

Economics of Constitutional Change in Scotland

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Graeme Blackett

Graeme Blackett

- Director of **BiGGAR Economics**
- Applied Economist (not a politician)
- 20+ years experience: Scotland and elsewhere
- Advisory Board Member, *Reform Scotland*
- Experience in fiscal powers and economics of constitutional change
 - co-author of Reform Scotland papers on Fiscal Powers, Fiscal Powers 2 and DevoPlus
 - adviser on fiscal issues to Scottish Parliament's Scotland Bill Committee
 - press & media commentary

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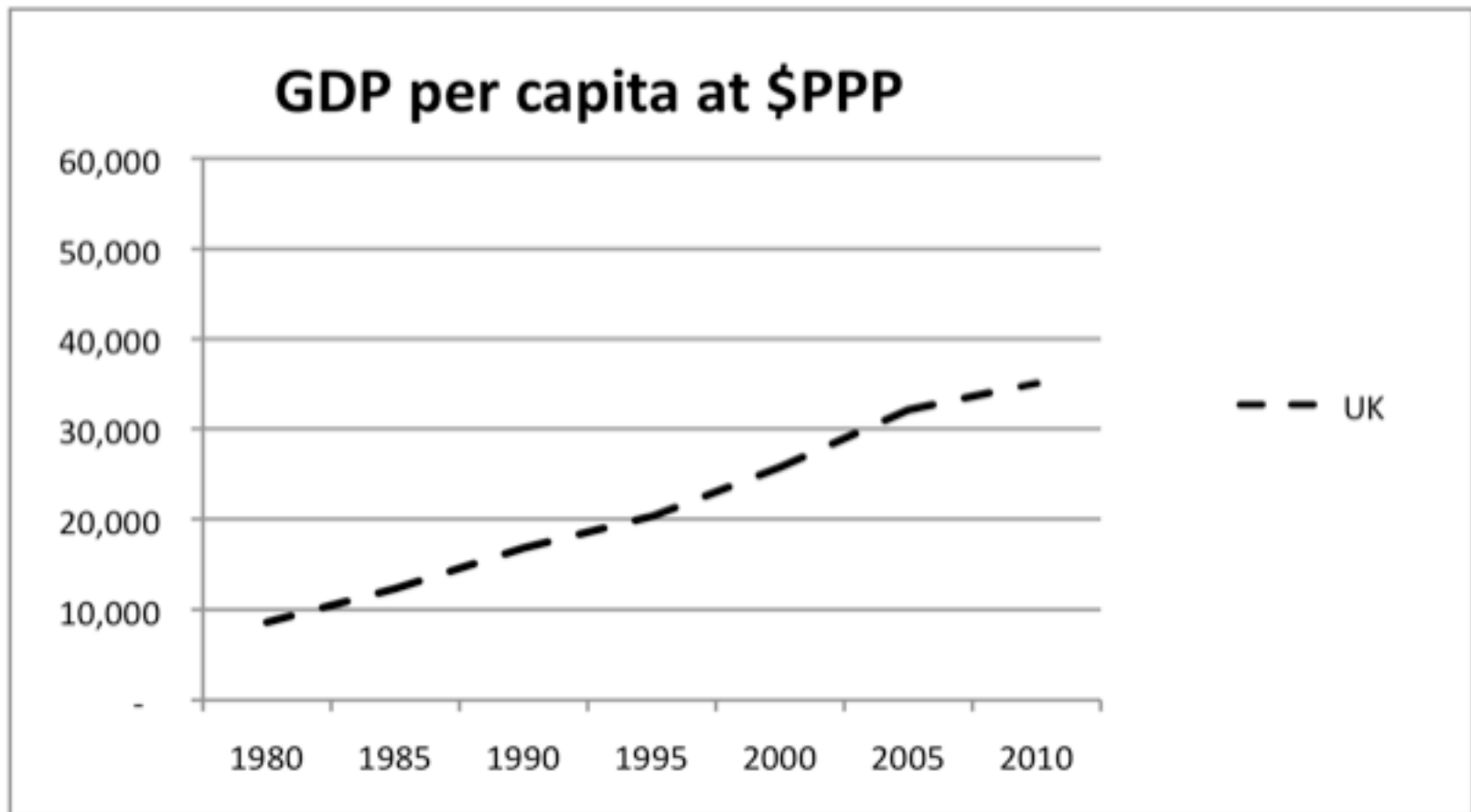
- Focus on economic context & evidence, not politics
- Economic context
 - economic performance: UK, Scotland & comparators
 - government spending & tax revenues
- Constitutional options & Economic issues
 - Scotland Act, DevoPlus & DevoMax
 - Independence
- What you should do

