

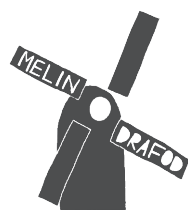


ACHIEVING AN INDEPENDENT WALES

FINANCE — DISCUSSION PAPER

ACHIEVING AN INDEPENDENT WALES

FINANCE — DISCUSSION PAPER





PUBLISHED BY MELIN DRAFOD © 2023
melindrafod.cymru

ALL RIGHTS RESERVED.

DESIGN: RHYS LLWYD

PRINTED IN WALES
BY SEROL PRESS, NEATH
SEROLPRINT.CYMRU

CONTENTS

1. INTRODUCTION
2. SUMMARY
3. FUNDAMENTAL PRINCIPLES:
BUILDING A NEW SOCIETY
4. THE FISCAL POSITION
5. THE WAY FORWARD
6. CLASSICAL ANSWER
7. A NEW SOCIAL CONTRACT
— POST-INDEPENDENCE VISION
8. CONCLUSIONS

1. INTRODUCTION

1.1. Melin Drafod believes that independence is a question that we are going to face as a nation in the years to come. We are the only think tank that looks at the path to independence for Wales and the policy questions that arise as a result.

1.2. Our think tank was established in 2021 in order to support, facilitate and be a critical friend to the grassroots independence movement. Melin Drafod is not affiliated to any political party. We work across parties and groups, and focus on giving detailed attention to the questions raised by the rising support for independence.

1.3. Our priority is promoting progressive independence, not independence for its own sake. We discuss solutions to the major crises of our age – from climate change and language minoritisation to the scourges of poverty and racism – both here and around the world. There is a real need to thoroughly prepare for an independent Wales: the question will face Wales sooner or later.

1.4. The purpose of this discussion paper is to add to the corpus of policy development outlining how Wales can be an independent, successful and progressive country. It is a consultative document and constructive criticism on its content is welcomed and encouraged.

2. SUMMARY

2.1. It is often said that Wales' fiscal situation is one of the biggest obstacles facing those trying to convince the public of the case for Welsh independence. However, there appears to be an academic consensus that the often-referred-to ONS figures¹ do not reflect what Wales would face on its first day as an independent country.

2.2. The Doyle report² presents a credible argument that Wales would face a deficit of 3.1% of Gross Domestic Product (GDP) on its first day as an independent country: a figure that would make Wales as capable as the vast majority of European countries of being independent.

2.3. It would be both sensible and precautionary to assume a degree of uncertainty about Doyle's figure of 3.1% of GDP, given that it is subject to negotiations between Wales' government and the remainder of the UK (rUK). There is more certainty about the higher revenue expected from corporation tax and foreign service spending, than his assumptions about pensions.

2.4. Although there is a strong argument that the fiscal position of Wales is healthy enough to maintain an independent state as it is, we propose to create a 'new social contract' between the state and its citizens which would consolidate Wales' fiscal position by around 6-7% of GDP over a period of years through policy changes, including the following:

- increase the ratio of revenue-to-GDP to the European Union average (from 39.6% to 46.0%), including the regulated supply of decriminalised drugs and taxes on rentierism;
- introduce a series of measures, including incentives for young people to stay and relaxing immigration rules, to increase the percentage of the population that is of working age, while at the same time transforming our relationship with work;
- reduce defence spending to the same level as Ireland, at 0.5% of GDP, and rule out funding nuclear weapons and energy;
- administrative and other expenditure changes, including the creation of a single emergency service, fewer county councils and a significant reduction in the prison population.

2.5. Using Doyle as a starting point, the above measures would boost the Welsh state's balance sheet by around £5-6 billion per year, leading to a financial surplus of around £2-3 billion per year, or 3-4% GDP. In this scenario, we believe that the surplus should be used to invest in initiatives such as:

- a significant child support payment in order to eradicate child poverty, as a step towards abolishing poverty;
- free universal childcare; and
- a program to decarbonise the transport, energy and housing systems.

1 <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesexpendituretables>

2 https://www.plaid.cymru/fiscal_gap_indywales

2.6. This report concludes that there is strong evidence that an independent Wales will be financially sustainable. It suggests a number of fundamental principles to steer the nation's decisions as it takes advantage of the new powers and opportunities that come with independence, transforming the country based on socialist principles. We have the ability and resources to build a new society that eliminates poverty, that lives within its one planet environmental limits and is a beacon of peace in the world.

