Ownership and Economic Development

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The Red Paper Collective has long argued for *progressive* federalism, a federalism that is responsive to the needs and demands of working people and their collective ability to alter the balance of class forces, a federalism that is therefore genuinely democratic and provides the potential to advance progressive social change and redistribute income within and *across* Britain. Britain's geographical inequalities of wealth and economic potential are now the biggest in Europe, greater even than Italy and, if this divide between the south-east and the rest is to be overcome and the concentration of big business power at the level the British state challenged, there needs to be continuing, politically coordinated and democratically sustained challenge at *both* British and national levels.[1]

This insistence on change at both levels is today made more urgent by the accelerating transformation in the structure of Scotland's business ownership, a transformation that is combined with, and deepens, the urgent challenges now facing the Scottish economy.

Ownership and control

The last thirty years have seen a steady erosion of the number of major companies owned and controlled from within Scotland. Over the past decade this decline has become dramatic. The 2005 Red Paper analysed the ownership of the biggest 64 Scottish-registered non-financial companies and another 54 financial companies.[2] It found a significant number were externally-owned as direct subsidiaries and that somewhat more had dispersed share-ownership that included major holdings from outside Scotland. Yet a core of Scottish-owned companies remained.

Today this core has gone. In the non-financial sector sixteen companies have been taken over; in the financial sector eleven. Of the rest, almost all now have predominant shareholdings from outside Scotland. Four investment companies own over 30 per cent of the shares in SSE and the Wood Group (previously a family-owned firm). Three own 20 per cent of Stagecoach and British Polythene Industries. Four own 40 per cent of Subsea 7. Three own 20 per cent of Babcock International Group and five own 20 per cent of Weir. Four own over 20 per cent of John Menzies; three over 15 per cent of Aggreko and two over 10 per cent of First Group. These are dominant shareholdings. They give control. The companies themselves are those that, more or less uniquely among Scottish-registered companies, are big enough to hold the potential for significant R&D investment and the ability to penetrate overseas markets. The dominant shareholders are now mainly international investment companies.

When we turn to the Scottish finance sector we find an even more dramatic transformation. In 2004 Scottish registered companies largely under Scottish control included one very large bank, one major insurance company, three major investment companies, a range of investment management companies and several dozen locally managed investment trusts. Today only four significant financial institutions remain under broadly Scottish control: the big insurance company, Standard Life, and three fund managers/stock brokers: Baillie Gifford, Edinburgh Partners and Speirs and Jeffrey. Of the investment managers Aberdeen Asset Management is 30 per cent owned from Japan (Mitshubishi). F&C, Artemis and Martin Currie have been taken over. All the Scottish-registered banks are now externally owned and controlled: RBS, BoS, Walter Scott (NY Mellon), Tesco, Cheque Centres (US) and Clydesdale (a consortium of Australian banks and finance companies). All other insurance companies are externally owned. Of the 54 biggest investment trust in 2004 almost half (23) have become insolvent or been wound up. The management of another 14 has been taken over by companies based elsewhere (either London or New York).

This concentration of ownership is not of course peculiar to Britain. It is a global phenomenon and largely a consequence of financialisation, the increasing volume of cash accumulating in the banking and finance sectors. In 2015 the IMF estimated that the amount of cash held in this way had increased between 2001 and 2012 from an equivalent of 58 per cent of the GDP all advanced economies in the OECD to 85 per cent. Since then it has increased further as a result of quantitative easing and the big shift in income distribution towards the very rich.[3] The managers of this cash – investment banks, trusts and hedge funds – are driven by competition with one another to maximise investor income within very short time horizons. This is the background to the pressure for 'share-holder value': the maximisation of short-term return and the increasing use of leverage, short selling and aggressive mergers both to 'release' value and secure market niches yielding monopoly control.

The consequences have been seen dramatically in Scotland over the past year. Scotland's biggest non-financial company, SSE, is being merged with the German N-power – a merger that will result in significant job losses while releasing value for major shareholders. Scotland's second biggest non-financial company, John Wood, is being merged with the London-listed AMEC. Both have dominating shareholdings by investment management companies. The biggest, BlackRock, had major shareholdings in both. Again job losses will result. Another firm in the top group, British Polythene Industries, was taken over in 2016 by the London-listed RC Group while Menzies sold off its distribution division to the London-list plc DX. Babcock, Weir and Subsea 7 have all also been in the frame for mergers and acquisition in the past year.

In the financial sector Scotland's biggest investment manager, Aberdeen Asset Management, merged with Standard Life, Scotland's one remaining major insurance company. As we have noted, overseas investment companies had already taken control of the floundering AAM. For them merger made very good sense. They could get out quickly. Standard Life itself needed greater size to operate effectively as an international investor. In some eyes the merger may have been seen as a last gasp attempt to consolidate and retain one major financial institution in Scotland. But the merger involves significant job losses and since the merger there has been a major outflow of funds.