**Economics of Constitutional
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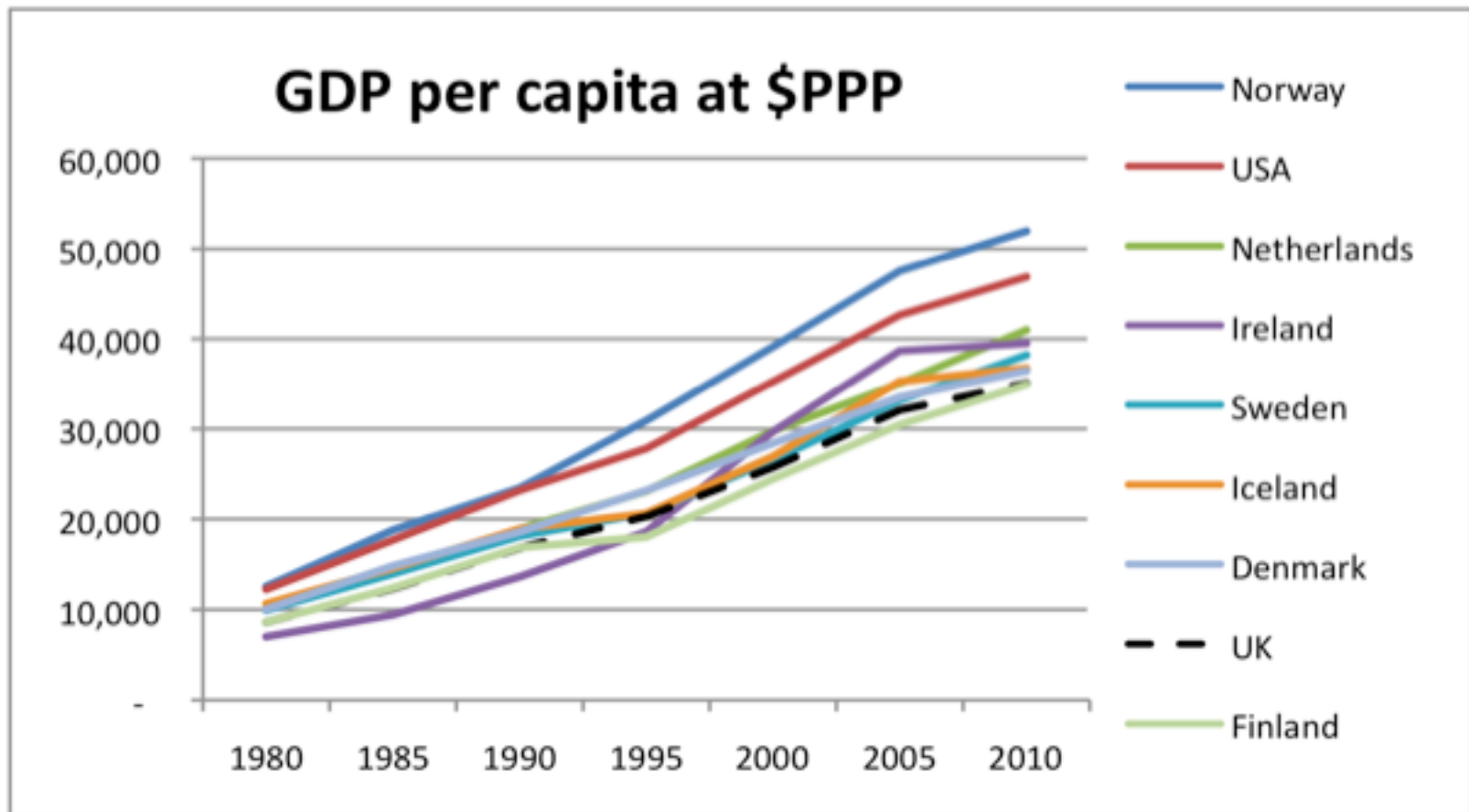
***Economic Context 1:
UK, Scotland &
Comparator Economies***

UK Economic Growth Over 30 years



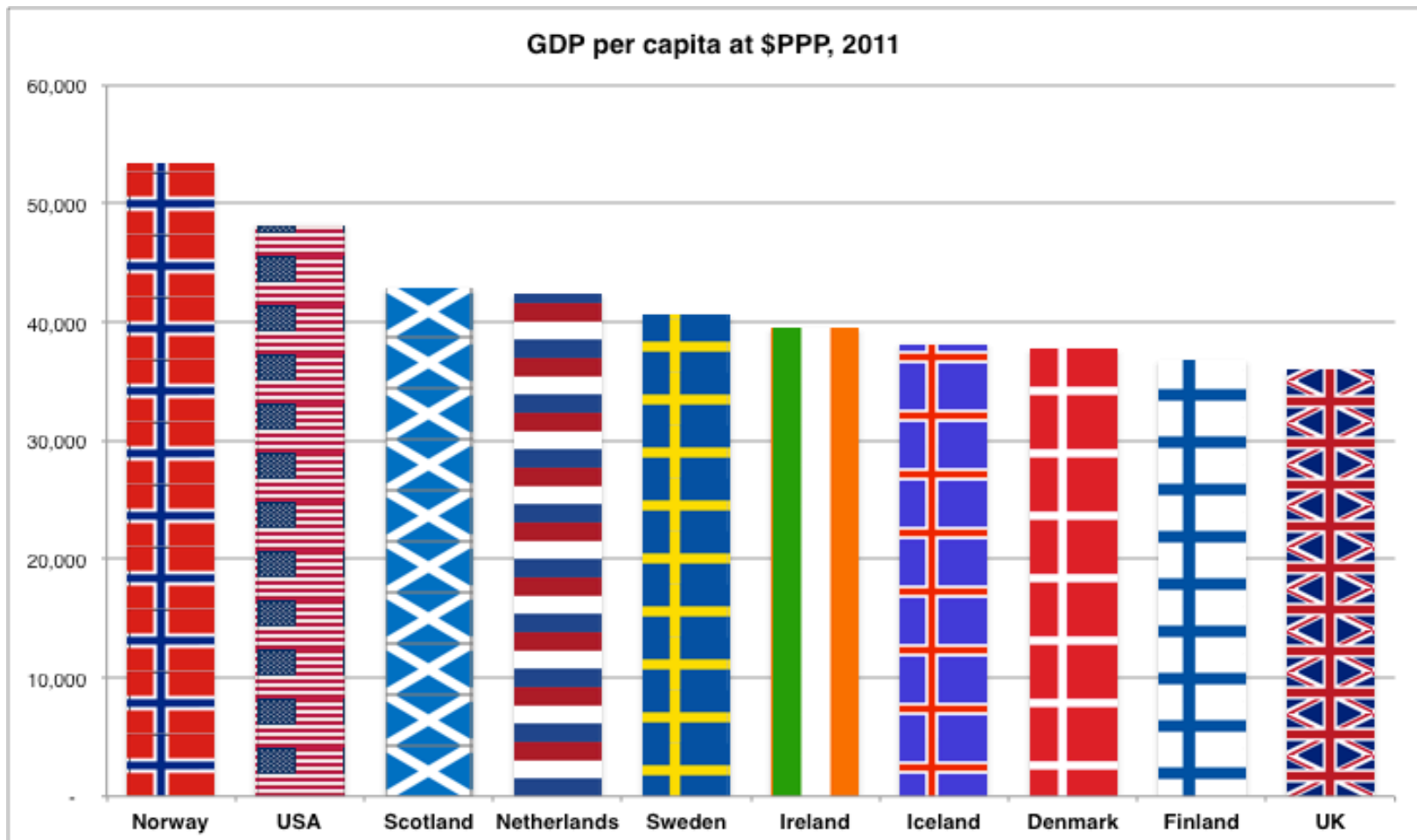
Source: IMF World Economic Outlook Database