3. FUNDAMENTAL PRINCIPLES: BUILDING A NEW SOCIETY

3.1. It is often said that the budget deficit is the main challenge facing those who make the case for Wales' independence. This is identified as one of the main questions for those who are in favour of independence in the interim report of the Welsh Government's Constitutional Commission³ which states: "in the case of independence, it is necessary to ask how an independent Wales would guarantee financial stability". However, we cannot consider fiscal questions in a vacuum: not expressing our principles would be tantamount to supporting the cruel and failed neo-liberal status quo.

3.2. It should also be noted that there are significant disadvantages, including opportunity costs, of Wales remaining within the UK. Indeed, Poole argues that: "it bears consideration that the economic and fiscal risks of staying a part of the UK are perhaps greater than ever."⁴ The financial, economic and social disadvantages Wales faces within the current union of the UK include:

- living within one of the least equal states in the OECD⁵ with almost 1 in 4 children living in poverty⁶;
- receiving much lower investment per head in our economic infrastructure, including research⁷ and transport⁸;
- a justice policy which in Wales incarcerates the highest percentage of population in Western Europe⁹;
- suffering as a result of the UK's very poor reputation on the international stage, with the United Nations criticising its treatment of trafficked people and slavery¹⁰ as well as refugees and migrants¹¹.

3.3. Furthermore, it should be acknowledged that the way we currently measure success or social progress is unsuitable, especially GDP, which promotes concepts such as growth and competition, and contrary to the needs of the planet and social cohesion.

3.4. Melin Drafod wants to see financial choices made by applying socialist and progressive values, in keeping with the various left-radical traditions that are deeply rooted in communities throughout the country. Central to our vision are these progressive principles, including common ownership, co-operation, workers' control and fairness for all, as well as re-imagining our decision-making structures.

3.5. In reading this paper and listening to the wider debate, we need to be cognisant that we currently live in the hyper-capitalist context of contemporary Britain. We need to start changing that narrow discussion and start opening people's eyes to the realities of a society where so many resources are privatised, rather than valuing the local, circular and foundational economies our communities need to succeed.

3.6. Independence offers us an opportunity to break the capitalist cycle of crisis and accumulation. The extractive power systems in place in the

3 <https://www.gov.wales/independent-commission-on-the-constitutional-future-of-wales-interim-report>

4 Pg. 10 https://www.cardiff.ac.uk/__data/assets/pdf_file/0004/1767424/Wales_Fiscal_Future_FINAL.pdf

5 <https://stats.oecd.org/Index.aspx?DataSetCode=IDD#>

6 <https://oxfamapps.org/cymru/cymraeg/tlodi-yng-nghymru-ar-cynllun-gweithredu-trawsbleidiol/>

7 <https://www.llyw.cymru/maen-rhaid-i-gymru-dderbyn-cyfran-deg-or-cyllid-ymchwil-datblygu-i-gyflawni-ei-photensial-gwein-idog>

8 <https://www.walesonline.co.uk/news/wales-news/wales-missing-out-uks-biggest-22288606>

9 <https://www.theguardian.com/uk-news/2019/jan/16/wales-has-highest-incarceration-rate-in-western-europe-prison-population-england>

10 <https://news.un.org/en/story/2022/12/1131867>

11 <https://www.ohchr.org/en/press-releases/2022/06/un-expert-urges-uk-halt-transfer-asylum-seekers-rwanda>

contemporary UK are completely unsuitable for, and incompatible with, the new Wales we wish to build. In many cases, these systems of power cause extremely profound problems in our society. We need to change our political society to an anti-capitalist one because, through that, an independent Wales will break away from the failings of the Union. A new Wales requires a new vision; we hope the principles outlined below will start a discussion on how we build a different society.

3.7. We propose applying the following fundamental principles as we face the future as an independent country:

- An Equal Nation - providing everyone with free basic services, including a home, and which distributes income and wealth much more equally;
- A Peaceful Nation - creating a society built on cooperation instead of conflict;
- One Planet Nation - rejecting the conventional capitalist precept of economic growth in order to tackle the climate crisis;
- An Inclusive and Participatory Nation - creating an anti-racist, anti-sexist, anti-prejudice society with as many decisions as possible made directly by people, workers and local communities;
- A Contented Welsh Language Nation - improving people's well-being and happiness and restoring the Welsh language as the country's own language (priod iaith);
- A Welcoming Nation - relaxing immigration borders to the maximum extent possible, a country that welcomes the contribution of peoples from around the world.

