Thursday, 16 June 2022

We Need to Talk About Scotland

The Scottish Government has just published (under the headline "First Paper in new independence prospectus") the remarkably verbosely titled "Building a New Scotland - Independence in the Modern World. Wealthier, Happier, Fairer: Why Not Scotland?".

We've been here before of course, but such is the real-life Groundhog Day of Scottish Politics under an SNP government:

> *"This guide to an independent Scotland will be the most comprehensive and detailed blueprint of its kind ever published [...] it is a landmark document which sets out the economic, social and democratic case for independence."* - Nicola Sturgeon, 11/2013
>
> *"Two years on from the historic vote of 2014, the fundamental case for Scotland's independence remains as it was."* - Nicola Sturgeon, 11/2016
>
> *"The publication of the Sustainable Growth Commission's report is an opportunity to begin a fresh debate in Scotland [...] this report sets out how much more could be achieved with independence"* - Nicola Sturgeon, 05/2018
>
> *"It is time for Scotland to become independent'* - Nicola Sturgeon, 04/2019
>
> *"Today, we publish the first in a series of papers [...] that will make afresh the case for Scotland becoming an independent country."* - Nicola Sturgeon, 06/2022

Still, Scottish Government resources have been diverted away from the tedious day-to-day business of running the country to write these papers and our First Minister has taken time out from her busy schedule of talking about independence to hold a press conference to announce that "it is time to talk about independence", so we ought to look at what they have to say.

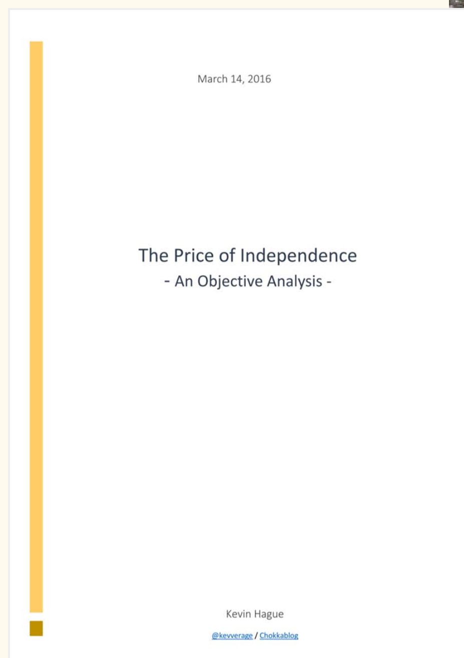
I have read through the report in detail and tweeted about it extensively. Going through it line-by-line would be too tedious even for Chokkablog, so what follows is my attempt to summarise the main take-aways.

1. **There is no data in the report relating to Scotland**

There are 22 figures, 11 charts, 6 boxes and 1 table in the report and not a single one of them includes any data relating to Scotland[1]. This is an extraordinary state of affairs: a report written by the Scottish Government which we are told is *"designed to contribute to a full, frank and constructive debate on Scotland's future"* fails to include any data about Scotland.

The introduction offers a frankly feeble attempt to justify this approach (at least in

Price of Independence


March 14, 2016

The Price of Independence
- An Objective Analysis -

Kevin Hague
@kevverage / Chokkablog

Featured post

Scottish Education: A Generation, Failed

A summary of my recent analysis on the data around the SNP's performance on education appeared in today's Daily Record , along with...