UK Economy Outperformed



Source: IMF World Economic Outlook Database

Context: GDP per Capita inc. Scotland



Source: IMF World Economic Outlook Database & GERS (2011)

Economy is not just = GDP

1.	 Norway 0.955 (→)	17.	 Belgium 0.897 (▲ 1)
2.	 Australia 0.938 (→)	18.	 Austria 0.895 (▲ 1)
3.	 United States 0.937 (▲ 1)	19.	 Singapore 0.895 (▲ 7)
4.	 Netherlands 0.921 (▼ 1)	20.	 France 0.893 (→)
5.	 Germany 0.920 (▲ 4)	21.	 Finland 0.892 (▲ 1)
6.	 New Zealand 0.919 (▼ 1)	22.	 Slovenia 0.892 (▼ 1)
7.	 Ireland 0.916 (→)	23.	 Spain 0.885 (→)
8.	 Sweden 0.916 (▲ 3)	24.	 Liechtenstein 0.883 (▼ 16)
9.	 Switzerland 0.913 (▲ 2)	25.	 Italy 0.881 (▼ 1)
10.	 Japan 0.912 (▲ 2)	26.	 Luxembourg 0.875 (▼ 1)
11.	 Canada 0.911 (▼ 5)	27.	 United Kingdom 0.875 (▲ 1)
12.	 South Korea 0.909 (▲ 3)	28.	 Czech Republic 0.873 (▼ 1)
13.	 Hong Kong 0.906 (→)	29.	 Greece 0.860 (→)
14.	 Iceland 0.906 (→)	30.	 Brunei 0.855 (▲ 1)
15.	 Denmark 0.901 (▲ 1)	31.	 Cyprus 0.848 (▼ 1)
16.	 Israel 0.900 (▲ 1)	32.	 Malta 0.847 (▲ 4)

Source: Human Development Index Report, 2013

Economic Theory Bit

- does the size of the state matter to the economy?
- 19th Century
 - larger states: rise of US, British empire, unification of Germany & Italy etc.
 - belief that prosperity based on securing political control over natural resources = mistaken & costly
- 20th Century
 - small European states from poorest to richest in world
 - international agreements & institutions to promote trade
 - success based on comparative advantages in market niches
 - small countries grew **0.5% per annum** more than large ones
- size of the state neither a *barrier* nor a *determinant* of economic success

Scotland's Economic Prospects

- Scotland no longer the industrial power it once was
- North Sea
 - recent trend declining 5-6% per annum (by volume)
 - significant investment in recent years
 - estimated £1 trillion+ remaining (£300,000 million+ in tax)
 - future is not dependent on oil (best viewed as windfall)
- Comparative advantage in global growth sectors, e.g.
 - renewable energy: 25% EU's wind, 10% wave & tidal
 - life sciences: Dolly, NHS, BioQuarter etc.
 - universities: 5 in world top 200
- Economic prospects will be determined by action to realise these opportunities, by private sector and
 - by UK Government and/or Scottish Government

