

Why a fiscally responsible parliament is the mark of a self-confident nation

By Geoff Mawdsley

Should we be fearful or fearless about transferring more financial power from Westminster to Holyrood? Do we as a nation have the self-confidence to take more responsibility, not only for our finances but for shaping the kind of country we want to live in?

The political classes have already drawn battle lines in the great Scotland Bill debate, but now that the smoke from the opening salvos has cleared, these are the kind of searching questions that confront all Scots - not just the politicians.

The kind of national debate that 2011 will usher in is already in full swing within the business community. If the recent fiery exchanges between Iain McMillan, the Director of CBI Scotland, and Ben Thomson, Chairman of Reform Scotland and the Campaign for Fiscal Responsibility, are a foretaste, it promises to be a lively affair.

For me, opponents of extending powers beyond what is currently on offer in the Bill display a pessimistic, rather depressing, lack of faith, aspiration and ambition.

The analogy put forward by one of the leading exponents of the status quo that asking for more powers is like a man with three empty rooms asking for a bigger house may be a nice turn of phrase, but it completely fails to understand what is at the heart of the debate.

More pointedly, denying Scotland the fiscal tools it needs to grow the economy is like asking a builder to construct a house without a trowel and spirit level.

Nevertheless, the arguments of those opposed to enhanced fiscal powers deserve to be taken seriously, not least because some of their concerns reflect wider worries, particularly among sections of the business community in Scotland.

Some fear that greater fiscal responsibility would make no difference to economic growth in Scotland; others believe it would be positively harmful since it would inevitably lead to higher taxes. Another view, expressed by the independent public policy analyst Tom Miers at the Fiscal Powers conference organised by The Scotsman and Reform Scotland before Christmas, is that the Scottish Parliament is already fiscally autonomous although even those sympathetic to Mr Miers' general view find this hard to swallow.

The principal problem with opponents of greater fiscal powers is that they offer little in the way of solutions to Scotland's poor economic performance and instead present only a counsel of despair. Their defeatism stems, they say, from the prevailing culture in Scotland which is not conducive to wealth creation and that changing this might take a generation or more.

Where we differ is that we are far more optimistic about the prospects for change, but recognise that encouraging this shift requires reform of our structures of governance as part of a wider commitment to a fundamental decentralisation of power.

Genuine decentralising reform means giving all levels of government in Scotland - not only the Scottish Parliament but also local authorities - the power and the ability to do things differently. Crucially though, they must bear the financial consequences of their decisions. So giving them much greater control over their own finances – how they raise money as well as how they spend it – must be an integral part of any plan to devolve real power and is not an optional extra.

That is why Reform Scotland has advocated the transfer of fiscal power from Westminster to Holyrood to enable the Scottish Parliament to raise all the money it currently spends and that this should be done as swiftly as possible rather than in small, incremental steps. However, the process should not stop there. Holyrood should use these new tax powers to give local authorities the ability to raise the vast bulk of the money they spend and we would like to see councils devolving power further down to local communities and people in their areas.

This would create competition between largely self-financing tiers of government at the sub-national level. Of course, governments don't like this competition since it constrains them. But it forces them to respond to the needs and wishes of people who are free to move to other jurisdictions if they don't like the way in which their area is being governed or the levels of tax they are forced to pay. Even the prospect of people moving will make the different tiers of government think about what they are providing and how. In addition, it will give them a positive financial incentive to come up with the most attractive environment for people and businesses because they bring revenue.

There are no guarantees in life though and enhanced fiscal powers could be used to increase taxes as some fear. If people vote for that and are prepared to pay the price because they believe it is worth it, then what is wrong with that? It is part of living in a free, democratic society. The point is that where power is localised, it is easier for people and businesses to choose to go elsewhere even within the same country. The more power is centralised, the harder it is to escape from government you don't like.

That such a competitive environment is an effective way of limiting government and encouraging good governance is backed up by evidence from countries such as Switzerland and the United States where localised democratic power has created dynamic economies with consistently strong economic growth.

The notion that the Scottish Parliament is already fiscally autonomous because it can alter the overall level of taxation in Scotland is a fundamental misunderstanding of fiscal responsibility and why it is beneficial. It is not just about being able to influence the rate of taxation at the margin, but about making levels of government responsive to the people they serve. This has a wider effect than just the level of tax as it means different tiers of government need to look at everything they do, for example the regulatory burdens they impose and how public services are provided, to ensure that they are meeting the needs and wishes of people in their area. This can only happen when governments rely on people and businesses for the bulk of their revenue so that they have a real financial incentive to serve their needs and are focussed on pleasing them rather than a higher level of government – he who pays the piper calls the tune. That is why the percentage of revenue raised is the generally accepted and correct measure of fiscal responsibility or autonomy. I doubt many people would regard the UK as fiscally autonomous if 85 per cent of its revenue came in the form a block grant from the EU, yet we would have the ability to adjust the overall level of taxation.

Of course, the Scottish Parliament should use the powers it already has to foster economic growth and improve public services and Reform Scotland has set out how it might do so in a series of reports over the last three years. But we believe that devolving more power will bring further benefits. The idea that sub-national governments should only be given more power once they are deemed to have

behaved responsibly or used the powers they have in a certain way betrays a centralising mentality. Such a notion of 'earned autonomy' is born of a belief that those at the centre know best and lower tiers of government or people cannot be trusted to use power sensibly. This ignores the fact that cause and effect run the other way and it is only being given responsibility that encourages responsible behaviour.

In any case, Reform Scotland believes that the local taxes currently devolved to the Scottish Parliament, council tax and business rates, should be set and raised locally without central interference as a move towards the localism we wish to see. That would only leave the Scottish Parliament with the ability to vary the basic rate of income tax by three pence either way, which is a political dead letter. So a substantial widening of the Scottish Parliament's tax base with control over a much wider range of taxes is essential to enhancing its financial responsibility and to the localisation of power.

Ultimately, this debate comes down to whether you think that dispersing power more widely in society is right or whether it should remain concentrated. Reform Scotland's analysis, based on what works in other countries, is that diversity promotes the small scale, trial and error experimentation from which true progress emerges.

The centralising approach we have seen in both Scotland and the UK in recent times has simply not delivered the type of society in which we all enjoy greater prosperity and better public services.

It is high time we tried a different approach and returned genuine power to the people.

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