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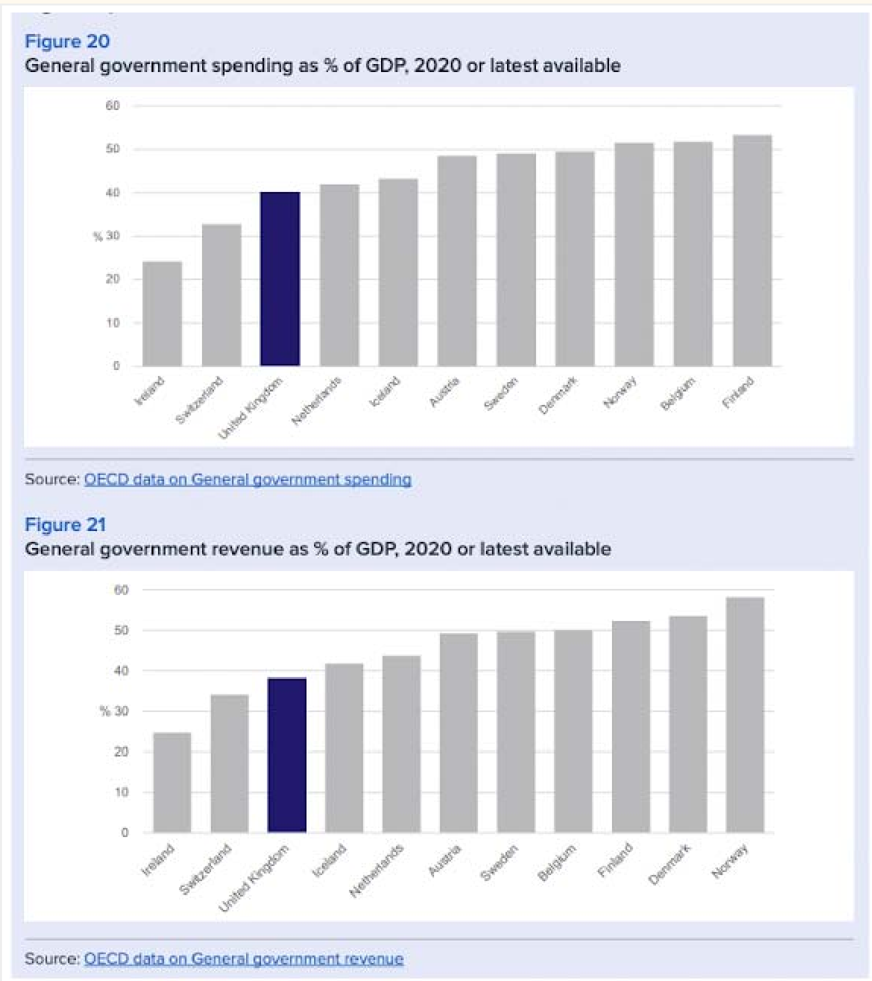
relation to fiscal data) by blithely asserting that the fiscal position of Scotland within the United Kingdom *"tells us **nothing** about how Scotland would perform as an independent country and is, in any case, an argument for change, not against it."*

I'm genuinely shocked that the civil servants involved could have allowed such a statement to be included.

To suggest that data about the scale of our existing tax base (the tax paying workers, consumers, households and businesses in Scotland today) and the cost of delivering the public services Scots currently receive (pensions, social welfare, healthcare, education, transport etc.) tells us *nothing* about how our economy would perform after independence is frankly insulting to the reader's intelligence.

That statement doesn't only ask the reader to ignore the economic reality of Scotland today, it also makes the nakedly political assertion that any data that does exist is *"an argument for change, not against it"*. Unfortunately this is typical of the paper's use of lazy rhetorical assertion rather than robust analysis and sound reason - we can do better.

To illustrate why writing a report on Scotland's future without reference to data about Scotland is less than helpful, let's look as two related charts as they appear in the paper:



Let's put aside for now the question of how this sample was chosen and how meaningless it is to include Ireland on an unadjusted GDP basis (which the paper itself footnotes on page 9, before then proceeding to present charts like this[2]) and find out what happens if we include the data for Scotland.

An aside on the data audit trail: *following the link to the source data shows us that these charts are mislabelled - the data being shown is for 2019 not "2020 or*

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- Dunleavy & Cost of Independence

latest available". This makes sense as 2020 was of course a pandemic year (e.g. the UK's general government spending figure was over 51% of GDP in 2020) so we need to go back to 2019 to get sensible 'in normal times" data. One hopes this sloppy labelling of the charts is not indicative of the general attention to detail being paid by the report's authors