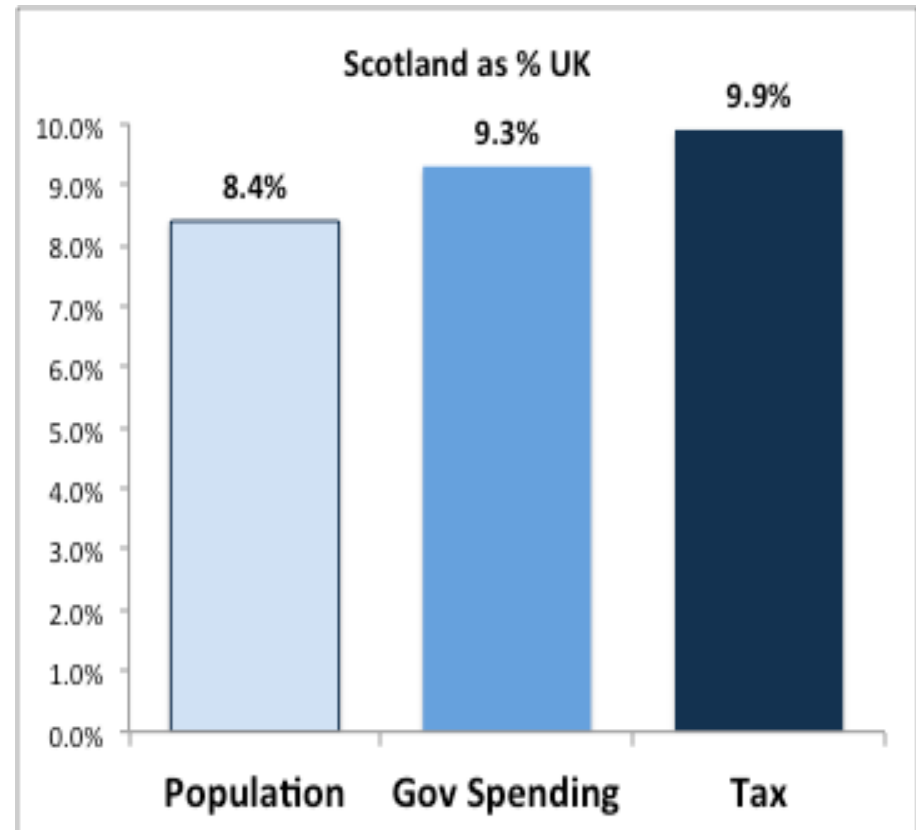
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***Economic Context 2:
Government Spending
& Tax***

Government Spending & Revenue

- *small 'subsidy' to rest UK*
 - North Sea revenues make difference
 - otherwise 8.3% of tax revenues
 - need to fill gap as North Sea revenues decline
 - *whatever the constitutional future*
 - whether Scotland is subsidised by UK or international oil companies is neither healthy or useful debate



Source: GERS 2011-12

Government Spending & Revenue

- Government spending, 2011-12
 - Scottish Government £38.6bn (health, education etc.)
 - UK Government £25.8bn (defence, social security, debt etc.)
 - Total £64.5bn
- Tax revenues, 2010-11
 - Scottish Government £3.9bn (council tax, business rates)
 - UK Government £53.0bn (everything else)
 - Total £56.9bn
- Deficit
 - Scotland -5.0% of GDP
 - *UK -7.9% of GDP*

Source: GERS 2011-12

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***Constitutional
Options***

The Options

- Unitary UK State with no Scottish Parliament
- Status Quo: Scottish Parliament with limited tax powers
- Scotland Act: Scottish Parliament with some additional tax powers
- DevoPlus: Scottish Parliament (& UK Parliament) responsible for taxes to meet spending
- DevoMax: UK remains but Scottish Parliament has full tax powers & pays UK for share of joint services
- Independence: Scottish Parliament with full powers

Economics of Constitutional Change in Scotland

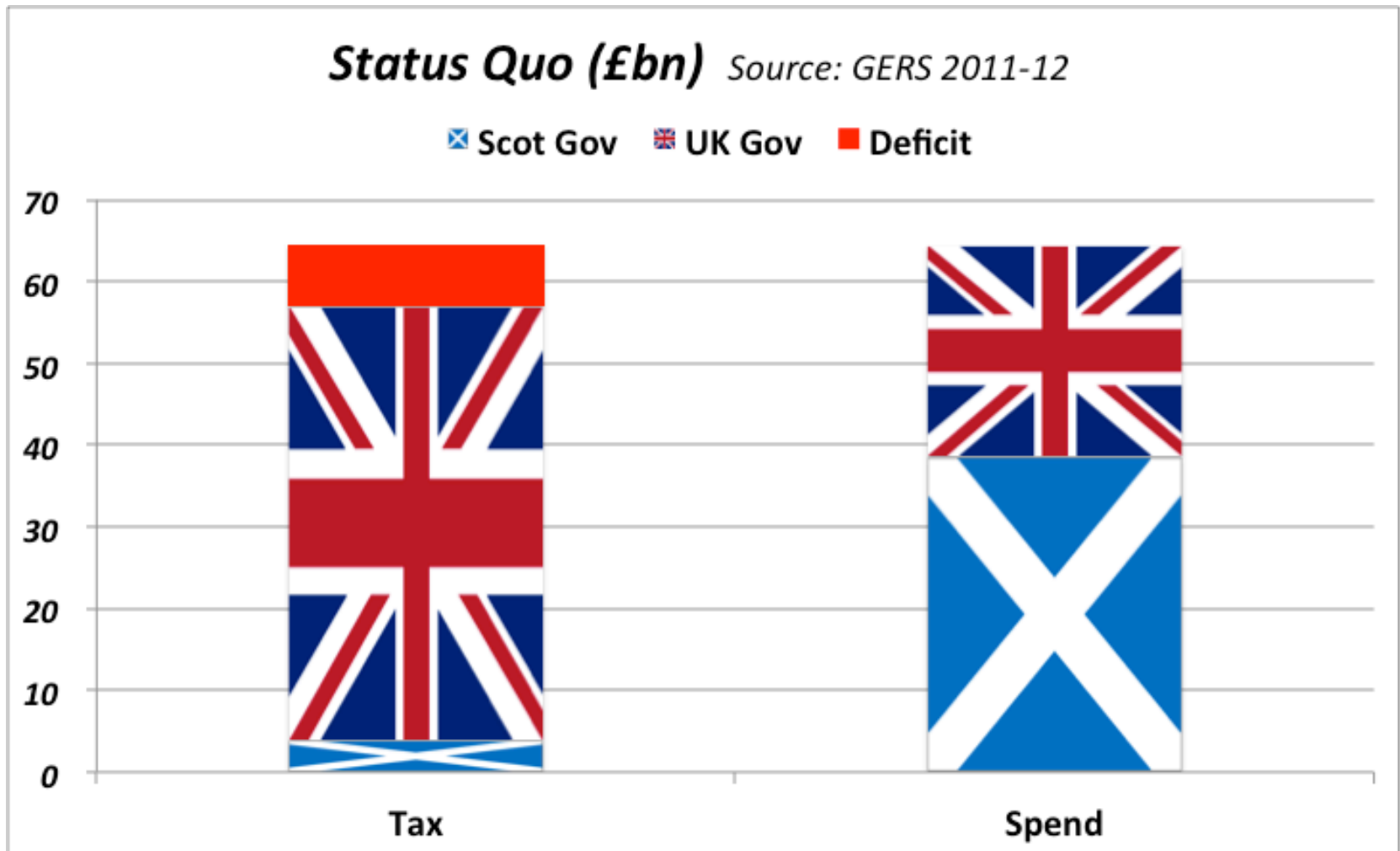
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***Scotland Act
(Status Quo)***

