SNP It's time

Scotland in Surplus – Past, Present and Future

The economic platform for Independence - 2006 pre-Budget Report Update

December 2006

1. Introduction – Stewart Hosie MP

For decades, a familiar refrain of Unionist politicians has been that Scotland could not survive economically as an independent country.

They maintained this line in public from the 1970s, despite the fact that we now know from secret papers that in private their own economic advisers were telling a very different story.[1]

Since the 1990s, a key weapon in 'proving' this argument has been the annual Government Expenditure and Revenue in Scotland (GERS) analysis. From leaked documents, we know this was always conceived as a political exercise to "score over all our opponents" [2]

Although the statisticians leading this work have admitted, "this tells us nothing about the economics of an independent Scotland", GERS has nonetheless been trotted out by Tory AND now Labour politicians to attack the case for independence and the self-confidence of the Scottish people.[3]

What really matters about the economic argument for independence is the likely impact of constitutional change on economic growth - not the static budget position inherited from the union.

However, the analysis gives a starting point and we can now demonstrate that this starting point will be as the then Dr McCrone forecast in the 1970s one of "chronic surplus" compared to the UK.

This should not be a surprise.

As we will show in this paper, Scotland has been in surplus in the past, we are in surplus in the present and will continue to be in surplus well into the future.

In the year 2006/07 with North Sea revenues still expected to be in excess of £10 billion, the Treasury is forecasting Central Government debt for the UK of £570 billion and a 2006/07 deficit of £34.8 billion. That is Britain's deficit position, but Scotland remains this year in absolute surplus and our budgetary balance is even healthier when compared to the UK.

This paper takes the likely outturn for this year, based on the pre-Budget report, and applies that forecast to Scotland. We conclude that for this year Scotland, compared to Westminster is in relative surplus to the tune of £2.8 billion and in absolute surplus by some £0.61 billion.

And for the future, with as much oil and gas remaining to be developed in the waters around Scotland as has been exploited thus far, an independent Scotland would be likely to inherit the strongest fiscal platform ever experienced by any newly independent state.

This is the reality for Scotland today and tomorrow. It is a static position and reflects where we stand as part of the UK. However, I have no doubt that with independence and the ability to match the success of independent Norway and independent Ireland, Scotland will grow its economy. The benefits of that independence success and the greater wealth that flows from a flourishing Scottish economy, will mean more money in the pockets of Scottish families.

Stewart Hosie MP
Shadow Treasury Minister

---

[1] The Economics of Nationalism Re-examined (1975) – Government Paper by R G L McCrone

[2] In a letter dated 3 March 1992 to the then Conservative Prime Minister, John Major, Secretary of State for Scotland Ian Lang wrote: "I am disappointed that both you and the Chancellor have reservations about publishing the booklet I have had prepared and printed setting out the details of the government's expenditure and revenue in Scotland. I judge that it is just what is needed at present in our campaign to maintain the initiative and undermine the other parties. This initiative could score against all of them".

[3] Speaking in 2003, Scottish Executive Chief Economist Dr. Andrew Goudie remarked that "It [GERS] tells us nothing, I would argue, about the situation under Independence". Cited in SNP GERS Brief, 3 March 2005.

2. Scotland in surplus – the past

There is absolutely no doubt that over the past 25 years Scotland has been in surplus.

Figures provided by independent analysts and the UK government confirm this position for the 1980's, 1990's and for the first years of the 21st century. Scotland in Surplus 2005/06, produced by the SNP, shows that last year this long-term trend continued. As a nation we have one of the best fiscal positions of any country in the EU and a budgetary balance that far exceeds that of the rest of the UK.

There was a time during the devolution debates of the late 1990's when Labour and Liberal Democrat politicians accepted this case. They joined the SNP in confirming that Scotland paid her way. But today, because of their attempts to engender fear, they have adopted the old and discredited arguments of the Tories.

It is time to remind them of the reality of Scotland's financial position.

