the above it should be clear that although an independent Scotland would indeed mean the end of Britain as a politically-defined entity, it would have little impact on British state power. On the contrary, an independent government on the terms set out by the SNP would be ruling on behalf of external capital, much of it British. Indeed, by introducing more business-friendly taxation and labour policies it could actually increase its rate of exploitation. An independent Scotland pledged to socialism would present more of a challenge. But it would not of itself break British state power. As we saw earlier, its progress would be economically very problematic and any transition would be protracted and provide many opportunities for destabilisation and reversal.

We therefore come back to the other route to socialism in Scotland: first breaking the political grip of the rich and powerful at British level. The difficulties here are also great. But it has one great advantage. It involves uniting working people on a class basis in a way that exploits the immediate contradictions facing the state power grip of British finance capital today – on a battle ground that is economically much less stacked in favour of finance capital.

What are these contradictions ?

There is the basic crisis of British imperialism. It is parasitic and involves incompatible alliances and unsustainable military expenditure.

British overseas investment is per head higher than that of any major power. It is disproportionately geared towards portfolio investment and bank loans. It has left Britain's productive economy with one of the lowest levels of R&D in the developed world and a very serious productivity gap. It is also heavily dependent on the US military industrial complex and banking system – while at the same time being deeply involved in the EU. It is increasingly exposed to politically irreconcilable demands emanating from the US and the EU. The dependent relationship with the US requires levels of military expenditure that are per head double those of the EU and Japan and economically unsustainable [UN World Investment Report 2002; UK Defence Statistics 2003 37].

There is the crisis of finance capital's social and political base in Britain

Up to the 1970s and 80s there was a very substantial social and political base for perspectives which derived from finance capital among many people who were themselves salaried employees or worked independently. Now, however, the objective conflict of interests is becoming acute. The crisis of corporate profitability in the late 1990s and early 2000s saw pension funds being raided to pay dividends. As profitability fell in the productive economy, bank funds flowed into a property and housing speculation and into consumer lending. The consequence has been unprecedented levels of personal indebtedness which, added to the pensions collapse, will press increasingly harshly on these

strata. The difficulties of the Conservative Party illustrate the change.

There is the crisis of the British State's relationship with organised labour

Finance capital currently seeks to fight its way out of its economic difficulties by a further downgrading of the British labour market under the slogan of 'flexibility': casualised employment, low wages, intensified working practices and reduced social costs. It continues to preside over the slaughter of manufacturing jobs. It is pushing forward a privatisation agenda based on state subsidised profits and reduced services. The consequence has been an increasing shift to the Left in the trade union movement. The situation now is quite different from what it was in 1997 when only a minority of smaller unions could be described as on the Left. The Labour Party, on the other hand, has a leadership that enforces the will of finance capital in an open and sometimes even adventurist fashion. The contradiction was clearly exposed in parliament during the Iraq crisis where the leadership came within thirty votes of losing control. It is clear that any further military aggression on US terms would be unsustainable. Objective economic problems over the coming period can only bring increased conflict with the trade union movement and the party's electoral base. For finance capital the current leadership of the Labour Party represents an indispensable agency for political action – but one that is also dangerously fragile.

## **There is the crisis of Britain's democratic institutions**

As a result of these contradictions finance capital is attempting to shore up and strengthen monopoly capital state structures in Britain by legally subordinating Britain's democratic institutions to the EU treaty law – on terms that would preclude ANY political initiatives that challenged the freedom of big business. These changes are imminent. They are also, however, dangerous for finance capital. In so far as they are understood for what they are, a direct attack on democratic and therefore economic and social rights, they are provide the basis for a struggle which could enable the working class movement to place itself at the head of a much broader social alliance. The level of the objective clash of interests with monopoly capital has now reached a point where such an alliance is possible.

## **What are the essential preconditions ?**

The first is a mass deepening of political understanding throughout the trade union movement – effectively a repoliticisation to the level of the 1970s. Such education in the realities of British state power best takes place in the context of struggle to defend economic and social rights but it also needs detailed organisation and direction.

The second is a determination by the trade union movement to use its collective strength, both collectively and through members in the constituencies, to re-create a party of organised labour. The route that would be the speediest and which would do maximum damage to finance capital state structures would be to oust the current leadership from the Labour Party. Otherwise, the trade union movement must by default create a new party of its own.

The third is an ability to advance a politically realistic programme that can rally all strata whose objective interests are subordinated to those of finance capital. This involves generalising the case against finance capital and highlighting the case for both democratic and economic change.