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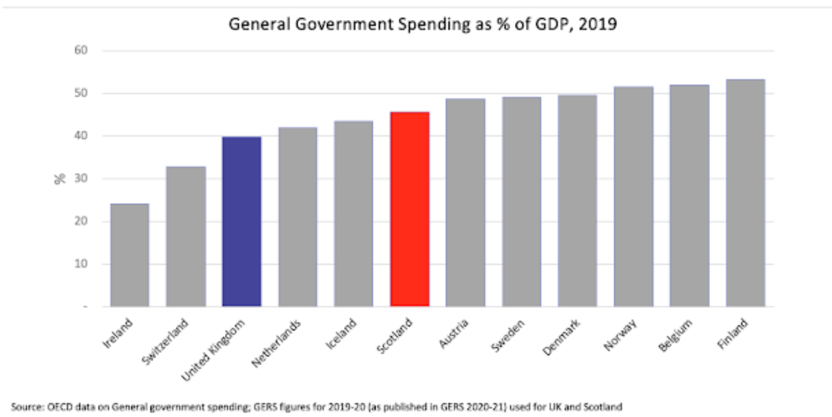
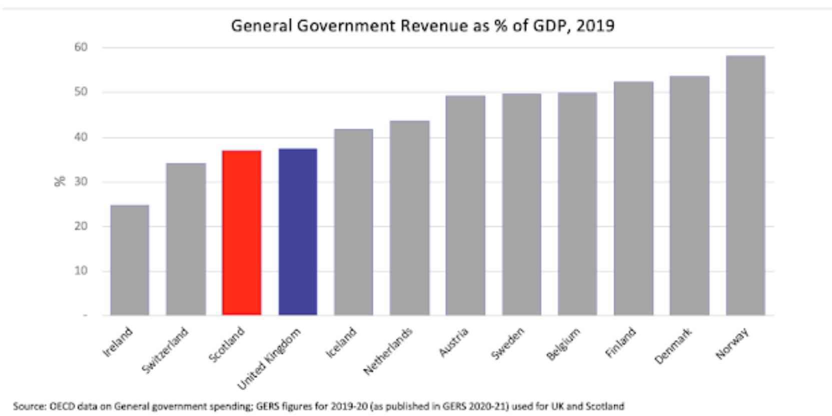
Having established which year the data actually refers to, we can recreate these charts and add Scotland (as part of the UK) to them[3]





The title of this Scottish Government paper asks "Why Not Scotland"? When it comes to the data being shown in the charts, we find ourselves asking the same question.

Had Scotland been included in these exhibits it would have been obvious that it enjoys far higher levels of public spending than the UK overall but bears basically the same tax burden.

This will not be a surprise to regular readers of Chokkablog. What we are seeing here is simply an illustration of the fact that Scotland gets a higher share of spending than its share of revenue generated. To couch this in terms nationalists like to use: Scotland gets back more than it sends to Westminster.

To put it another way: all of the comparator countries with similar or higher levels of public spending are only able to sustain that by having far higher government revenue (ie taxes) than Scotland pays within the United Kingdom. Scotland is able to sustain this level of public spending because of UK-wide pooling and sharing. This chart shows a material tangible advantage to Scotland of remaining part of the UK.

This brings us to another frustration with this Scottish Government paper: why do they do such a bad job of presenting information? Having two charts with the countries in a different order makes it hard to see what's going on and we can't

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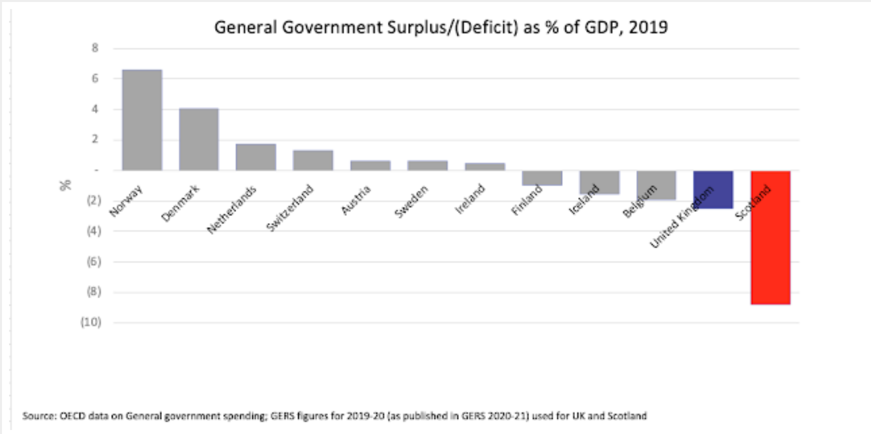
- Petplanet.co.uk