3.8. These principles are just a starting point. In discussing Wales' fiscal position we need to question what the economy is and who it serves.

3.9. In the sections later in this paper, considerable attention is given to the statistics measured within the constraints and framework of the Welsh economy as it stands within the union of the UK. However, it is important to recognize that wider structural responses are needed. The type of society we want to create should guide our financial and economic decisions, not the other way round.

4. THE FISCAL SITUATION

4.1. The viability of states cannot be measured on the basis of whether they have a balanced budget or not: few states in Europe could be considered sustainable if so judged. Of the members of the European Union, in 2021, 15 maintained a deficit higher than 3% of GDP, despite the currency union rule established in 1992 that efforts should be made to maintain a deficit of less than 3% of GDP and debt less than 60% of GDP. The neo-liberal rules of the EU's Growth and Stability Pact¹², considered far too conservative by many, are being reformed at the moment¹³.

4.2. Some argue that a separate currency and central bank for Wales, with appropriate capital rules, would mean that Wales' current budget deficit could be managed sustainably. By establishing a Welsh currency that is independent of the pound, greater fiscal powers and flexibility are available to the new state. Therefore, they argue that the current financial situation could be maintained by printing money: a policy that has been seen in action in a number of Western countries over recent years.

4.3. Furthermore, some argue that deficits are only relevant to the extent that they reflect the ability of states to repay loans. Given that the British Government has already committed to paying the full historic debts of the UK should Scotland gain independence¹⁴, it is argued that deficits would not be a cause for concern for the newly independent Wales.

4.4. However, there is an alternative point of view, especially from those who support Wales' membership of the European Union: that the financial markets and other states need to have confidence in the ability of the new independent state to pay its debts. Those are certainly choices facing members of the Euro area, as demonstrated by Greece's experience mainly during the 2010s.

4.5. Further discussion is needed on these issues, but it should be recognised that there is a valid intellectual argument that the budget deficit should

12 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/history-stability-and-growth-pact_en

13 https://economy-finance.ec.europa.eu/system/files/2022-11/com_2022_583_1_en.pdf

14 <https://www.gov.uk/government/publications/uk-debt-and-the-scotland-independence-referendum>

not receive undue prominence when evaluating the various opinions, while at the same time acknowledging that there is an alternative view that it is necessary to demonstrate the financial sustainability of an independent Wales to markets and international organisations.

4.6. Recently, a healthy discussion has developed, centred on two academic interpretations - those published by the Wales Governance Centre and another by Doyle from Dublin City University¹⁵.

POOLE'S ANALYSIS

4.7. Poole, Ifan and Sion offer a detailed analysis of Wales' financial situation in their reports entitled *Government Expenditure and Revenue in Wales 2019*¹⁶ and *Wales' Fiscal Future: A path to sustainability?*¹⁷. The reports are valuable in terms of analysing the Office for National Statistics (ONS) figures together with changes over time and the reasons for the apparent shortfall.

4.8. The reports, partly funded by the Welsh Government, make a number of notable points, including that:

- lower revenue than the rest of the UK is the main driver of the relative shortfall between Wales' fiscal position and the UK average, specifically from income tax and national insurance;
- the level of tax as a percentage of GDP in Wales is much lower than the average of the countries of the Euro area, while the level of expenditure per capita is similar to the average of the OECD countries;
- Wales (along with 7 other OECD countries) is much more dependent on consumption taxes, for example Value Added Tax (VAT), while the majority of OECD countries tend to be dependent on income taxes or welfare contributions;
- capital investment by the UK in Wales, in transport and research and science, is much lower than the average for the rest of the state;
- Wales was a significant net beneficiary, in terms of expenditure, from its membership

of the European Union (unlike other parts of the UK);

- if the population of Wales were distributed across individual age groups in the same way as the average for the UK, the total expenditure forecast in 2019 for 2022-23 would be over £1 billion lower and tax revenue would be almost £500 million higher.

DOYLE'S ANALYSIS

4.9. Firstly, Doyle argues that the purpose of ONS statistics is not to estimate how much an independent Wales' budget deficit would be on its first day and that the body itself states that the statistics are 'experimental'.