The first confirmation of Scotland's healthier fiscal position came in a parliamentary answer by the Chief Secretary to the UK Treasury, William Waldegrave in 1997.

Using the UK's own assumptions for tax revenue and spending, but including Scotland's share of North Sea Oil receipts, this answer revealed that between 1978-79 and 1994-95 **Scotland had a cumulative surplus of £27.6 billion, or £34 billion in today's prices. At the same time the UK had a deficit of more than £330bn**.

In 2002, a new analysis by the Constitution Unit for the previous 20 years confirmed this position, with the UK running up a massive deficit while **Scotland was in surplus by over £24 billion in the 1980's and 1990's**.[4]

But of course this should not surprise us. According to secret UK government papers from the 1970's, ministers in London knew that Scotland would be in a better financial position than the rest of the UK. They said one thing in public – maintaining the myth that Scotland was subsidised - while in private their civil servants were telling them[5]:

"What is quite clear is that the balance of payments gain from North Sea oil would easily swamp the existing deficit whatever its size and transform Scotland into a country with a substantial and chronic surplus."

"The country would tend to be in chronic surplus to a quite embarrassing degree."

"An independent Scotland could now expect to have massive surpluses both on its budget and on its balance of payments and with the proper husbanding of resources this situation could last for a very long time into the future."

"Thus, for the first time since the Act of Union was passed, it can now be credibly argued that Scotland's economic advantage lies in its repeal."

And, in 2005/2006, this long-term position was confirmed. Scottish taxes came to £50.52 billion while spending was just £49.15 billion. That means **last year Scotland had an absolute surplus of £1.37 billion or almost £270 for every person in Scotland**.

Taking into account Scotland's share of the UK's deficit for that year, Scotland had a relative surplus of £3.55 billion.

[4] Constitution Unit – cited in "Moving Scotland Beyond the Subsidy Myth", SNP 2003.
[5] Dr Gavin McCrone

3. Scotland in Surplus – the Present

This year Scotland is in a better financial position than the UK. The UK has a deficit of £34.8 billion. On the logic of GERS and the Labour and Tory Parties that means the UK is not a viable independent state.

And if we follow the methodology adopted in GERS and exclude oil from the UK accounts, that deficit would grow to £45.2 billion and the UK under Gordon Brown would fail the Maastricht criteria.

GERS has two major failings. First, it excludes oil from Scotland's balance sheet – almost £10 billion - a proposition as ridiculous as excluding the earnings from the City of London from the UK. Second, it ignores Scotland's relative position compared to the UK. Our share of the UK debt is a whopping £3 billion - equivalent to additional debt this year for every man, woman and child in Scotland of £580.

GERS is a political exercise that, according to the Scottish Executive's own Chief Economist, "*tells us nothing . . . about the situation under independence*[6]*"*.

As the analysis below shows – taking the most recent government estimates from the pre-budget report of December 2006 and this year's Public Expenditure Statistical Analysis - Scotland is not only in absolute surplus this year, something the UK has not managed, we are also in an even stronger position relative to the UK. That means that Scots are subsidising the rest of the UK this year to the tune of £560 per person. That £560 is the price of the Union.

In fact the UK's situation has changed in the 6 months since the Budget, with marginally higher total revenues and higher forecast spending. That UK shift is reflected in these updated figures.

In the tables below we summarise Scotland's revenue and expenditure. Unlike GERS, which is now two years out of date, we have taken the most recent figures, which show Scotland's public finances in a far healthier position than the rest of the UK.