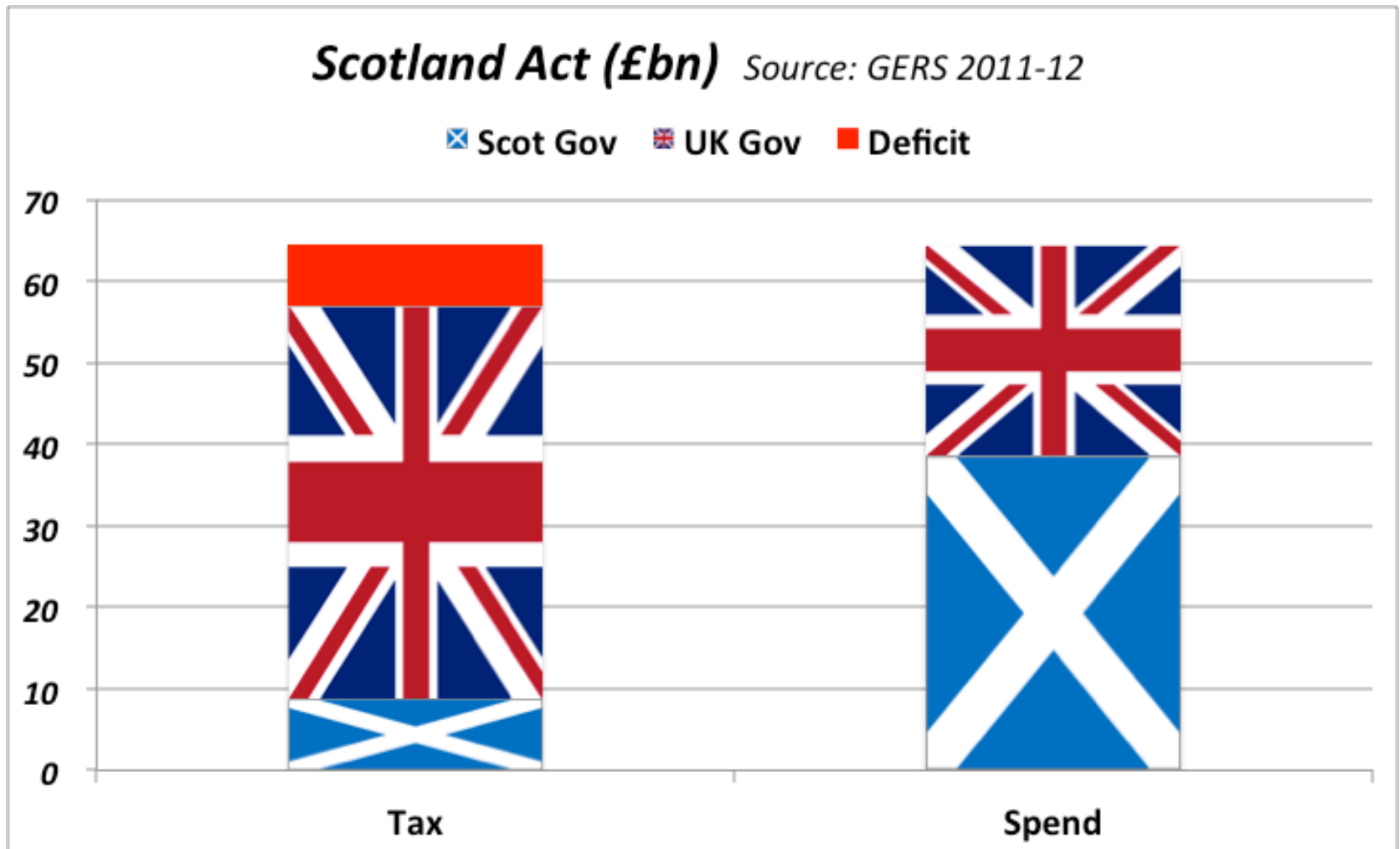
Scotland Act

- Scotland Act 2012
 - Royal Assent 1st May 2012 so “new status quo”
 - David Cameron “*biggest transfer of fiscal powers in 300 years*”
- Fiscal powers
 - Scottish rate of income tax from 2016 (=10p)
 - increased borrowing powers from 2015
 - power to introduce new taxes (if UK agrees)
 - devolution of stamp duty land tax & landfill tax from 2015
- Other powers devolved, include
 - regulation of air weapons
 - drink-drive limit
 - national speed limit

Pre Scotland Act: Tax & Spending



Scotland Act: Tax & Spending



Questions: Scotland Act

- Are fiscal powers enough to deliver financial accountability?
- Do the powers give Scottish Government any additional economic levers?
- Are the income tax proposals practical?
- De facto introduction of Scottish tax system, including definition of a Scottish taxpayer – compliance costs
- Do any of the political parties still believe this is the best option?
- Are any developing new policies in response?
- Will it be implemented or superseded?