What follows is a brief summary of such a programme. In order of implementation they might be:

### **Regaining democratic control of Monetary Policy**

This would be in the context of a formal investigation of the responsibilities of the Monetary Policy Committee and the Bank of England for facilitating the flight of capital from the country and creating an unprecedented speculative credit bubble in housing and personal indebtedness

### **Placing a tax on speculative currency movements**

This would be in the context of an enquiry into the money handling role of banks and major companies to the detriment of wider social objectives

### **Taking transport back into public ownership**

This would be in the context of formal legal enquiry into responsibilities for corporate manslaughter and an investigation of financial mismanagement, asset stripping and other wrongdoing during privatisation

### **Ruling out membership of the eurozone and a rejection of the EU constitution**

This would be for the reasons given above and would be accompanied the announcement of a programme for the thoroughgoing democratisation of House of Common's procedures and its control over economic policy

### **Ending the nuclear and military partnership with the United States and halving military expenditure**

This would be in the context of using the funds released for state directed arms diversification and the reallocation of R&D to civilian industry. There would be investigation of corporate wrong doing in overseas venues in association with US government agencies – specifically Colombia, Central Asia and the Middle East

### **Restoring the pre-1979 rights of trade unions**

This would be in the context of defending economic and social rights and strengthening the social forces ensuring the accountability of capital. This would be in the context of enquiries into human

rights abuses by employers over the past period

### **Restoring the pensions-earnings link and the state management of occupational pensions**

There would be a full legal investigation into responsibilities for shortfalls in company pension schemes. The state would take responsibility for managing the £50 billion shortfall in return for shares in the specific companies.

All these measures could be initiated within a matter of weeks and would not have a heavy impact on public finances. These measures would need to be accompanied by a thoroughgoing democratisation in which the trade union movement would play the leading role as representative of the biggest part of the population. It would be essential that trade unions developed their own research and policy bodies to a much higher level and were available to provide advice to the government on a comprehensive basis. Other democratic organisations would have a similar function. The character and membership of the cabinet committee system would be reviewed and parliament given rights of scrutiny.

These actions would provide a platform for a more comprehensive programme of economic and political democratisation that would be implemented over the following year.

### **Democratisation of the media**

Private ownership of news media would be limited to one title. A scrutiny body – with strong trade union representation - would be established to investigate abuses of ownership in terms of news presentation. The independence of public sector broadcasting would be ensured by the democratisation of its board and its role extended to other forms of news gathering and dissemination.

### **Reversal of privatisation**

Privatisations in the energy sector (oil, gas, electricity, nuclear power), water and telecommunications would be reversed. Previously publicly owned assets in the North Sea would be included. These actions would be undertaken on the basis of the failure of private companies to maintain essential infrastructural requirements and the importance of energy for the productive economy. Compensation would have to take into account asset stripping, excess profits and the shortfalls in essential maintenance in gas, nuclear power and water.

### **Control over capital export**

A commission would be established to assess the activities of banks and companies. Penalties would be imposed on banks and companies involved in movements of capital that are to the direct detriment of the home economy and employees. A surtax would be imposed on overseas profits.

## **Redevelopment of the public sector role of local government and the NHS**

PFI would be ended and rights to public sector borrowing restored. Local authorities would be given the responsibility for resolving the housing crisis through the construction of housing for rent without the right to buy. The ten million people mis-sold mortgages would be given the right to rent from a state housing agency. The NHS would be funded to undertake R&D and production in generic drugs and surgical supplies in order to eliminate the service's biggest cost element.

## **A comprehensive programme to address national and regional inequality: powers for the Scottish and Welsh parliaments to undertake economic and industrial intervention**

A planning body would be established to oversee the recreated public sector to ensure that public sector investment was used to overcome regional disparities in real unemployment rates. The Scottish and Welsh parliaments would have the responsibility for overseeing these processes in their own countries with additional powers to supervise and if appropriate take over failing enterprises.

## **Restoration of the pre-1979 tax regime**

The shift away from a progressive redistributive tax regime has been shown to have been the biggest single cause of the massive increase in poverty and income inequality since 1979. Today Britain has one of the lowest levels of tax on wealth in Europe.

Almost all of these measures would be no more than reversing previous Conservative legislation. The new measures are very limited. They cover only the salvaging of occupational pensions, the reduction of defence spending and defence diversification, the democratisation of the press and the introduction of NHS pharmaceutical production. All address manifest economic and social problems and would carry very broad political support. Collectively, however, they would give the government a decisive strategic power within much of the corporate economy (through pension fund shareholdings), over key areas of high technology through defence diversification, telecommunications and the NHS, over substantial North Sea assets and over the public sector infrastructure. This purchasing power alone would alone give private sector companies good reason for developing co-operative working relationships.

The key content, however, would be that of democratisation. This would have two sides. One would be the involvement of ordinary people at every level but with the trade union movement playing the leading role. It would need to extend to workplaces and communities and involve a transformation in access to information. Industrial democracy would be vital. Trade unions would have to have legal rights to access all commercial information and investment levels, R&D and profit income would need to be justified. Government intervention would be mandatory if it was established that productive assets were being rundown. The other side of democratisation would be an ending of the big business grip over policy formation. The elected government would need to begin this process immediately by dismantling the state monopoly capital nexus of control and replacing it with links to the major organisations of working people. This process will have been made much less difficult because of the scale of concentration over the past thirty years – as well as its demonstrably detrimental consequences.