4.10. Secondly, Doyle says that £4,626 million of the expenditure allocated to Wales is 'non-identifiable' and that much of it is an overestimate of how much an independent Wales would spend, citing defence and nuclear weapons as obvious examples. In addition, the report states that £1,240 million of the central expenditure of the UK that occurred abroad is attributed to Wales, which includes the diplomatic services and foreign aid.

4.11. Doyle identifies several areas of expenditure and revenue that would be subject to negotiation between the rest of the UK and the newly independent Wales, which he argues would reduce the fiscal deficit of an independent Wales:

- Pensions - he argues that tax payments made during the life of the union between Wales and the rest of the UK countries should be treated as insurance payments, that is, the rest of the UK should continue to pay for the pension rights gained during the life of the Union after Wales became independent. Reference is made to the agreements made by the UK Government with the Republic of Ireland and the European Union as important precedents in this regard. Doyle says negotiating a similar deal would reduce Wales' presumed fiscal deficit by £5,906 million;
- Debt - referring to the precedent of the establishment of the Irish Free State in 1925

15 https://www.plaid.cymru/fiscal_gap_indywales

16 Government Expenditure and Revenue Wales (Ifan, Siôn a Poole, 2019) https://www.cardiff.ac.uk/__data/assets/pdf_file/0004/1540498/Government-Expenditure-and-Revenue-Wales-2019.pdf

17 https://www.cardiff.ac.uk/__data/assets/pdf_file/0004/1767424/Wales_Fiscal_Future_FINAL.pdf

and the statement by the UK Government Treasury made in 2014¹⁸ in the context of the Scottish referendum, it is argued that an independent Welsh state would not need to pay a single penny of the debt of the rest of the UK. Reaching such an agreement would reduce the deficit by £2,672 million;

- Defence - £1,902 million a year on defence spending is attributed to Wales by the ONS, which includes nuclear weapons, but Doyle argues that an independent Wales would save £922 million a year by spending the average of the countries of the European Union, which is 1.3% of GDP;
- Foreign spending - Doyle argues that the £1,240 million a year attributed to spending on services such as embassies and international aid are political choices, not hereditary or stationary costs. The academic paper suggests that a state the size of Wales would not need the same level of diplomatic provision, saving £620 million a year;
- Others - Doyle considers that there is an underestimation of £735 million per year of Wales' income as a result of apportioning corporate tax revenue according to Gross Operating Surplus rather than per employee, given the disproportionate tendency for UK companies to locate in London. He also says that there would be £580 million per year through savings and higher tax income during the transition period to an independent country.

4.12. For the above reasons, Doyle concludes that the deficit of an independent Wales on its first day would be £2.6 billion (3.1% of GDP), not the £13.1 billion (18% of GDP) stated in ONS statistics.

CRITIQUE

4.13. It could be argued Poole and Doyle's analyses are bound by economic orthodoxy; it would perhaps be unfair to expect them to step beyond the boundaries of that field. By acknowledging assessments such as these, we can plan for a transition from the current economic situation to our wider vision for the country after independence.

4.14. It is important to note that the purpose of Poole's Wales Governance Centre 2019 report¹⁹ is not to reflect the fiscal situation that would face Wales on its first day as an independent country. However, that is how it has been interpreted by many, in the same way that there is a common misinterpretation of the ONS's experimental statistics.

4.15. Doyle's report is therefore a step forward in one sense, by making an effort to consider the situation of an independent Wales and apply the figures we have. There are however a few areas where we do not agree with his policy assumptions, which are detailed in section 6 below.

SUMMARISING THE DIFFERENT VIEWS

4.16. What the views identified above have in common is their acceptance that ONS statistics do not reflect the situation that would face an independent Wales on its first day.

4.17. There are however at least three very different views on the fiscal position of an independent Wales, including arguing that Wales:

- can establish its own currency, central bank and appropriate capital rules, and that therefore there is no need to pay much attention to the fiscal situation of an independent Wales;
- maintains a fiscal deficit of around 3.1% of GDP, a situation similar to other developed countries and is therefore in a healthy fiscal position;
- maintains a fiscal deficit between 3.1% to 18% of GDP, which is unsustainable, at least in the medium to long term.

4.18. Considering the possible analyses above, and while noting the argument that a budget deficit should not be given disproportionate importance, it should be recognised that some models for independence for Wales, such as joining the European Union, bring with them obligations to meet specific budgetary objectives. It is therefore argued that we need a deficit that is either 3% of GDP or on a credible path to reaching that level in the medium term.

