Thank you for your letter of 13 January 2014 regarding the inquiry which the Committee has launched into Scotland’s economic future post 2014.

Scotland’s Future – Your Guide to an Independent Scotland sets out the case for Scotland to become an independent nation and outlines the journey following a vote for independence on September 18th 2014.

The Scottish Government has published a comprehensive set of papers, both proactively and in response to the Fiscal Commission Working Group (which was established in 2012). A list of papers produced by the Scottish Government and relevant to the scope of this committee inquiry is provided at Annex A.

What is clear from the information we have produced is that the Scottish Government has an ambitious vision of the nation we believe Scotland can and should be - a thriving and successful European country, reflecting Scottish values of fairness and opportunity, and promoting prosperity and social cohesion.

The Government is clear that this vision must be realised to allow Scotland to fulfil its potential.

It is now widely accepted, including by the UK Government that Scotland can be independent.

As demonstrated in Scotland’s Balance Sheet Scotland has paid more in tax per head in each of the last 32 years than the UK as a whole.

Over the last five years financial records show that Scotland would have been better off than the UK to the tune of £12.6 billion and official figures show that excluding North Sea oil and gas Scotland’s output is on a par with that of the UK.

In terms of public finances an independent Scotland would have a lower debt to GDP ratio than the UK and be in a stronger position to invest in our public services and our economy.

Scotland has strong economic foundations and a diverse economy across a range of sectors, such as food and drink, tourism, creative industries, life sciences, universities, financial services and manufacturing.

We have substantial natural resources, a highly-skilled workforce, a long-standing reputation for innovation, and an internationally-recognised brand, with products and companies competing at the highest level in international markets.

Scotland has got what it takes to be independent. And by recognising that there is agreement across all parties and campaigns that Scotland can be independent the debate can now focus on should Scotland be an independent country?

Devolution has allowed Scottish administrations to create tailored policies that helped narrow a historic gap in economic performance with the UK.

However, our powers are limited, and even with our natural advantages, we still trail other comparable small, independent nations.

Independence would allow future Scottish governments to combine powers over business investment, employment creation, taxation and welfare to secure stronger levels of economic growth.
from which all the people of Scotland could benefit. It would ensure economic policy is designed for the needs and opportunities of the Scottish economy, provide greater flexibility in decision making and offer an opportunity to rebalance the economy.

Independence would enable future Scottish governments to create a genuinely bespoke set of complementary policies - whether in relation to taxation, innovation, labour market regulation or industrial policy - under an overarching national framework more aligned with Scotland's unique strengths and preferences.

Applying those policies to Scotland's economy would enable an independent Scotland to compete with and to counter the economic pull of London and the South East of England. A move which would help to rebalance the geographic inequality that currently exists across the UK and to promote a more sustainable economy – addressing concerns which have been highlighted by Westminster politicians and economic commentators.

In addition, the Scottish Government has set out clearly in Scotland's Future the macroeconomic framework we propose to put in place, including a currency area with the rest of the UK, and the economic benefits, enhanced services for consumers and competitive edge an independent Scotland can obtain from the efficient operation of taxation, regulation and consumer watchdog services.

These proposals were set out by the Fiscal Commission Working Group, and represent the practical, workable, and common sense approach, which is overwhelmingly in the best interests of not only Scotland, but also the rest of the UK.

In failing to properly consider the comprehensive analysis set out by the Fiscal Commission Working Group, the Chancellor's political statement on the 13th of February is completely counter to the spirit of the Edinburgh Agreement, which commits both Governments to working in the best interests of both countries whatever the result of the referendum.

The debate on whether Scotland should be independent is about making a choice about the future of Scotland and the type of country we want to be. Independence means that it will always be the political choices we make as a country - whatever they might be - that will determine who governs us and the priorities they will pursue.

In doing so it is right that the committee look upon this debate as one of two possible futures and we welcome the committee’s plans set out in the inquiry remit to apply equal scrutiny to both possible outcomes.

The people of Scotland don't just need to know what a Yes vote will mean – to be able to compare, contrast and to make their decision, proponents of a No vote must set out what that will mean for the future of Scotland to the public and to the committee.

It is the view of this government that Scotland must become independent if we are to have secure public finances, the opportunity to grow our economy, the ability to address the challenges and risks that all economies face and to ensure that in tackling inequality as many of our citizens have the opportunity to participate fully in Scotland's economy.