[6] Dr Andrew Goudie, Chief Economist, Scottish Executive, The Times, 21/1/03

Receipts (£bn) - 2006/7	UK	Scotland	Allocation
Inland Revenue	£	£	%
Income tax (gross of tax credits)	146.1	12.05	8.25%
Income tax credits	-4.6	-0.39	8.50%
National Insurance Contributions	88.5	7.48	8.45%
Corporation Tax	39.9	3.79	9.50%
Corporation Tax Credits	-0.6	-0.06	9.50%
North Sea Corporation Tax	8.1	7.70	95.00%
Petroleum Revenue Tax	2.3	2.19	95.00%
Other Taxes and Duties	20.3	1.46	7.19%
Total Inland Revenue (Net of tax credits)	**300.00**	**34.21**	**11.40**
Customs and Excise			
VAT	76.2	6.48	8.50%
Duties	42.2	4.02	9.53%
Other Taxes & Levies	6.4	0.58	8.75%
Total Customs and Excise	**124.80**	**11.08**	**8.88**
Vehicle Excise Duties	5.1	0.38	7.50%
Oil Royalties		0.00	
Business Rates	21.5	1.89	8.79%
Council Tax	22.5	1.70	7.55%
Other Taxes and Royalties	13.3	1.06	8.00%
Net Taxes and NI Contributions	**487.20**	**50.33**	**10.33**
Accruals Adjustment on Taxes	3.2	0.27	8.50%
Less own resources contribution to the EU Budget	-4.4	-0.37	8.50%
less PC corporation tax payments	-0.2	-0.02	8.50%
Tax Credits Adjustments	0.6	0.05	8.50%
Interest and Dividends	5.3	0.45	8.50%
Other Receipts	26.2	2.23	8.50%
Total	**30.70**	**2.61**	**8.50**
CURRENT RECEIPTS	**517.90**	**52.94**	**10.22**

Expenditure (£bn)	UK	Scotland	Allocation
Identifiable Expenditure	£	£	%
General Public Services	6.96	0.87	12.48
EU Transactions	3.82	0.00	0.00

International Services	5.33	0.00	0.00
Defence	0.09	0.00	0.00
Public Order and Safety	26.24	2.14	8.17
Enterprise/Economic Development	6.96	0.68	9.75
Science and Technology	2.64	0.33	12.39
Employment Policies	3.97	0.86	21.63
Agriculture, Fisheries & Forestry	5.85	0.72	12.31
Transport	19.47	2.22	11.40
Environmental Protection	8.20	1.20	14.67
Housing and Community Amenities	9.84	1.55	15.75
Health	94.30	9.01	9.55
Recreation, Culture and Religion	8.56	1.11	13.00
Education and Training	74.22	6.76	9.11
Social Protection	181.35	16.93	9.33
PESA Correction		-0.50	
Total Identifiable Expendidture	**457.81**	**43.88**	**9.58**
Non-Identifiable Expenditure			
General Public Services	8.49	0.72	8.50
EU Transactions	-4.61	-0.39	8.50
International Services	1.30	0.11	8.50
Debt Interest	27.97	2.38	8.50
Defence	29.84	1.79	6.00
Public Order and Safety	5.97	0.51	8.50
Enterprise and Economic Development	0.73	0.06	8.50
Science and Technology	0.50	0.04	8.20
Employment Policies	0.00	0.00	8.46
Agriculture, Fisheries and Forestry	0.18	0.03	13.75
Transport	0.17	0.01	8.20
Environment Protection	0.51	0.04	8.20
Housing and Community Amenities	0.00	0.00	8.50
Health	0.22	0.02	8.50
Recreation, Culture and Religion	0.08	0.01	8.50
Education and Training	0.00	0.00	8.50
Social Protection	0.00	0.00	8.50
Unallocated Provision	2.77	0.24	8.50
Total Non-Identifiable Expenditure	**74.14**	**5.56**	**7.50**
Accounting Adjustments			
Total Accounting Adjustments	**22.65**	**2.90**	**12.78**
TOTAL EXPENDITURE	**554.60**	**52.33**	**9.44**

In summary:

Scottish Revenue	£52.94 billion
Scottish Expenditure	£52.33 billion

Scottish Domestic Surplus £0.61 billion

This is a static Scottish budget. It reflects Scotland's budgetary position today. When we include Scotland's share of the UK deficit and a range of EU and international transactions, described in PESA as non-Scottish identifiable expenditure, Scotland's relative position compared to the UK means we have a **surplus of £2.8 billion**. This is equivalent to every Scot paying an extra £560 a year, over and above the cost of all our Scottish and UK wide public services.