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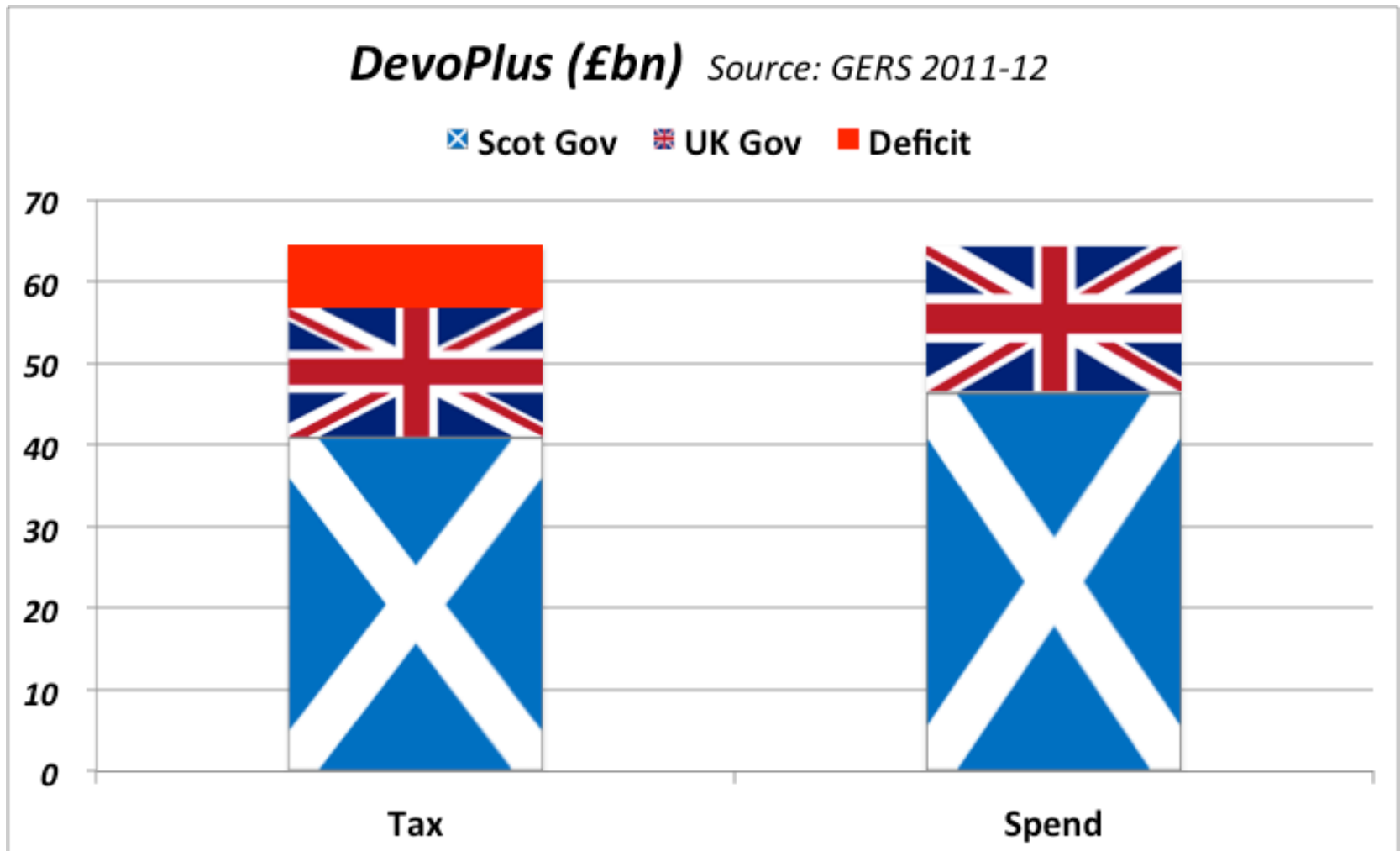
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***DevoPlus &
DevoMax***

DevoPlus

- Scotland remains in the UK
- Substantial new fiscal powers for Scottish Parliament
- UK-wide solution – need to officially designate ‘UK’ spending (vs. Scottish or English spending)
- Central principle: each level of government should have to raise the taxes it spends
- Several starting points for which taxes are devolved or retained
- Delivers
 - Financial accountability to Scottish (& UK) Parliament
 - Wide range of economic levels/ tax powers
- Comparable to early 20th century Home Rule plans