Scotland's Future sets out the central opportunities of independence, the framework of an independent Scotland and the policies this government will promote. It is supported by around 1,500 pages of analysis, research and background documents, either produced by the government or by the independent Fiscal Commission Working Group.

There is no comparable contribution from either the UK Government or those parties and individuals arguing to maintain the current political and economic status of Scotland.

In considering Scotland’s economic future there are a number of key questions we believe those opposed to independence should be able to answer for parliament and for members of the public. A number of those questions are set out below.
1) What, if any, additional economic powers is Holyrood guaranteed in the event of a no vote?
2) Will Westminster retain the Barnett formula, which calculates Scotland’s annual grant – and if not what changes will be made?
3) Will Scotland be a member of the European Union – as part of the UK – in 2020?
4) What additional powers will Scotland have – or what steps will Westminster take to – grow Scotland’s working age population, to encourage more women into work in Scotland and to boost highly skilled migration into Scotland?
5) What action will be taken to narrow the huge regional differences in GDP per head, which are greater in the UK than in any other EU country, including to encourage the location and retention of major HQs and what additional powers will Scotland have to counterbalance the economic pull of London?
6) Will an Oil Fund be established in the event of a No vote, as we plan after a Yes vote?
7) What will the UK national debt be in 2016?
8) Will the oil and gas industry be given a guarantee that there will no major changes to the fiscal regime without industry consultation?
9) Will Scotland’s growing renewable energy industry have access to a fair transmission charging regime and electricity market and the same level of government support as nuclear energy to ensure its development?
10) What powers will be devolved to encourage re-industrialisation and halt manufacturing decline?
11) Will a system be put in place to guarantee the minimum wage will always rise - at least in line with the cost of living?

Parliament as a whole must make sure the debate we have over the next 7 months empowers people to make an informed choice. A summary of the information the Scottish Government has already made available in this debate is attached.

We look forward to attending committee and to hearing the debate that takes place in the coming months. Independence is not as an end in itself. Independence will ensure that decisions about Scotland’s future are in Scotland’s hands. From that starting point independence can transform Scotland’s economy for the better.

Nicola Sturgeon MSP, Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities
John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth
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Annex A

List of Scottish Government Publications & Material Submitted to the Scottish Government by the Fiscal Commission Working Group

**Scotland in the European Union**
- November 27, 2013

The Scottish Government believes that the EU provides the best international economic framework within which to optimise the economic and social gains from independence and to tackle the global challenges we, and other countries, face.

**Scotland’s Future – Your Guide to an Independent Scotland**
- November 26, 2013

This guide sets out the gains of independence for Scotland – whichever party is in government – and this Government’s vision and priorities for action if we are the first government of an independent Scotland. It also explains the process by which Scotland will become independent following a Yes vote and how our newly independent Scotland will work.

**Scottish and UK Economy – Key Facts**
- November 21, 2013

Document outlining the current UK economic model, and the economic framework in Scotland under this model compared to the economic policy options available under independence.

**Building security and creating opportunity: Economic policy choices in an independent Scotland**
- November 19, 2013

This comprehensive 211 page report sets out the range of economic opportunities open to future Scottish governments under independence – including business investment, taxation, welfare, regulation, competitiveness, innovation, sustainability and international trade

It explains how these key economic levers can be used to rebalance the economy, boost economic performance and tackle long-standing inequalities in society.

**Fiscal Rules and Fiscal Commissions – Fiscal Commission Working Group Report**
- November 5, 2013

This report from the Fiscal Commission Working Group focuses on the design of an appropriate fiscal framework post-independence.

**Principles for a Modern and Efficient Tax System in an Independent Scotland – Fiscal Commission Working Group Report**
- November 5, 2013

This report from the Fiscal Commission Working Group sets out the principles of a modern and efficient tax system and the opportunities, responsibilities and choices that an independent Scotland would face.

**Stabilisation and Savings Funds For Scotland – Fiscal Commission Working Group Report**
- October 2, 2013

The second report of the Fiscal Commission Working Group, delivering their recommendations for the creation of a stabilisation fund and a savings fund for Scotland to manage short-term fluctuations in oil revenues and to invest for future generations respectively.
The general principle of this Scottish Government, in planning for pensions in an independent Scotland, is to keep the best of the current pensions system, stressing the importance of certainty in this most important area of public policy.

The existing UK approach to consumer protection and representation is fragmented, confusing for consumers and businesses, not fit for purpose in Scotland and the UK Government have recently rejected calls for greater devolution in Scotland in this important area.

