Business for Scotland is a business representative network and economic think-tank with over 1,200 members from across Scotland. Business for Scotland submits the following information to the Scottish Parliament's Economy, Energy and Tourism Committee on Scotland's Economic Future Post-2014.

The submission focuses on three areas:

1) Scotland’s current position of economic strength;
2) The substantial cost to Scotland as a result of UK debt repayments;
3) Scotland’s position as a leading global exporter.

Executive summary
This Business for Scotland submission provides evidence of Scotland’s key economic strengths. It also identifies the significant cost to Scotland’s fiscal position of UK debt repayments over the past 32 years (for as long as official figures are available). Recent export figures also demonstrate the success of Scotland’s business community in the global marketplace and the potential to go much further. In these and many other contexts, Business for Scotland argues that Scotland’s economy would benefit from the full powers of independence.

Scotland’s current position of economic strength
Scotland’s economy and finances are stronger than those of the UK as a whole.

- Scotland has a rich and diverse economy. This includes multi-billion pound sectors ranging from construction, tourism, manufacturing, life sciences, financial services, research and development, the creative industries, energy, fishing and agriculture.
- Scotland is a net contributor to the UK. In 2011-12, for example, Scotland generated 9.9% of UK tax and received 9.3% of UK spending, including our population share of shared services such as defence and foreign affairs. This is why Scotland’s deficit is much smaller than that of the UK. Had Scotland received a full contribution share of public sector spend in 2011-12 our public sector budget would have been larger by £4.4 billion.
- Critics of this point out that in years of deficit the cash amount of the 9.3% is larger than the taxes raised (this is the definition of a deficit) but the difference is not gifted to Scotland. The amount required by the UK is borrowed on the international money markets and Scotland in 2011-12 received 9.3% of the money borrowed to spend but will have to pay back 9.9% of the loan plus interest. In other words, when the UK is in deficit Scotland subsidises the UK even more.
- Scotland generates more tax than the UK average. In 2011-12 Scottish tax take per person was £1,700 higher than the UK average. We may spend more - mostly due to UK Government policy of attributing UK debt that Scotland would not have required to the Scottish accounts on a UK comparative per capita basis. There has been more tax generated per person in Scotland than the UK in every single year in the past 32 years.
- Scotland has a lower deficit than the UK. Last year’s figures measured Scotland’s deficit at 5% compared to a UK deficit of 7.9%.
Scotland’s oil fields remain a significant financial asset. Industry estimates point to there being at least 15-24 billion barrels of oil remaining in the North Sea, with a wholesale value of over £1 trillion. It is clear that over 90% of the tax revenue will go to an independent Scotland which will surely establish a national oil fund for future generations. That way the North Sea oil and gas dividend will effectively never run out.

Scotland has huge potential in renewable energy. This includes tidal, wind and wave energy. Large scale examples include the Pentland Firth tidal and Moray Firth offshore wind projects. This sector would be a higher investment priority in an independent Scotland and more funding would be available.

Scotland is one of the top UK locations for inward investment. Last year was a record year in terms of numbers of inward investment projects and Ernst and Young ranked Scotland as the top UK destination for inward investment outside of London. Scotland secured 11% of all UK Foreign and Direct Investment.

An independent Scotland will prioritise the interests of business in Scotland following decades of Westminster prioritising the distinctive interests of London and the South East. This includes the opportunity to create a simpler tax system that supports Scottish business; reforming the labour market to improve employer/employee relations; encouraging migration to Scotland to balance Scotland’s unique demographic needs; and supporting Scottish exports globally through a Scottish diplomatic and trade service.

The substantial cost to Scotland as a result of UK debt interest repayments.