The announcement of such a programme would clearly be met by the fiercest criticism from the existing power structure – although such publicity would be double-edged given the programmes eminently reasonable and popular components. As a programme for opening the way to socialism – in Scotland and across Britain – it has some very obvious advantages. It strikes immediately and directly at the state power basis of British finance capital and exploits its contradictions and weaknesses to the full. It gives a government of the working people control of massive productive assets on a basis that would enable much more equal bargaining with internal and external big business. It addresses real and pressing economic and social problems. Most of all, it provides the basis for a growing momentum of popular and democratic involvement in transformation. In any process of social system change this is crucial. One of the great disadvantages of ‘the independent socialist Scotland’ perspective is that it is difficult to see how it could be anything but extremely protracted. Economically, It would take years to reach a level where decisive steps could be taken to socialise the economy. Breaking the British (capitalist) state at British level would make speed and momentum essential. The first stage described here would undoubtedly see finance capital seek to sabotage, overturn or simply absorb the challenge from organised labour. The continuing elements of its state apparatus would be implacably hostile. External pressure, particularly from US agencies, would be inevitable. The key response would be to use this to deepen the process of change: broadening the mass understanding of the anti-democratic essence of finance capital in the active defence of economic and social rights at the level of the workplace and the community. This in turn would create the democratic momentum needed to take all major productive and financial assets into some form of social ownership: thus exploiting the biggest weakness of finance capital today - the minute size of its social base in terms of real objective interests.

This is not to underestimate the problems. The initial step of breaking the right-wing grip over the Labour Party will be very difficult. Finance capital well understands just how important this grip is to its state power apparatus. But defeating the right-wing is not impossible. The full consequences of the economic crisis have not yet been felt in Britain. Finance capital is split over alignments to the US and the EU. The New Labour clique is deeply unpopular and the trade union movement has rallied to the Left over the past two years. In these circumstances it would be little short of criminal to neglect this most immediate method of advance. Even if the attempt were ultimately unsuccessful, it would produce a level of politicisation in the trade union movement that would provide the essential basis for the creation of any replacement party of labour.

## **A socialist Scotland**

The final advantage of this route is that it would place a premium on the development of a mass class understanding of the nature of finance capital and imperialism.

In moving forward to a socialist Scotland such an understanding would be essential. Breaking the British State is only one side of the process of social system transformation. The other is what Marx described as ‘raising the working class to be the leading class of the nation, to become national – though not in the bourgeois sense of the word’. In other words, the socialist vision of emancipating human potential has to be universalised. It has to include an understanding of, and challenge to, all forms of oppression including national oppression. Within Britain many nations and nationalities exist and a hallmark of our ruling class has been its willingness to exploit and manipulate these differences. We may expect much more of this if there is a real challenge to its power.

Hence, in consolidating a new system of state power to defend socialist advance, it will be essential to ensure that it sustains all national aspirations on a progressive and democratic basis. Scotland's right as a nation to self-determination is a key part of this. But the words 'progressive' and 'democratic' are important. Both Marx and Lenin stressed that nations and nationalities were social creations and consequently marked by the class circumstances of their birth and development. Some nationalities developed in the feudal period. Some were forged as new nations in the struggle against feudalism. In terms of culture and identities all are modified and transformed by the ongoing process by which different classes struggle for leadership [Hoffman and Mzala 1991]. Any study of Scottish history will reveal the deeply reactionary and anti-democratic character of Scottish feudalism in the 16th and 17th centuries. At the same time the ordinary people who actually carried through the struggle against feudalism are revealed as having strongly progressive and democratic aspirations – with a crucial battle ground being control of the church. But this was not the position of the new ruling class: the bourgeoisie of merchants, employers and commercialising landlords. They were deeply implicated in colonialism and imperialism – from Ireland in the 17th century to America, China and India in the 18th and 19th. They sought to develop Scottish institutions and culture in an authoritarian, hierarchical and often racist way. And this continued through the 20th century. It was only the rise of the trade union movement that put an end to divide and rule sectarianism across much of Scottish employment.

This is why class mobilisation is so important. There is nothing automatically progressive about any nationality. The character and content of its culture and identity will depend on the wider context of class struggle. A key part of the battle to stop any return of capitalism will be to ensure that the new state structures encompass and draw upon the progressive trends of all existing nationalities and that therefore that all nations and nationalities are engaged in its creation. In 1793-94 the Scottish radicals hosting the British Convention in Edinburgh had as an objective the breaking of the old corrupt Union with England and the creation of new democratic relations. Breaking the British State today provides us the opportunity for doing so in new circumstances – this time in the true democratic sense of people securing collective control over their destiny through socialism. Doing so will not be easy. But it can be done. A formally 'independent' Scotland would not achieve this. Breaking British capitalist state power would – and also open the way to a Socialist Scotland.

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