An independent Scotland could develop a more integrated, simplified consumer landscape that provides a single point of access through which the people of Scotland can be directed to the support they need. A single consumer body could oversee the provision of high quality, efficient consumer advice and protection which increases trust and transparency and provides confidence and clarity for those in need of assistance.

Scotland's Oil and Gas Strategy sets out the direction for long-term development of the oil and gas sector with a main objective of maximising recovery of oil and gas from the North Sea.

Expert Working Group on Welfare was established this year and published its report on 11 June 2013.

The document analyses Scotland's economy focusing on its financial strengths, how additional levers could enhance the performance of the economy and looks at the economies of other small nations.

This paper sets out the Governments response to the findings and recommendations of the Fiscal Commission Working Group’s Macroeconomic Framework report. This paper focusses on the choice of currency and operation of monetary policy.

This report provides detailed analysis of Scotland’s public finances under the current fiscal framework. The analysis encompasses total public spending, public sector receipts, the net fiscal balance and an implied share of UK public sector net debt. It does not consider wider assets and liabilities.
An independent Scotland offers new opportunities to streamline and reinvigorate the Scottish regulatory landscape. This paper outlines options for a combined economic and competition regulator designed to take account of Scotland's size and circumstances.

**Assessment of Key Currency Options – Fiscal Commission Working Group Report**
- February 11, 2013

Detailed technical assessment by the Fiscal Commission Working Group of the key currency options available to Scotland post-independence.

**Macroeconomic Framework – Fiscal Commission Working Group Report**
- February 11, 2013

The first report of the Fiscal Commission Working Group setting out proposals and recommendations for a robust and workable macroeconomic framework for an independent Scotland.

**Scotland’s Future: from the Referendum to Independence and a Written Constitution**
- February 5, 2013

The publication sets out the process required to establish the solid constitutional platform that would act as a blueprint for a newly independent Scotland. It also sets out the Scottish Government's proposals for the development of a written constitution for an independent Scotland.
Annex B

Key Facts – Scotland’s Economic Strengths

Scotland has the economic and financial strengths to be a successful independent nation

- Excluding North Sea oil and gas, output per head in Scotland was the 3rd highest of the UK countries and regions in 2012 – behind only London and the South East.
- Experimental Gross National Income (GNI) data estimates that GNI per head in Scotland in 2010 is estimated to be approximately £26,000, higher than that of the UK as a whole, which is approximately £24,000.
- Productivity, measured as output per hour worked, in Scotland was the 3rd highest of the UK countries and regions in 2012.

Scotland’s performance relative to the UK as a whole, and its countries and regions, is strong and has improved since devolution¹

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value in 1999</th>
<th>Performance to UK in 1999</th>
<th>1999 Rank</th>
<th>Most Recent</th>
<th>Recent Performance to UK</th>
<th>Current Rank</th>
<th>Improved Relative Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>GVA per head</td>
<td>£12,786</td>
<td>91.7%</td>
<td>5th</td>
<td>£20,013</td>
<td>94.0%</td>
<td>3rd</td>
<td>✓</td>
</tr>
<tr>
<td>Productivity</td>
<td>na</td>
<td>94.9%</td>
<td>4th</td>
<td>na</td>
<td>97.4%</td>
<td>3rd</td>
<td>✓</td>
</tr>
<tr>
<td>Employment rate (16-64)</td>
<td>69.3%</td>
<td>-2.6 p.p.</td>
<td>8th</td>
<td>72.7%</td>
<td>+0.6 p.p.</td>
<td>4th</td>
<td>✓</td>
</tr>
<tr>
<td>Unemployment rate (16+)</td>
<td>7.1%</td>
<td>+1.1 p.p.</td>
<td>8th (lowest)</td>
<td>6.4%</td>
<td>-0.7 p.p.</td>
<td>Joint 3rd (lowest)</td>
<td>✓</td>
</tr>
<tr>
<td>Gross Disposable Household Income</td>
<td>£9,771</td>
<td>92.7%</td>
<td>5th</td>
<td>£15,654</td>
<td>97.6%</td>
<td>5th</td>
<td>✓</td>
</tr>
<tr>
<td>Full-Time Gross Median Weekly Pay</td>
<td>£329.00</td>
<td>95.2%</td>
<td>5th</td>
<td>£508.30</td>
<td>98.2%</td>
<td>3rd</td>
<td>✓</td>
</tr>
</tbody>
</table>