18 <https://www.gov.uk/government/publications/uk-debt-and-the-scotland-independence-referendum>

19 Later Poole reports do make greater efforts to do this, but could still be described as conservative interpretations of the situation when compared with Doyle

4.19. It is estimated that £13.5 billion, or 18% of GDP, was the difference between expenditure and revenue in Wales within the UK in 2018-19²⁰ - a reduction from the 30% deficit of GDP in 2009-10. That compares to 1.8%²¹ of GDP at a UK level in the same year.

4.20. Eliminating the structural budget deficit is how one can describe the process of reaching a 3% deficit over a period of time. It should be noted that it is not beneficial to target the same level of deficit at all times, but that would be the average deficit over the period of the economic cycle.

4.21. The Doyle report suggests that an independent Wales would be in a fiscal position very close to that without controversial policy changes. On the other hand, Poole is more sceptical, arguing that “independence would require radical changes to fiscal and economic policy”²². We elaborate on these views below.

5. THE WAY FORWARD

TWO ANSWERS

5.1. When looking at the way forward, one needs to distinguish between two different answers to the question about the fiscal situation of an independent Wales. On a purely practical level, many people will ask if we can afford to maintain an independent nation. At the same time, but separately, we need to clarify the vision of the type of new society we wish to create, using the powers of an independent nation.

5.2. Of course, these solutions operate within the current economic system, namely the one in place before independence. There is therefore a tendency for them to focus on maintaining a neo-liberal capitalist system in the form of the current Western states. However, when looking to our future, we

need to start breaking away from these failed systems, which militate against the interests of the people and communities of our country. Our vision focuses on the devolution of power to people and communities, and our economy needs to reflect that.

5.3. However, there is a connection between the two answers. Within the constraints of the current economic system, we propose laying the foundations for our wider post-independence vision. The changes we propose as immediate steps in section 7 below are intended as a bridge to the wider ‘New Social Contract’ between the new independent state and its citizens, based on common ownership and equality of outcome.

6. A CLASSICAL ANSWER

6.1. Doyle’s report deserves a great deal of attention and we believe there is valid argument to be made that all the assumptions in his report are well-founded.

6.2. However, we do believe there is greater uncertainty around the proposition that the rest of the UK would agree that Wales should not be liable for the pension benefit liabilities accrued during the life of the Union. Furthermore, and although it is absolutely clear that Wales would have no legal duty to pay a share of rUK’s debt, it is possible to foresee some scenarios when the new free Welsh state would choose to make a voluntary contribution towards the historic debts of rUK. It should also be noted that the opportunity offered by independence to move to a system of Common Basic Services and wages for family care and housework could give a very different complexion to the debate around pension liabilities.

6.3. Applying the principles set out in section 3 above, Melin Drafod is bound to disagree with one of Doyle’s suggestions: we believe that spending on defence should be lower than the 1.3% of GDP

20 <https://blogs.cardiff.ac.uk/thinking-wales/the-fiscal-gap-and-the-welsh-economy/> https://www.cardiff.ac.uk/__data/assets/pdf_file/0004/1540498/Government-Expenditure-and-Revenue-Wales-2019.pdf

21 <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/september2019>

<https://obr.uk/overview-of-the-november-2022-economic-and-fiscal-outlook/>

<https://obr.uk/public-finances-databank-2022-23/>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1126020/Public_Sector_Finance_bulletin_November_2022_HMT.pdf

22 https://www.cardiff.ac.uk/__data/assets/pdf_file/0011/2681543/plaid_conference_october2022_FIN.pdf

suggested by him and should instead be at the same level as Ireland, 0.5%.

6.4. However, and in taking a very conservative view of the Doyle report (which would be dependent on negotiations between Wales and the rest of the UK), it could be argued that the structural budget deficit would need to be reduced by around 6-7% of GDP. An independent Wales would face a number of choices if it were in such a situation, namely to cut spending, increase revenue or a combination of the two. If there is such a shortfall, it is recognised that it would not be necessary to close these fiscal gaps immediately, but rather over a period of time that is considered reasonable by those lending money to the new state.

6.5. Even taking this precautionary view, it is important to emphasise that it would only be necessary to strengthen Wales' finances by approximately 6-7%, as we have confidence that negotiations with the rest of the UK will leave us, at worst, with a budget deficit of approximately 9-10% of GDP per year.

6.6. This finding gives Wales an opportunity to start implementing the socialist and progressive principles identified in section 3 above, although more radical changes would have to wait until post-independence. Below we suggest areas which could be the basis for dealing with any financial shortfall facing an independent Wales.

