

Government meddling in the private sector won't help Scotland to attract inward investment

Michael Fry: 24th October

One reason we need to argue about wealth – and The National makes a grand job of it – is that we haven't got as much as we should have. We can blame decades of Unionist economic mismanagement, in particular the frittering away of the oil revenues, all now to be worsened by Brexit. But in part we must also blame ourselves in Scotland, for having lost the instinct among a bleak country's natives for 'gathering gear', as Robert Burns put it.

There is an obscure series of government White Papers from the 1890s, published in preparation for William Gladstone's scheme of Home Rule, as it was then called. It never came to pass, not for another century, but it left at least the legacy of a look into the inner workings of the Scottish economy in a form usable even by modern statisticians (statistics was, needless to say, yet another of Scotland's gifts to the world).

The remarkable fact revealed in those yellowing pages is that this was then the richest of the four nations in the UK, especially remarkable if we recall the achievement cannot have been in any way due to public expenditure – because in those days there was hardly any. Victorian Scots pulled themselves up by their own bootstraps. Much poorer in absolute terms than we are, they yet saved their bawbees and invested them.

Sorry contrast

The situation in the 21st century is a sorry contrast. Since the financial crash of 2008, Scots' savings have dwindled – no surprise, when we can't earn any interest on them. In a devolved nation this is bad enough but in an independent nation it could be catastrophic, because without savings there is unlikely to be much investment and without more investment we will certainly be sunk.

For the time being we lack the powers to encourage savings, however, and meanwhile there are two possible substitutes. One is to attract foreign investment. The other is to mobilise the resources of the Scottish Government so as to put more of them into investment, rather than squander them on subsidies to consumption.

Scotland has over the years been good at attracting foreign investment, with our combination of access to the EU's single market and golf courses which Japanese executives would not otherwise get to play. This investment has the added advantage of setting a good example to Scottish companies in terms of productivity (also at a low ebb in home-grown business).

It has the disadvantage that footloose companies can move out again as easily as they moved in. Tremendous efforts were expended by the old Scottish Office on inward investment during the last decades of the 20th century, but relatively little of it is still with us.

Corporate events

The process goes on, as we see from two actual corporate events of the last week. In Greenock, a concern called Misco ceased trading. It was part of a European network that flogged second-hand IT accessories, and for one reason and another the bottom has dropped out of this market. It's a shame for the workers, especially as in Greenock alternative jobs will not be easy to come by. But there is nothing to be done: every year one or two per cent of companies close down just as a result of the natural evolution of the open, trading economy that we need to survive.

Yet not all is lost for the west of Scotland. By the end of the week it had further been announced that Bio Clavis, a life sciences firm from sunny southern California, was coming to set up under the grey skies of Glasgow. It specialises in molecular profiling for the early detection of cancer, so it has chosen the right part of the world for an ample supply of human guinea pigs.

Its arrival further underlines how modern capitalism works. As one sector declines and at length disappears, so another emerges and grows. This is somewhat contrary to how we have sought to shape our economy in Scotland, where we have rather tried to envisage an ideal structure, as a rule of heavy industry, and then create the conditions of equilibrium that will stabilise it. Here is the underlying story of Ravenscraig or Upper Clyde Shipbuilders or IBM. It doesn't work: Bathgate no more, Linwood no more.

Immobilist philosophy

Nicola Sturgeon's government has not entirely freed itself of this immobilist philosophy. Yet any government lives a good deal in the past: it will only ever be able to draw on the experience of yesterday, and of the great and good who formed this history, while successful entrepreneurs will put into practice ideas that nobody else has had and can only be realised in an uncertain tomorrow. Bio Clavis was not founded with financial assistance from on high (nor was Misco, come to that), but by a man called Joel McComb who turned his degree in genetics from the University of California into the springboard for a business of the future. He saw a bonanza in the recent rise of genetic engineering. Lucky for him he never asked the Scottish Government at his outset, because he would have been told it disapproved of this sort of science and in 2015 was going to ban its application to agriculture.

But, just like fracked gas, genetic engineering is apparently fine for Scots so long as it comes from the US. We are even paying McComb £4.5 million in grants for the privilege of setting up here, something the government of California never dreamed of doing at his base in the town of Carlsbad on the clement coastline between Los Angeles and San Diego. Still, since the state charges a maximum marginal tax rate of 13 per cent – that's on incomes over a million bucks – it doesn't need to.

So there are several lessons from the record of inward investment that we can apply to the other possible strategy in a savings-starved country like Scotland. They need to be taken into account if we are to make a success of a new and complementary public agency.

Nicola Sturgeon gave a speech at the weekend with a concrete proposal for one: a Scottish National Investment Bank (SNIB).

I know we are just at the stage of consultation, but I wish somebody among those who have jumped on this bandwagon would explain to me how it might fit in with the various financial packages already on offer, for example from Scottish Enterprise.

Greater risk

If the SNIB is really a bank of sorts, it might offer cheaper loans for a longer term than borrowers could ever get from our commercial banks, which a few years ago were rather driving start-up companies out of business so they might seize whatever assets were left over.

But start-up companies often get a raw financial deal anyway, just because a larger proportion of them go bust than do established companies. The higher charges simply reflect the greater risk. If the SNIB is to be more lenient, it also must be ready to lose some of the capital it decides to invest, which presumably will be the nation's capital rather than capital from private investors. I wonder what it is then going to say to the inquisitive committees of the Scottish Parliament.

In the same speech, Nicola highlighted 'a range of measures to ensure that as we transform our economy, we leave no-one in our society behind.'

There's that prioritising of equality again, which last week I wrote 'will ruin Scotland for sure'. Economic growth does not arise in the abstract, from the wish-lists and winged words of politicians and their speechwriters. It arises from the efforts in the real world of actual companies and individuals, all likely to feel more frustrated than encouraged by the heavy-handed interference of governments – activity in which the Scottish Government is second to none. These efforts in the real world create inequality, I'm afraid, because some companies and individuals succeed while others fail. If, absurdly, we seek to blur that distinction, then neither we nor foreigners are going to invest in Scotland, whatever politicians say or do.