Scotland’s public finances

- On a per head basis, total tax receipts in Scotland are estimated to have been higher than in the UK in every year since 1980/81.
- Over this period, total tax revenue per head in Scotland has been on average £800 a year higher than in the UK as a whole. Adjusted for inflation, the gap has averaged £1,350 over this period.
- The UK national debt is expected to peak at 86% of UK GDP, almost £1.6 trillion in 2016/17. Under any realistic scenario, Scotland’s projected share of the UK debt as a percentage of Scotland’s GDP will be less than the debt of the rest of the UK expressed in the same terms.
- Scotland’s historic share of the UK national debt in 2016/17 is projected to be approximately £100 billion. This is equivalent to 55 per cent of Scottish GDP. On a population basis Scotland’s notional share of UK debt in 2016/17 is projected to be approximately £130 billion, equivalent to approximately 75 per cent of GDP – still less than the UK.

¹ Data for the indicators cover the following periods: GVA per head (workplace based) is for 2012; Productivity is for 2012; the labour market statistics – employment, and unemployment rates – are for April-June 1999 (capturing the start of the first term of the Scottish Parliament in May 1999) and Sep-Nov 2013; GDHI is for 2011; and full-time gross median weekly pay is for April 2013.
### Key Facts – Independence compared to the status-quo (the Economy)

<table>
<thead>
<tr>
<th>Reserved</th>
<th>Devolved</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Around 85% of taxation (e.g. National Insurance, income tax, capital gains tax &amp; corporation tax)</td>
<td>• Education and training</td>
</tr>
<tr>
<td>• Fiscal &amp; monetary policy</td>
<td>• Local economic development</td>
</tr>
<tr>
<td>• Welfare (including unemployment, benefits)</td>
<td>• Housing and Planning</td>
</tr>
<tr>
<td>• Tax credits (for businesses &amp; families)</td>
<td>• Health &amp; Social Care</td>
</tr>
<tr>
<td>• The minimum wage</td>
<td>• Tourism</td>
</tr>
<tr>
<td>• EU representation</td>
<td>• Aspects of transport, including road network</td>
</tr>
<tr>
<td>• Economic &amp; Financial regulation</td>
<td>• Aspects of environment and climate change</td>
</tr>
<tr>
<td>• Energy markets &amp; the North Sea</td>
<td>• Aspects of agriculture, forestry and fishing</td>
</tr>
<tr>
<td>• Key aspects of environmental policy (including regulation and green taxes)</td>
<td>• Local taxation</td>
</tr>
<tr>
<td>• Immigration</td>
<td>• Trade and industry, including competition, intellectual property, consumer protection &amp; Access to Finance</td>
</tr>
<tr>
<td>• Trade and industry, including competition, intellectual property, consumer protection &amp; Access to Finance</td>
<td>• Science and Innovation</td>
</tr>
<tr>
<td>• The Post Office</td>
<td>• The Post Office</td>
</tr>
<tr>
<td>• Aspects of Transport (e.g. air connectivity)</td>
<td>• Employment Regulation</td>
</tr>
<tr>
<td>• Employment Regulation</td>
<td>• Aspects of Transport (e.g. air connectivity)</td>
</tr>
</tbody>
</table>

**Current framework limits Scotland’s fiscal autonomy**

- Scotland has limited fiscal autonomy with responsibility restricted to local taxation (i.e. council tax and business rates), accounting for just 7% of taxes collected in Scotland.
- Even after the Scotland Act 2012 is fully implemented, the UK will retain responsibility for 85% of Scottish revenues.

**Policies under independence could include**

- Boosting competitiveness through the design of a more efficient tax system and the use of carefully targeted tax measures, such as a reduction in corporation tax and the effective use of tax reliefs and allowances to support Scottish businesses
- Promoting innovation by establishing a framework – including a balance of direct and indirect innovation support – which supports activity across the private and public sectors
• Creating a genuine partnership approach to developing, and taking forward, economic policy – involving the public, private and third sectors alongside employers and employees.

Annex D

Key Facts – The UK Economic Model

Current economic policies are for the whole of the UK – often heavily determined by the interests of London and the South East of England – not tailored to Scotland’s needs

• Between 1977 and 2007, the annual average GDP growth rate for Scotland was 2.4% compared to 2.9% for the UK.