6.7. The Poole report demonstrates its value by pointing to two facts relevant to Wales' fiscal situation, namely:

- Wales' lower level of revenue-to-GDP compared to the European Union average; and the
- net benefit accrued from increasing the percentage of the population that is of working age to the British average.

FAIR TAXES

6.8. A combination of tax measures could be used to increase the level of revenue-to-GDP to the European Union average (39.6% to 46.0%), raising around £4 billion a year and improving the fiscal position by around 5% of GDP. At the same time, this could be done in a way that distributes wealth much more evenly. It should be noted that a number of these measures could be introduced before independence in order to lay the foundations for building our wider vision for a new society thereafter.

6.9. Among the tax measures that should be considered therefore are:

- a wealth tax, learning lessons from the tax proposed in various US states;
- the legalisation/decriminalisation of drugs which would lead to additional revenue together with expenditure savings, with a net income boost of hundreds of millions per year²³;
- a tax on landlords' income/profits and other forms of rentierism, which would raise at least £375 million a year²⁴, as a step towards common ownership of housing;
- a tax on companies' profits from the export of water and energy;
- new tech media taxes which could raise around £50 million a year²⁵;
- a super-tax on foreign-owned property;
- aligning the income tax profile to the Welsh tax base;
- higher inheritance taxes;
- higher taxes on dividends; and
- a local income tax to replace council tax.

A YOUNG NATION

6.10. Melin Drafod believes that a series of measures are needed to increase the percentage of the working age population, while at the same time reassessing

23 <https://www.theguardian.com/society/2009/apr/07/drugs-policy-legalisation-report>

<https://transformdrugs.org/publications>

<https://committees.parliament.uk/writtenevidence/107437/pdf/>

https://www.unodc.org/documents/ungass2016/Contributions/Civil/DrugPolicyAlliance/DPA_Fact_Sheet_Approaches_to_Decriminalization_Feb2015_1.pdf

https://iea.org.uk/wp-content/uploads/2018/06/DP90_Legalising-cannabis_web-1.pdf

24 Cymdeithas yr Iaith estimates that by introducing a super-tax of 25% on landlords' income could raise around £375 million a year. On a practical level, such a measure would have to be combined with a system of rent controls. https://cymdeithas.cymru/sites/default/files/Mwy%20na%20Miliwn%20Cymdeithas%20d2_o.pdf

25 page 16, Darlledu yng Nghymru II, Cymdeithas yr Iaith, 2019 <https://cymdeithas.cymru/sites/default/files/Datganoli%20Darlledu%20-%20Ymgynghoriad%20Pwyllgor%20DGCh.pdf>

our relationship with work. Through these measures, we believe it is possible to improve Wales' fiscal position by approximately £1.5 billion²⁶ per year or 2.25% of GDP.

6.11. In considering these questions we take inspiration from an article entitled *Y lle gorau i dyfu lan* (The best place to grow up) written for our publication *Imagining an Independent Wales*²⁷, as well as progressive ideas about changes in the world of work. As part of this, policies will need to reverse emigration by retaining, and attracting back, young people to Wales.

6.12. Furthermore, and as part of the move to this new approach, an independent Wales should be the best country for young people and to raise a family. Measures, including the following, should be considered:

- Increasing the number of bank holidays to the best levels in Europe, from 8 to 15 per year²⁸;
- A four-day maximum working week (with 8-hour days and without loss of income);
- Reducing or abolishing tuition fees for students who remain in Wales;
- Measures to control rental and house prices, including giving local people and communities and those who work locally the first opportunity to buy houses.

WELCOMING BORDERS

6.13. Furthermore, it is generally accepted, on a purely economic analysis, that abolishing immigration controls would be a huge global economic boost²⁹. With an ageing population across the continent, there is a strong economic and

social argument that we have a significant need for workers.

6.14. However, as stated in section 3 above, it is not an economic argument, but a moral one, that places an imperative on the newly independent Wales to relax immigration borders to the greatest extent possible. Consideration should therefore be given to establishing the unconditional right to work here, regardless of origin and independent of an individual's citizenship.