- Business for Scotland research using historical GERS figures has proven that Scotland has paid over £64 billion of unnecessary UK debt interest repayments over 32 years. Had Scotland been run as an independent country over the period, it would currently have a substantial fiscal surplus and not have been in debt.
- The Scottish balance sheet GERS figures between 1980 and 2012 demonstrate that an independent Scotland would have generated a net surplus over this period. It would, therefore, not have been necessary for Scotland to borrow nor to service a per capita share of debt accumulated by the rest of the UK.
- Without the UK debt repayments recorded in each year of the GERS figures, Scotland would have recorded a surplus in every year between 1980-81 until 2009-10.
- Assuming a very modest 4% nominal interest rate on the yearly cash surplus, Scotland’s cumulative surplus would have amassed £68.7 billion by 2008/09 and equal £50 billion as of 2011-12 following the recession. This would have been a massively favourable fiscal position to the one we find ourselves in now as part of the UK.
- In January 2014, a leading economic think tank, the Jimmy Reid Foundation published a paper concerning the accumulation of UK debt and the sharing of that debt post independence. This research both referenced and confirmed similar analysis by Business for Scotland. In fact, the paper suggested that the figures used by Business for Scotland were “very conservative” and that an independent Scotland today would actually enjoy a fiscal surplus of £148 billion.
- The Reid Foundation paper confirms that Scotland would have recorded surpluses across 3 decades as an independent country on the balance of income versus expenditure.
- The Reid Foundation paper recognises that the higher estimate depends largely upon the calculation of interest accumulated over this period on the fiscal surplus.
- Business for Scotland used a very conservative nominal return of 4% throughout as our thesis, on the rational basis that interest rates would have been lower over the period in an independent Scotland. The Jimmy Reid Foundation paper suggests that this is a conservative estimation given the high rate of inflation and interest rates in the early 1980s within the UK.
- The Reid Foundation paper calculation includes the high level of real UK inflation as well as the actual interest rate paid by the UK Government on 1 year gilt edged securities. This corresponds to an average real rate of return of 2.5% a year. For comparison, the paper notes that the Norwegian fund earns comfortably over 2% - which is normally regarded by capital markets to be conservatively managed.
- Therefore the Business for Scotland surplus is a conservative figure based on lower inflation and interest rates in an independent Scotland. The Jimmy Reid Foundation report surplus is based upon applying the UK inflation and interest rate figures to Scotland’s investment position.
- Moreover, both the Business for Scotland and Reid Foundation analysis include higher rates of Scottish public services spending - for instance on nuclear defence - than would not necessary have been spent by an independent Scotland.
- Above all, these analyses agree that an independent Scotland would have recorded substantial surpluses over the past 32 years. Scotland’s economic position would therefore have been improved greatly had Scotland been independent.
- Were reliable historic Scottish public accounts available for a longer period, Business for Scotland believes that the historical trend of Scotland subsidising the UK would still be in evidence even before the discovery of oil. Prior to and during the 1980s, successive Westminster government policies were de-industrialising Britain. During the industrial period, Scotland’s output was so high that we suggest tax revenues would have been far higher on a per capita basis.

Scotland’s position as a leading global exporter
Recent figures from the Global Connections Survey demonstrate that Scotland is one of the world’s top exporting nations. This strong trading position is another key indicator of the ability of Scotland to be a successful and wealth independent nation. They also demonstrate a significant robustness in the context of Westminster policies undermining exports such as the decision in the UK Chancellor’s most recent Autumn Statement to increase Air Passenger Duty (APD). Increasing APD makes more sense on a UK basis but is the opposite of what Scotland needs to stimulate international business connections.

- Scotland’s exports were worth nearly £100 billion in 2012 alone. £25.95 billion was in international exports; £47.57 billion was in exports to rUK; and £24.5 billion was in oil and gas exports as calculated by the Scottish National Accounts Project figures.
- These figures created a substantial trading surplus for Scotland. As the SPICe Financial Scrutiny Unit Briefing ‘Scotland’s economy: recent developments’ states, “the inclusion of North Sea exports would have a positive impact on Scottish balance of trade figures, swinging the balance more towards a trade surplus.”
- Scotland’s £98.1 billion in exports equals a per capital value of £18,462.
- International comparisons of export values are measured in dollars. The average pound to dollar exchange rate in 2012 was 1:1.59. Therefore £18,462 exchanges to $29,355 per capita value for Scottish exports.
- This value is far higher than other developed economies. It is 160% higher than the UK value of $11,287, according to figures from the World Trade Association. Saudi
Arabia has an export per capita value of $12,291. The U.S.A. export per capita value is $6,483.

- Exports were focused in oil and gas (at £24.5 billion), financial services (at £11.2 billion) and the food and drink industry (at £8.7 billion). Whisky exports alone were worth £4.6 billion in 2012.
- International exports were estimated to be worth £26 billion – a 5.9% increase on the 2011 figures. Scotland’s top international export destinations are the U.S.A. (at £3.6 billion), The Netherlands (at £2.7 billion), France (at £2.2 billion), Germany (at £1.5 billion) and Norway (at £920 million). Switzerland, Spain, Ireland, Belgium and Denmark all receive over £500 million of Scottish exports.

Sources
10 key economic facts that prove Scotland will be a wealthy independent nation. www.businessforscotland.co.uk/10-key-economic-facts-that-prove-scotland-will-be-a-wealthy-independent-nation/
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Scottish National Accounts Project (SNAP) Estimating Oil and Gas Flows for Scotland. Table 2, page 17. £30.3 billion in oil and gas exports from Scotland in 2012. £24.5 billion without refined petroleum products which are already covered by the Global Connections Survey. www.scotland.gov.uk/Resource/0043/00438285.pdf

Gordon MacIntyre-Kemp, CEO, Business for Scotland;
Michael Gray, Researcher, Business for Scotland.
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