• Had growth in GDP per capita in Scotland matched that of other comparable European countries between 1977 and 2007, GDP per capita would now be 3.8% higher, equivalent to an additional £900 per person.

### Average Annual Growth Rates

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Annual Average GDP Growth Rate</th>
<th>Gap (Scotland minus Comparable European)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scotland</td>
<td>UK</td>
</tr>
<tr>
<td>1999-2007</td>
<td>2.9%</td>
<td>3.1%</td>
</tr>
<tr>
<td>1963-2007</td>
<td>2.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>30 year average (1977-2007)</td>
<td>2.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>30 year average (1982-2012)</td>
<td>2.3%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

1 In line with convention, Scotland’s GDP series excludes output from North Sea Oil and Gas, whilst Extra Regio output is included in the headline UK series.

The UK economy does not score well on both income and regional equality outcomes

• In 2010, the UK was ranked 28th (out of 34) OECD countries in terms of income equality.

• Output per head in London was nearly 75% higher, and output per head in Wales nearly 28% lower, than the UK average in 2012, with wealth concentrated in relatively small areas of society:

### Geographic income distribution in European countries - 2010

![Geographic income distribution in European countries - 2010](image)

1 The comparable European countries are: Austria, Denmark, Finland, Iceland, Ireland, Luxembourg, Norway (mainland GDP only), Portugal and Sweden.
Many other comparable countries to Scotland perform better on wider indicators of Economic and Social Performance – in the UN’s Human Development Index, the UK was joint 26th – just ahead of the Czech Republic and Greece.
Growth in the UK has suffered from a lack of sustainability

- The UK has been in a current account deficit in 29 of the last 33 years and it last ran a trade surplus in 1997.
- IMF data shows that the UK ranked 30 out of 35 advanced economies for investment as a percentage of GDP in 2012.
- Between 1970 and 2011, manufacturing’s share of UK output fell from 29% to around 11%.

The UK economy remains fragile and is yet to rebalance

- Since the recession, the UK has had the weakest economic performance, with the exception of Italy, of any G7 nation. While growth has returned in recent months, there are questions over its long-term sustainability particularly given the focus on consumption growth and rising house prices.
- Real household incomes have fallen in Scotland and the UK since the recession – Over the period 2009/10 to 2011/12 real median equivalised household incomes fell by approximately 5.5% in Scotland and approximately 6% in the UK. Evidence suggests that wages as a share of overall income have declined over recent decades.
- The OECD estimated that UK household debt as a proportion of disposable income was 160% in 2011, the second highest rate in the G7 (after Canada).
Source: UK Blue Book
Scotland’s Public Finances

This annex provides an overview of Scotland’s public finances under the current constitutional framework. The analysis encompasses total public spending, public sector receipts, the overall fiscal balance and an implied share of UK public sector net debt in 2016/17. It draws on analysis published in the National Statistics publication Government Expenditure and Revenue Scotland 2011-12 and the Scottish Government report ‘Scotland’s Balance Sheet’. Sections E1 to E4 presents Scotland’s public finances over the past five-years.

E.1 Scottish Public Spending

Responsibility for approximately 60% of the public spending undertaken for Scotland is devolved to the Scottish Government and Scottish local authorities.

Over the period 2007-08 to 2011-12 as a whole, the ratio of public spending to GDP was estimated to be 43.0% in Scotland, compared to 45.0% in the UK.

<table>
<thead>
<tr>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>40.1%</td>
<td>41.7%</td>
<td>46.0%</td>
<td>44.5%</td>
</tr>
<tr>
<td>UK</td>
<td>40.7%</td>
<td>44.4%</td>
<td>47.4%</td>
<td>46.8%</td>
</tr>
</tbody>
</table>

Source: GERS 2011/12

E.2 Scottish Tax Receipts

It is estimated that 7% of current total Scottish tax receipts are devolved. The limited tax powers in the Scotland Act 2012 will only increase this to around 15%. Most tax powers, such as corporation tax and national insurance, are reserved to the UK Government.

On a per capita basis, total tax receipts in Scotland (including a geographical share of North Sea oil and gas revenues) have been higher than in the UK in each of the past five years.