That is a high price to pay for a 300 year old Union that is no longer serving the interests of our nation. It means a Scottish family of four is over £2000 worse off because we are still part of Britain.

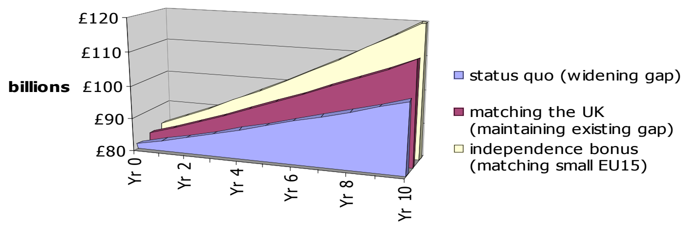
4. Scotland in Surplus – the Future

The SNP is determined to deliver greater success for Scotland. Our economic plans are designed to enable Scotland to match the success of similar nations, with higher economic growth being reflected in higher government revenues. At a minimum, we believe Scotland should be growing as fast as the UK. Indeed, by matching the UK's growth rate, Scotland would increase its 10-year growth from 2.2% to 3%, meaning an additional £8 billion to the Scottish economy after 10 years.[7] It is with this in mind that we propose removing or lowering business rates for 150,000 small businesses in Scotland.

But that is not enough for a truly aspirational Scotland. We should be comparing itself with the world's *small* economic powerhouses. The SNP has shown that being small in Europe correlates with doing well in Europe. Over the last 10 years, small EU countries dramatically outperformed the UK's own 3% growth rate, growing at an average of almost 4% per year.[8]

If Scotland took a similar tack, aggressively pursuing policies that would grow its economy as Finland, Ireland, Sweden and the other small nations of the EU-15 have done, rather than stumbling along at the current growth rate, then the Scottish economy would be £19 billion larger after full policy implementation. To take one policy example, our proposal to reduce Corporation Tax – a policy that is working for nations from Ireland to Finland – would see a £10 billion increase in revenues over the first 10 years.

Three potential growth futures for the Scottish economy[9]



North Sea revenues will of course be the icing on the Scottish budgetary cake for many decades to come. For this year and the next five years we now know what the Chancellor thinks oil revenues will be

The future for Scottish oil is certainly bright and the Chancellor's figures confirm that Scotland will continue to have substantial and indeed higher oil revenues, a total of £64.5 billion, as the table below shows. They point to a future where Scotland continues in "chronic surplus" compared to the UK.

Gordon Brown's oil revenue forecasts from the 2006 Pre-Budget Report (£billion)

	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
GDP	1238	1305	1378	1449	1524	1603	1685
Oil Revenue as %[10]	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%
Oil Revenues	**9.6**	**10.4**	**10.7**	**11.6**	**12.2**	**11.2**	**11.8**
Scotland's share	**9.1**	**9.9**	**10.2**	**11**	**11.6**	**10.6**	**11.2**
Scotland's Total from 2006/7 to 2011/12			**64.5**				

[7] House of Commons library citing ONS, Scottish Executive and Fraser of Allander.
[8] Sources as above. Small EU countries defined as the smallest 7 of the original EU 15 countries: Austria, Denmark, Finland, Luxembourg, Ireland, Portugal and Sweden.
[9] *OECD Economic Outlook 76 (December 2004), HM Treasury Pocket Databank (EU15) and Scottish Executive (non-oil GDP*
[10] December 2006 Pre-Budget Report

Scotland in Surplus – Past, Present and Future Scottish National Party 107 McDonald Road Edinburgh EH7 4NW	SNP It's time