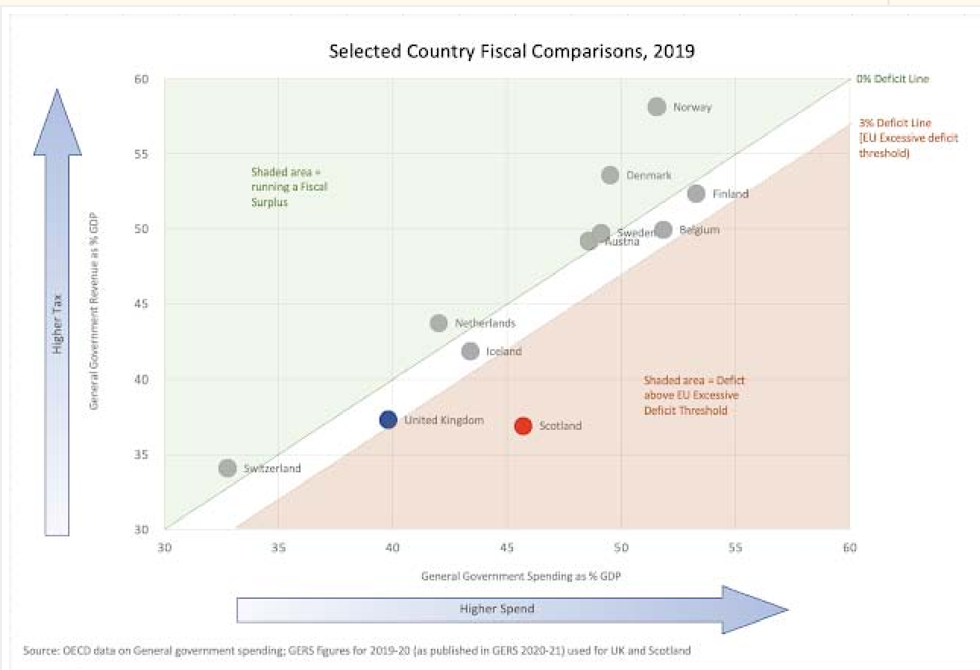
easily see the deficit levels implied (i.e the difference between Revenue and Spending figures).

We could add another chart to show the difference between Government Revenue and Government Spending so that we can see the scale of each country's Surplus/(Deficit) ...



... but why use three different bar charts to show this data when we can use one, far more informative chart?

Using the same data I've produced the chart below while sitting on a train - it's really not that hard:



All I've done is plotted the data as an x-y scatter, taken Ireland off (for the reasons explained in note 2) and added the context of the EU's Excessive Deficit Crieria. Now we can really see what's going on:

- Higher tax is obviously correlated with higher spend
- The comparator countries (and the UK) were all above the EU's excessive deficit threshold in 2019
- Scotland is an obvious outlier: it enjoys mid-table levels of public spending despite being a relatively low tax economy - this is a tangible benefit Scotland sees from UK-wide pooling and sharing of taxes

Remember: without including any fiscal data for Scotland, this Scottish Government paper asked us to take on trust the assertion that the fiscal data is "*in any case, an* *argument for change, not against it".*

Moving beyond ideologically motivated assertion and looking at the actual data - which one might have hoped the authors of this report would have done - it becomes clear that the fiscal data can be used to make a compelling, economically rational argument for Scotland remaining in the UK.

2. There is a clear indication that the SNP is now looking to make the economic case for independence based on moving Scotland to being a high tax country

In the context of the charts above, the paper asks:

> *"Why are most of the comparator countries able to sustain relatively high spending over the long-term?"*

The first thing to point out is that we have now seen what the paper chose not to show - that Scotland *already* enjoys "relatively high spending" (and it has done over the long-term). That's a pretty big point for the paper to omit.