<table>
<thead>
<tr>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>£10,000</td>
<td>£10,600</td>
<td>£9,100</td>
<td>£9,900</td>
</tr>
<tr>
<td>UK</td>
<td>£8,900</td>
<td>£8,600</td>
<td>£8,200</td>
<td>£8,800</td>
</tr>
</tbody>
</table>

Source: GERS 2011/12 and Scottish Government analysis

E.3 Scotland’s Overall Fiscal Balance

Over the past five years Scotland and the UK have both run a fiscal deficit (a shortfall between government revenue and expenditure). This is not unusual. Between 1980 and 2014 there has been only one year when the 35 countries in the OECD as a whole have run an overall fiscal surplus.

<table>
<thead>
<tr>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>-2.9%</td>
<td>-2.6%</td>
<td>-10.7%</td>
<td>-8.1%</td>
</tr>
<tr>
<td>UK</td>
<td>-2.6%</td>
<td>-6.9%</td>
<td>-11.2%</td>
<td>-9.5%</td>
</tr>
</tbody>
</table>

Source: GERS 2011/12

Scotland’s estimated fiscal deficit was smaller than the UK’s over the period 2007-08 and 2011-12 as a whole. Scotland’s Balance Sheet estimates that, when expressed in cash terms, this relatively stronger fiscal position was equivalent to £12.6 billion over this period - almost £2,400 for every person living in Scotland. This means that over the past five years, holding everything else constant, Scotland could have had higher spending, for example on infrastructure investment, and/or lower taxation and still had a smaller estimated fiscal deficit than the UK.
E.4: Oil and Gas Receipts

Whilst oil and gas receipts represent an important source of Scottish tax revenue, they account for a smaller proportion of revenue than in some other major oil and gas producing countries.

Table E4 shows the proportion of total public sector revenue attributable to oil and gas production in Scotland and Norway, the largest oil and gas producer in Europe. Oil and gas production accounts for a higher proportion of public sector receipts in Norway compared to Scotland.

### Table E.4: Oil and Gas Receipts as a Share of Total Public Sector Revenue

<table>
<thead>
<tr>
<th></th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>14%</td>
<td>21%</td>
<td>12%</td>
<td>15%</td>
<td>19%</td>
</tr>
<tr>
<td>Norway</td>
<td>36%</td>
<td>27%</td>
<td>26%</td>
<td>27%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source: Scottish Parliament Information Centre – Share of total tax revenue derived from oil and gas: Scotland and Norway, and Scottish Government analysis

### E.5 Scotland’s Share of UK Public Sector Net Debt

Under the current fiscal framework, UK public sector net debt is incurred for the country as a whole, and not directly for Scotland or any other part of the UK. Scotland’s Future outlined two approaches which could be used to allocate a notional share of UK net debt to Scotland in 2016/17. These are detailed below:

#### Population share

GERS allocates Scotland a per head share of UK debt interest payments. The same approach could therefore be used to allocate Scotland a share of the corresponding debt. UK public sector net debt at the end of 2016/17 is forecast to stand at £1.6 trillion. Scotland’s per head share would be equivalent to approximately £130 billion (76 per cent of GDP). This would represent a lower debt to GDP ratio than for the UK as a whole (86 per cent), reflecting the fact that Scotland has a higher level of GDP per capita (including North Sea oil) than the UK.

#### Historical share

Between 1980/81 and 2016/17, Scotland is estimated to run a cumulative net fiscal deficit equivalent to approximately £85 billion. This means that over this period as a whole, total public spending for Scotland will exceed tax revenue by £85 billion. This equates to around 6 per cent of the cumulative UK deficit over the same period (£1,400 billion). Applying this ratio to UK public sector net debt in 2016/17 would result in a notional share for Scotland of approximately £100 billion, this is equivalent to 55 per cent of Scottish GDP.

Figure E1: Scotland- National Share of UK Public Sector Net Debt, 2016/17

Under any realistic scenario Scotland’s projected share of the UK debt as a percentage of Scotland’s GDP will be less than the debt of the rest of the UK expressed in the same terms.
Scotland's Macroeconomic Framework

The macroeconomic framework covers the structure and design for monetary policy (including currency), fiscal policy and financial stability.

All of these are linked and subject to interdependencies. A robust macroeconomy is essential in creating a supportive environment for trade, growth, employment and economic equality.

Under the current framework responsibility for the macroeconomic framework is reserved to the UK. With independence, future Scottish governments would be responsible for the design and implementation of the macroeconomic framework.