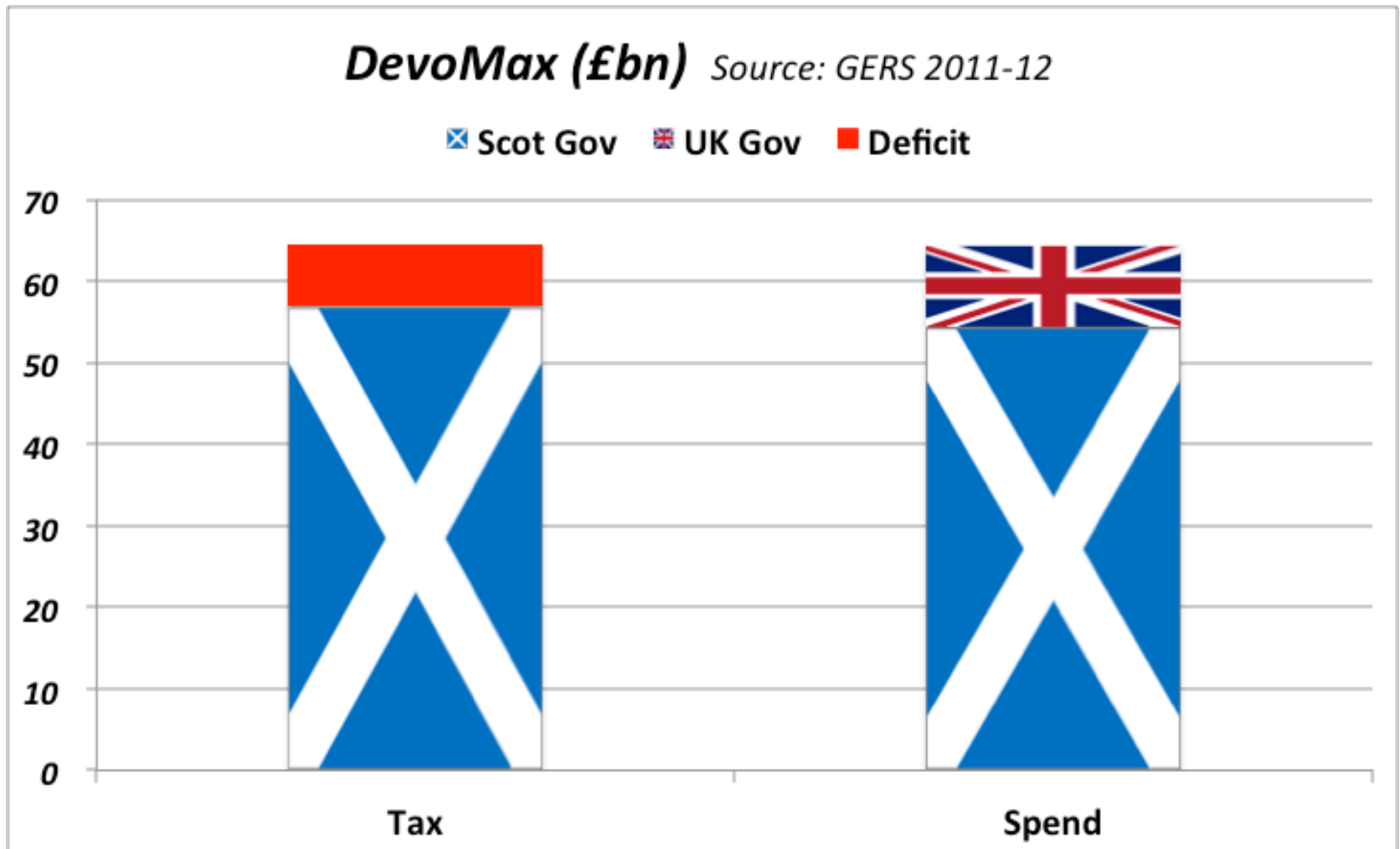
DevoPlus: Tax & Spending



DevoMax

- Scotland remains in the UK
- Further devolution of spending powers (e.g. welfare spending)
- Scotland has (almost) full fiscal powers (VAT retained at UK level)
- UK continues to provide defence, foreign affairs, pensions (?)
- Scotland pays UK for UK services

DevoMax: Tax & Spending



Questions: DevoPlus & DevoMax

- DevoPlus and DevoMax would transfer (some) economic powers to Scotland & make Scottish Parliament financially accountable
- Not on the ballot paper on 18th September 2014
- Would need Westminster to implement
- Unionist parties moving towards supporting more powers but no consensus
- Will Scotland be a priority issue for Westminster following a No vote in 2014?
- None of the parties seem to be developing policies for what they might do with more powers