The improved presentation of the data above also makes the answer to this question blindingly obvious: by having relatively high taxes.

This is all just a very roundabout way of saying that deficits matter. The data provided (once we've put it into a more helpful format) just shows that the comparator countries are all fiscally prudent. In normal times they only allow spending to exceed revenue within the constraints of the EU's 3% Excessive Deficit threshold.

So if an independent Scotland is to sustain current levels of public spending (let alone increase public spending as many independence supporters seem to believe would happen) then tax revenues would need to dramatically increase.

The answer given by the Paper hints towards realising this, albeit indirectly:

> *"Evidence suggests that higher confidence in government is correlated with higher levels of willingness to comply with taxes ..."*

The paper goes on to reference an Economic Observatory article in support of higher tax economies:

> *"Far from impeding prosperity, it is high-growth countries that tend to have a larger share of tax revenues in [sic] GDP"*

The SNP's own Sustainable Growth Commission previously recommended controlling the deficit through austerity (i.e. by cutting public spending as a share of GDP.) This latest paper strongly hints towards an independent Scotland increasing tax revenues as a share of GDP.

This is not the place to re-run arguments about the GERS deficit - but some of us have been saying for a long time that, were Scotland to become independent, a combination of tax rises *and* public spending cuts would be an inevitable consequence.

Although this paper doesn't address the issue head-on, buried within it is a tacit admission that only by generating higher taxes could Scotland sustain the higher spending *we already receive* as part of the UK.

How effective tax rate increases would be is a debate for another day. But if a lower tax regime is just across the mainland border and another even lower tax regime exists in neighbouring Ireland, it's not hard to see what would happen to the tax base in an independent Scotland if corporations and high-earners were squeezed with higher taxes.

We wait with interest to see if future papers in this series address the fiscal deficit question using actual numbers for Scotland's economy and with realistic estimates for the scale of tax rises and spending cuts that an independent Scotland would have to bear to achieve a sustainable fiscal position.

3. The Scottish Government's responsibilities are ignored

There are plenty of other charts and exhibits where we might have expected the Scottish Government to provide at least some contextual data to show how Scotland performs after 15 years under SNP control. I'm doing this in my spare time, so I'm not going to attempt to address them all.

But given the devolved Economic Development, Income Tax and Benefit Top-up powers the SNP have, it seems extraordinary that no attention is given to what has been (or could be) achieved by the Scottish Government to support business investment or to address issues like poverty, income inequality and social mobility.

Take this extract from Scotland's National Strategy for Economic Transformation which is quoted in the paper:

> *"Despite our wealth, too many households continue to live in poverty as a result of structural inequalities. Healthy life expectancy is too low in the most deprived areas of our country. Tackling the underlying causes of inequality in our society and providing economic opportunity is vital in order to improve life chances. Scotland's productivity lags behind that of many other advanced economies and whilst we continue to innovate too few of our ideas are turned into businesses and too few of our new businesses are scaling up successfully"*

The paper expects the reader to accept as read that this sorry state of affairs exists simply because Scotland is not independent. Yet we've seen - by looking at data the paper itself didn't see fit to include - that levels of Scottish public spending are higher than Scotland's tax base could sustain without the benefit of pooling and sharing taxes across the UK.

Combine that economic reality with the devolved powers at the Scottish Government's disposal and an alternative hypothesis is surely worth exploring: maybe the party that has been in power in Scotland for the last 15 years should take some responsibility for these outcomes instead of writing papers like this that seek to pin all the blame on being "not independent".

It seems this paper has been written as an exercise in talking down the UK whilst absolving the SNP Scottish Government of any responsibility.

4. The report assumes independence must be the answer; it doesn't provide a meaningful argument for *why* it must be the answer

We've seen above how the fiscal data *for Scotland* provides one of the most powerful arguments against independence, yet the paper has simply ignored it. This is symptomatic of a wider problem with the paper, illustrated by the following extract:

> *What do these other countries have that Scotland does not? They have significantly more economic policy autonomy and a much greater ability to tailor policies to their own specific circumstances. The evidence points to independence broadening the policy options available to address areas of relative under-performance and to make the most of Scotland's potential.*

The first logical flaw here is that this paper doesn't compare Scotland with these countries - it compares them to the UK which obviously already has "policy autonomy".