Such mergers and acquisitions usually involve partial or complete workplace closures and the loss of income and employment that sustain local communities. However, no less destructive is the less dramatic but far more widespread consequence of the demand for 'shareholder value': putting dividend payment ahead of investment and hence sacrificing productivity growth, innovation and the long-term viability of companies. One estimate puts the scale of the shift in Britain since the 1970s as being from 90 per cent investment and 10 per cent dividend payment to 70 per cent dividend payment to 30 per cent investment.[4]

Economic structure and the challenges facing the Scottish Economy

Scotland has a very small group of mainly large companies that significantly engage with export markets. No more than a hundred account for almost two-thirds of all exports. Most of these are either owned from overseas or are City of London registered companies. The remainder of these large companies, those registered in Scotland, are, as we have seen, almost all controlled by investment companies from outside Scotland. Beyond these firms the level of engagement with export markets is very limited. The proportion of SME firms exporting has fallen from 20 to 12 per cent since the 1990s and overall Scotland's exports are equivalent to only 12 per cent of GDP as against 27 per cent for Britain.[5]

This is the context for Scotland persistent problem with low productivity. Business R&D is about half the British average, itself low. Productivity itself also remains significantly lower – and Britain's itself has been virtually stagnant since 2008 and is now up to a third lower than its major competitors. As we have seen, all the big companies are being pressed to enhance investor yield through sweating assets and merger and acquisition. Elsewhere in the Scottish economy, in agriculture, food processing, construction and outsourced care services, the employment of cheap labour compensates for low investment – including an increasing reliance on 'self-employment'. Over the past five years such self-employment has accounted for half of all employment growth.[6]

There are in addition two further problems of economic structure that add to the vulnerability of the Scottish economy. One is the impact of the shrinkage in industrial employment on regional pools of skill and expertise for specific industries – reservoirs whose strength and resilience is estimated to be the biggest single factor required for productivity enhancement.[7] The second problem is the failure to retain innovative, fast growth companies, many deriving from university research centres. Of fifty such firms listed in 2001, 16 have been acquired by firms from outside Scotland and mainly relocated and a further five are no longer active.[8]

In face of these structural weaknesses, low productivity, reliance of low skilled cheap labour, diminishing reservoirs of specialist skills and the loss of innovation, Scotland now faces two major challenges: automation and the secular decline of two of its previous staple industries. Scotland's disproportionately large number of employees working in low skilled jobs, especially in services, renders its employment particularly vulnerable to automation. Research by the Centre for Cities estimates that Scotland will lose 230,000 jobs in the next twelve years. 112,000 are likely to be lost in Glasgow alone.[9] Automation does create new jobs in the design and manufacture of automated processes. But, as things stand, few are likely to be in Scotland.

The two industries in secular decline are oil and finance. While oil is likely to retain a significant presence for another two decades, it will be on a declining scale. Depletion, competition from other energy sources and a price range that penalises deep sea extraction will have a progressively depressing effect on investment and this in turn will have consequences for a much wider band of suppliers and services. The same applies to finance. Scotland's financial services suffered a largely self-inflicted blow in 2009. Since then up to a third of the operators have either shifted to London or are now directed from London while another feature of the Scottish finance sector, its focus on labour-intensive backroom processing, has already resulted in considerable automation-driven job loss.

Policy to address a structural crisis

The current situation in the Scottish economy can therefore be described as one of structural crisis – the result of four decades of neo-liberal industrial policy, first by the Tories, then by New Labour and finally by the SNP. The SNP, it should be said, did try to make attempts to assert a degree of state intervention – through a publicly funded Scottish Infrastructure Fund, through attempting to use public procurement to require a living wage, and also to assert the right of government to provide publicly-owned ferry services. In each case, however, they were defeated by the wider framework of EU regulation. And the main thrust of their developmental strategy has been with the neo-liberal grain of EU policy: that of offering financial incentives to footloose capital, such as Amazon and Hewlett Packard, or, in terms of a post-independence future, cutting corporation tax on the Irish model to draw in firms from outside.

None of this will address the structural crisis outlined above and at this stage it would seem very difficult to offer any solution apart from that provided by public sector intervention – utilising a comprehensive series of re-enforcing measures.

What might these be? One of the most important would be action to stop piratical take-overs and ensure corporate investment takes place. For this the most obvious solution is a state investment bank that can take stakes in both key major companies and in innovative start-ups. Additionally, to protect and redevelop regional pools of skill and expertise – particularly those in oil and gas, in life sciences, AI and engineering – one key tool would be selective State Aid for existing firms to develop cooperative programmes of product innovation. A further tool to re-enforce this would be the pro-active use of public procurement – ensuring that public contractors source supplies locally and regionally, support local industry, and themselves upgrade and skill the labour they employ. Where necessary, there should also be selective public or cooperative ownership of key assets, especially when faced with closure. And finally, and more directly in terms of public ownership, the regional potential of infrastructure provision needs to be harnessed to ensure that the skill, research and expertise required for energy, communications and transport feeds into regional economies.

All of this would require both stronger industrial powers for the Scottish Parliament and also a political commitment at British level to ensure a sustained redistribution of income – progressive federalism.

But, more than anything, it demands informed political mobilisation by the trade union and labour movement at both British and Scottish level. The proposals outlined are broadly speaking those contained in the Labour Party's 2017 manifesto and the party's 2017 Scottish industrial strategy. These have yet to be won electorally.

But additionally these policy proposals require that the terms negotiated with the EU over the coming year do not block such intervention – either through adhesion to the terms of Single Market membership or, as seems more likely at present, by importing its neo-liberal terms into a bespoke deal crafted by our Conservative government. This is why the Scottish trade union movement needs to insist on the gravity of the structural crisis and demand that any deal with the EU makes it possible to address it using the tools of public policy.

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References shown on page 22