SAVINGS OF THE NEW PROGRESSIVE SOCIETY

6.15. Building on most of the financial savings identified by Doyle, and in line with the principles set out in section 3 above, we suggest further policy measures that both create a fairer, greener and more inclusive society and consolidate Wales' fiscal position:

- Merge the three emergency services, and establish one 'Emergency Support Service' instead, which would have the primary aim of promoting the welfare of individuals and society;
- In line with the aim of creating a peaceful nation and reducing spending on defence to the same level as Ireland, maintain a defence service that has a small professional core and aims to promote the participation of all the country's citizens;
- Abolish nuclear energy and weapons, saving on subsidies and decommissioning costs;
- Reduce the prison population to the same levels as Finland³⁰ - from 154³¹ prisoners in every 100,000 of the population to 433 - saving around £150 million a year³²;

26 page 75, 'Government Expenditure and Revenue in Wales', Canolfan Llywodraeth Cymru
https://www.cardiff.ac.uk/__data/assets/pdf_file/0004/1540498/Government-Expenditure-and-Revenue-Wales-2019.pdf

27 *Imagining an Independent Wales*, July 2022, Melin Drafod

28 <https://www.tuc.org.uk/news/tuc-calls-creation-four-more-bank-holidays-improve-stingy-entitlement>

29 <https://www.aeaweb.org/articles?id=10.1257/jep.25.3.83>

30 <https://www.statista.com/statistics/957501/incarceration-rate-in-europe/>

31 <https://www.theguardian.com/uk-news/2019/jan/16/wales-has-highest-incarceration-rate-in-western-europe-prison-population-england>

32 Based on going from 4,291 prisoners (2018 figure) to 1,201 (28% of the current prison population) saving £48,409 per year per prisoner

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1050046/costs-per-place-costs-per-prisoner-2020_-2021.pdf https://www.cardiff.ac.uk/__data/assets/pdf_file/0008/1195577/Imprisonment-in-Wales-A-Factfile.pdf

<https://www.gov.wales/devolved-justice-system-an-opportunity-to-reduce-the-size-of-the-prison-population>

- Establish fewer, more powerful local authorities, which would also have health responsibilities, saving around £151 million a year³³.

6.16. Excluding the defence savings (calculated as part of the cost reduction in our analysis of the Doyle report above), we think there is reason to believe that savings of around £400 million per year, or 0.5% of GDP, could be made through the policy changes identified in point 6.15 above.

7. A NEW SOCIAL CONTRACT – A POST-INDEPENDENCE VISION

7.1. Above we have identified ways to boost Wales' fiscal position by over 7% of GDP, based on our cautious interpretation of Doyle's conclusions.

7.2. However, if the Doyle report is assumed to be correct, the changes identified above would turn an assumed deficit of 3.1% of GDP into a surplus of approximately 4% of GDP, or £3 billion per year.

7.3. If the above measures lead to an annual surplus, we propose that some strategic investments should be considered. Some of them are identified above, but the following could also be considered:

- A significant child support payment in order to eradicate child poverty³⁴;
- A programme to decarbonise the transport, energy and housing systems³⁵, including significant investments in wind and wave energy;
- An English and Welsh language literacy programme for adults to ensure that all individuals are literate in both languages;

- A programme to bring housing into public ownership in order to make public housing the norm;
- Free universal childcare;
- Free universal public transport.

TRANSFORMING THE JUSTICE SYSTEM

7.4. Independence is an opportunity, as outlined above, to re-imagine so many of our current systems. Our current justice system - which is based on protecting the profits and property of the rich - searches, arrests and imprisons so many people completely unnecessarily. In many cases this is done on the basis of prejudice: on the basis of class and race, with far too many suffering harassment and violence from the authorities. In view of these injustices, above we propose to create one new emergency service, legalise drugs and reduce the percentage of the population in prison to the lowest levels in Europe. These policies have the potential to transform the lives of people and communities for the better.

CHANGING OUR RELATIONSHIP WITH WORK

7.5. Through independence, we have the opportunity to realign our relationship with work, so that all the benefits of work accrue to the workers. This should be done with the following in mind:

- that our reliance is on 'earning a living' instead of a proper living as a citizen's basic right;
- that work leads too often to a life of alienation: of low self-worth, little purpose and with mental and other health implications;
- the urgent and pressing need to reduce our impact on the climate and nature crises;
- the importance of ensuring workers' control and strong workers' rights so that employment is beneficial to individuals and to society as a whole;

33 <https://www.gov.wales/administrative-costs-local-authorities-review> <https://www.gov.wales/written-statement-review-local-authority-administrative-costs>

34 <https://www.bbc.co.uk/news/uk-scotland-63635698>

35 <https://foe.cymru/warm-homes-what-were-calling>

<https://www.theenergymix.com/2022/03/20/not-that-hard-to-grasp-uk-could-eliminate-need-for-russian-gas-with-insulation-heat-pumps-renewables/>

- the undervaluing of certain roles in society in relation to paid work, especially roles that are likely to be nurturing, caring etc.