But a more fundamental flaw is that there are obviously lots of possible answers to the question "What do these countries have that Scotland does not?". Each country has its own unique combination of history, trading relationships, natural resources, established industries, centres of excellence, skills, climate, geographic proximity to other markets, language, population density, political stability, cultural work-ethic and much more.

One could just as easily answer that question by saying those countries are not governed by a political party focused on fostering grievance and division, that they don't have a government that devotes energy to writing papers like this one.

If the logical flaw here isn't obvious, this exercise is no more meaningful than plotting the FIFA rankings for small countries who outperform Scotland and asserting that therefore the "evidence points to" their better footballing performance being because they are independent.

These are complex multi-variant questions, but a nationalist hammer will always see the nail of separatism.

5. Brexit Bad, Scexit Good?

The paper keeps reiterating that barriers to trade caused by Brexit will be economically damaging:

> *"**Brexit** [...] has set the UK on an economic path that imposes higher **barriers to trade** with Europe, and is likely to lead to slower growth .. "*
>
> *"the particularly damaging form of **Brexit** chosen by the UK Government has increased **barriers** both to freedom of movement and **to trade** with Europe"*
>
> *"**Brexit** will almost certainly exacerbate at least some of the UK's longstanding structural problems by, for example, further reducing the scope for productivity growth by establishing **barriers to trade**."*

I happen to agree with that conclusion, but given the Scottish Government's argument for independence is predicated on re-joining the EU, the logical inconsistency here is obvious.

After decades of unfettered access to both the EU and the UK single markets, Scotland still exports more than three times as much to the rest of the UK than it does to the EU. If an independent Scotland were to join the EU, those barriers to trade would shift from affecting the 19% of Scotland's exports that go to the EU and instead impact the 60% of exports that go to the rest of the UK.

The evidence of economic damage being caused by EU/UK trade friction is an argument against independence, not for it.

6. I could go on ...

This blog post is already too long, so let me just make a last few random observations:

Statistical Gerrymandering: as with the SNP's previous Sustainable Growth Commission report, the countries chosen as comparator countries are pre-selected based on being "better performing" on the measures chosen. Portugal and Greece are absent, as are the Czech and Slovak Republics. Compared to the SNP's Growth Commission report, Iceland has been added but Hong Kong, Singapore and New Zealand have been excluded. This "pick and mix" approach to choosing comparator countries may be reasonable when looking to learn lessons from "successful" models, but it means *general* conclusions about the performance of small countries can't be drawn. This approach also suggests that nothing can be learned from those countries which have been excluded from the comparator set - if they share some of the characteristics of the "successful" countries, can we really conclude that those characteristics are determinants of "success"?

Data conspicuous by its absence: there is nothing in the Paper about educational achievement or health outcomes (or indeed drug deaths). Why would the report exclude comparison of performance in areas of devolved competence?.

Currency is not discussed: suffice to say none of the comparator countries studied are using the currency of another country (so obviously none of the EU members among the comparator countries are using the currency of a non-EU member). There will no doubt be a paper to come on currency - it will make for fascinating reading.

Covid is referred to in the paper as a source of economic damage and disruption - but at no point is the UK's role in sourcing vaccines or providing financial support (eg. through the furlough scheme) mentioned. No consideration is given to the wider question of how an independent Scotland could handle another economic shock of that kind while simultaneously addressing its fiscal challenges, establishing its own currency and central bank, dealing with capital and talent flight, building the required machinery of state to function as an independent nation, etc.

The instability caused by the **war in Ukraine** is referred to only in the passing. The value of combined UK defence and security apparatus is not mentioned, **NATO** is not referred to at all and no consideration is given to the geopolitcal implications of breaking up and potentially destabilising one of NATO's three nuclear weapons states.