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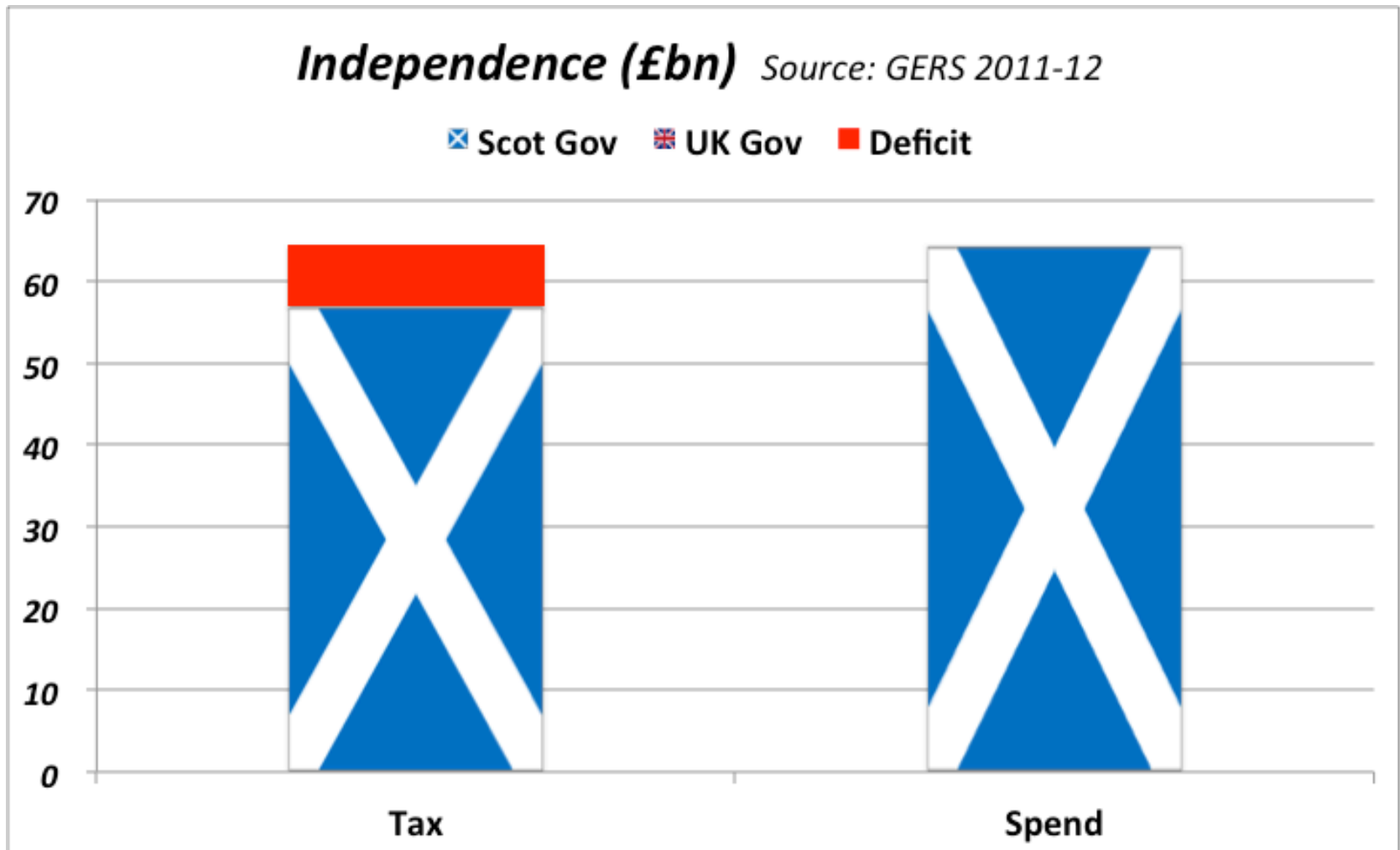
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Independence

Independence

- Scotland becomes independent
- Political independence = principle of self determination
- Key Question: what will Scotland be like after independence?
 - Depends on the Government it elects!
 - In 2016 & at each future election
- Full fiscal powers
- Also full monetary powers (although choice may be not to use them)
- Powers in context of international agreements, including EU framework

Independence: Tax & Spending



Questions: Independence

- Referendum on 18th September 2014
- Debate is not yet mature, confusion between
 - fundamentals of independence
 - SNP policy platform for post-independence
- Questions to be debated
 - Currency options
 - SNP policy to stay in sterling
 - Euro (if it survives & thrives) & Scottish currency are options
 - Areas of continued co-operation with UK, e.g.
 - common UK electricity market in interests of Scotland & UK
 - financial services regulation

Fiscal Commission

- Detailed work on the Macroeconomic Framework for an independent Scotland
 - members include 2 Nobel Prize Winners
- First report covers
 - analysis of Scottish economic performance
 - Recommended macroeconomic framework, covering
 - Monetary policy – recommends that shared Sterling is in interests of Scotland & rest of UK
 - Financial stability
 - Fiscal sustainability
- Future reports promised

Economic Impact of Options

- Debate about empirical evidence
 - some evidence that more tax powers related to better economic performance
 - examples of use of individual taxes (e.g. corporation tax)
- Change options will not automatically lead to better or worse economic performance, depends on
 - policies of future Scottish Government elected
 - and/or policies of future UK Government elected
 - Skills, business investment, etc. etc. etc.
- Tax powers deliver financial accountability and the right incentives to develop economic growth policies
- Need to consider lessons from small successful states (whichever option prevails)

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***What Should You
Do?***

What Should Businesses Do?

- Internally
 - identify the risks & develop mitigation strategies
 - identify the business opportunities
- Externally, engage in the debate
 - ask questions
 - join groups
 - engage with representative organisations
 - make suggestions (answer questions)
- Debate will continue to 2014 (and beyond?)
 - if you leave it to others your concerns & aspirations may be ignored

More Information

- Scotland Act www.scotlandoffice.gov.uk
- Devo+ www.devoplus.com
- Independence
 - Yes Scotland: www.yesscotland.net
 - Better Together: www.bettertogether.net
- Other
 - Fiscal Commission: report available from www.scotland.gov.uk
 - Large number of blogs, think-tank reports & books

Questions and Comments?

Graeme Blckett

BiGGAR Economics

Midlothian Innovation Centre

Pentlandsfield, Roslin

Midlothian EH25 9RE, Scotland

Telephone: 0131 440 9032

graeme@biggareconomics.co.uk

www.biggareconomics.co.uk