7.6. An independent Wales could transform our relationship with work by:

- providing adequate, unconditional and universal basic services and wages for housework and caring, freeing citizens from the need to work to live;
- adopting and incentivising publicly-owned labour-saving technologies such as AI and automation to the maximum;
- reversing the narrative that we need paid jobs to survive and grow; instead we should make the most of our time, choosing how to spend it;
- being a country that seeks to support citizens to thrive in a wide range of ways;
- establishing a workers' democracy: restoring the right to strike, mandatory recognition of trades unions in the workers, and rights to hold a general strike;

COMMON OWNERSHIP PROGRAM

7.7. Marx argued for common ownership of industries so that workers gain all the benefits of their work. In line with this basic principle, there would be clear benefits from nationalising the key assets of the new state, such as energy, banks, water, transport, post and housing, bringing power back to the people. Furthermore, an independent Wales could consider the option of re-nationalising some essential services without paying compensation, given legacy profits and sub-standard services and investment.

7.8. In any discussion of the nationalisation or communitisation of assets and industries, there is a lot of focus on the 'cost' of nationalisation. Melin Drafod wants to change the discussion to focus on the costs of keeping these assets in private ownership. These costs are, in fact, much higher than many assume - a clear example of this being the huge cost of rescuing the banking system in a number of Western countries during the financial crisis of 2008-9.

7.9. Every penny of profit that goes into the pockets of the private owners is a penny less for the nation to spend. Private services focus on extracting profit, rather than on delivering a service; as such, profit and provision are conflicting concepts. Services run by the community, for the benefit of the community, do not need to make a profit: they just need to provide a good service.

7.10. The cost of keeping assets and industries private is a cost to our society in general - take energy and transport as examples. EDF (an energy supplier), for example, is owned by the French Government - and they have been able to cap the increase in energy prices to 4% this year, thanks to their state control. In August 2022, families in Britain, on average, paid 64.21 pence/kWh, while families in France paid only 25.01 pence/kWh.

7.11. It is a myth that our transport systems are in private hands; in fact they are often owned by foreign governments. In 2019, 80% of the train companies in Britain were owned by a foreign government either in full or in part, with the remaining 20% privately owned or owned by the UK Government. In France, the price of a train ticket per mile is £0.29, in Italy £0.14, and in Portugal £0.13. However, in Britain, the corresponding figure is £0.55³⁶. The costs of maintaining such private systems are clear: a more expensive, but not better, service³⁷.

7.12. We believe that further research is needed on the best method of implementing a program of public ownership as part of independence. This is in line with our objective of distributing wealth much more equally and benefitting from the common ownership of industries and key assets.

8. CONCLUSIONS

8.1. The debate about independence and its financial implications has undoubtedly progressed rapidly over the last few years.

8.2. The quality of Doyle's report gives us considerable confidence and good evidence to believe that Wales would be a financially sustainable independent country.

36 <https://www.vouchercloud.com/resources/train-prices-across-europe>

37 <https://www.consultancy.uk/news/13535/europes-best-train-systems-uk-railway-poor-in-service-quality>

8.3. Even taking a cautious view of the Doyle report, we have identified policy changes that would improve Wales' fiscal position by more than 7% of GDP.

8.4. We conclude therefore that these changes allow Wales to face a favourable scenario on its first day as an independent country. At worst, the country's deficit would be at a level similar to the average of European countries, and within the rules of the Growth and Stability Agreement of the European Union, at around 3% of GDP. At best, Wales would, in the short to medium term, have a surplus of up to 4% of GDP, or £3 billion a year, and would therefore be in a position to invest strategically in order to meet the needs of people, communities and the planet for the benefit of future generations.

*MELIN DRAFOD NATIONAL COMMITTEE,
JANUARY 2023*



FEEDBACK ON THIS PAPER

This is a discussion paper and we are keen to improve on the proposals.
Constructive feedback, comments and criticism are welcomed.
If you would like to write to us with comments, you can do so by emailing:
post@melindrafod.cymru