Nation Building: it is hard not to raise a quizzical eyebrow when the Scottish National Investment Bank (SNIB) is cited as an example of "institutional infrastructure that an independent country would need". For the avoidance of doubt, it is a development finance company, not a banking institution.

***

So there we have it. The first paper in a series intended to form "a new independence prospectus" focuses on comparative data but ignores data for Scotland, presupposes independence must be the answer and then - using logic that even a child could see is flawed - tries to suggest that independence is a logical conclusion. It doesn't bode well for what is to follow, but we await the next papers with bated breath.

Notes

1. For the pedants out there: one of the boxes lists reserved powers - but I don't think that really counts

2. Footnote 2 on page 9 ...

> 2 Ireland is included here as it is one of the comparator countries, but the problems of using GDP as a measure of the Irish economy have been set out by Byrne S, Conefrey T and O'Grady M (2021) The Disconnection of GDP from Economic Activity Carried out in Ireland (Central Bank of Ireland). The specific issues with GDP related measures for Ireland do not, however, affect the overall proposition in this paper that the comparator countries outperform the UK on a wide range of measures.

which links to this: "*The unsuitability of GDP as a measure of both the size of the Irish economy and its rate of growth has been well documented for over 20 years. The problems with using GDP in an Irish context were brought into sharp focus in 2016, when CSO National Accounts data recorded an increase in GDP for 2015 of just under 26 per cent, a year in which employment grew by 3.4 per cent. Since 2015, there is evidence of a widening gap between measured GDP, in the official National Accounts published by the CSO, and what could be considered as underlying domestic economic activity – i.e. economic activity conducted in Ireland that affects the employment and incomes of Irish residents. In 2021, GDP is likely to overstate the underlying rate of growth in the Irish economy by around threefold*

3. These figures come from the Scottish Government's own National Statistics Publication: Government Expenditure and Revenue Scotland 2020-21. This includes data for 2019-20 which closely matches the UK data shown on these exhibits. [I've left Ireland on there to confirm that the data is consistently sourced.]

Posted by Kevin Hague at 06:09

9 comments:

Jamie Clarkson said...

Another excellent blog, and an impressively quick response.

16 June 2022 at 06:43

Keith Macdonald said...

Excellent work Kevin and good to get a dose of truth. I do think we need to get this out to a wide audience and in particular the opposition parties who can get attention.

16 June 2022 at 07:43

geacher said...

The most astonishing thing about Kevin's post that he wrote part of it when he was on a train.......

16 June 2022 at 07:46

Anonymous said...

Could this be the basis of a newspaper article?

16 June 2022 at 08:59

Anonymous said...

Excellent post and raises relevant questions that need to be answered. SNP dogma dictates that all things good will 'only' happen with independence.
I astonished to see this bias reflected in a Government report intended to inform and provide suitable data for debate!

16 June 2022 at 12:25

Anonymous said...

Brilliant analysis Kevin. Wider publication a must.

17 June 2022 at 02:37

Unknown said...

Great, granular dissection. Needs to be said.

As you yourself say, too long though. Echoing what an anonymous commenter above says, would make a great OpEd for a newspaper. Then you'd supercharge impact.

17 June 2022 at 05:01

Alastair McIntyre said...

It seems a lot of Scots don't believe your figures Kevin. You've been producing excellent analysis on Scotland's finances for some years but they don't seem to have moved the conversation anywhere.

I have seen quite a few comments on how people are struggling with higher food and fuel prices and also comments on how Brexit is making things harder for exporters. In some respects you would think that might make people think about the financial aspects of Independence but there seem to be no correlation being done.

I've been talking to a person in Aberdeen and he admits if he sees an article which attacks Scottish Independence he simply doesn't read it. The big question in my mind is how to get people that want independence to actually read your reports and believe figures you produce?

Also I do support Brexit but that's more to do with the larger market outside Europe which we couldn't do much about inside the EU. I think more work needs to go into helping exporters and potential exporters to do better.

Anyway... excellent analysis as always.

Alastair

17 June 2022 at 07:56

Anonymous said...

An excellent read. Thank you.

17 June 2022 at 22:58