F.1 Fiscal Commission Working Group

The Fiscal Commission Working Group have produced a series of publications that set out a practical and robust macroeconomic framework for an independent Scotland:

- “Stabilisation and Savings Funds for Scotland” (October 2013, http://www.scotland.gov.uk/Publications/2013/10/7805)
- “Principles for a Modern and Efficient Tax System” (November 2013, http://www.scotland.gov.uk/Publications/2013/10/4839)

Taken together, this body of work provides a comprehensive and whole economy approach to a workable macroeconomic framework in Scotland.

F.2 Monetary Policy

The principal goal of monetary policy is to ensure price stability – i.e. low and manageable inflation – and subject to this being delivered, to help smooth the business cycle.

Under the current framework monetary policy is fully reserved. The Bank of England sets interest rates on behalf of the UK economy.

The Bank of England is operationally independent. In effect, this means that the day-to-day operation of monetary policy is discharged to the Bank. The Bank is formally accountable to the UK Parliament.


Under such an arrangement, monetary policy would be set according to economic conditions across the Sterling Area with ownership and governance of the Bank of England undertaken on a shareholder basis.
This would provide the maximum level of autonomy in fiscal policy and other economic levers, while retaining the integrated market with the rest of the UK and minimising the costs of trade, and maximising economic stability across the Sterling Area.

Such an arrangement is also clearly in the interests of the rest of the UK:

- Scotland is a key trading partner for the rest of the UK, which exports more to Scotland than to Brazil, South Africa, Turkey, Russia, India, South Korea, China and Japan put together.
- Scottish oil and gas production would boost the Sterling Area’s exports by £30 billion (2012)\(^3\)
- Scotland and the UK are better suited to monetary union than the Eurozone economies:
  - Scottish GVA per head\(^4\) around 97% of the UK average in 2012, while productivity (output per hour worked)\(^5\) in Scotland was 97.4% of UK average in 2012.
  - In 2011 Germany had over 50% greater GDP per capita and over 70% greater productivity than Greece.

History shows that while there have been periods of temporary divergence, the Scottish and UK economies have been broadly aligned in terms of business cycles. The degrees of correlation are much higher than for the Euro Area (both core and periphery).

F.3 Financial Stability and Financial Regulation

A well-functioning and robust financial system provides an important foundation for economic growth and stability. The recent crisis has highlighted the implications of any failure to properly regulate and monitor financial markets and institutions.

Under the current framework, regulation of financial services is reserved.

The UK framework has recently undergone reform.\(^6\) This included the establishment of the Financial Policy Committee to monitor systemic risk (macro-prudential regulation),\(^7\) and a Prudential Regulatory Authority to supervise major financial institutions (micro-prudential regulation). Alongside this, a Financial Conduct Authority was established to oversee the conduct of financial services firms – i.e. the relationship with customers.

With independence, Scotland would have its own regulatory framework. It would however, clearly reflect the modern and international nature of the financial services industry.

The Fiscal Commission Working Group set out recommendations for financial regulation as part of their view of a complete and comprehensive macroeconomic framework, taking account of the important role of financial stability in the modern economy.

Their proposed framework recognised the cross border nature of the financial services sector and built on the lessons of previous failures to adequately supervise and deal with systemically important financial institutions. The proposal drew on recent reforms to improve the resilience of the global financial sector and the clear trend toward greater cross border coordination in relation to overall

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\(^5\) [http://www.ons.gov.uk/ons/rel/productivity/labour-productivity/q3-2013/stbq313.html](http://www.ons.gov.uk/ons/rel/productivity/labour-productivity/q3-2013/stbq313.html)


\(^7\) [http://www.bankofengland.co.uk/financialstability/Pages/fpc/default.aspx](http://www.bankofengland.co.uk/financialstability/Pages/fpc/default.aspx)
stability and – when needed – crisis management. Importantly, their recommendations reflected the existence of significant ‘financial conglomerates and groups’ across Scotland and the UK.

The Fiscal Commission Working Group recommend that, as part of this Sterling Area framework, the Bank of England should continue to lead on overall financial stability with prudential regulation – both macro and micro – coordinated across the Sterling Area. There are a number of institutional arrangements for how this could be achieved.

Within this framework, aspects of financial regulation which relate to more local elements – in particular conduct – could be discharged by a Scottish regulator working in close partnership with the relevant UK regulators.

F.4 Fiscal Policy

The management of the public finances, through decisions on the levels of public sector spending, revenue raising and borrowing, is key to a successful economy.

Under the current framework, the overarching fiscal framework is set by the UK Government. This not only includes the overall fiscal stance, but the mechanism through which spending is allocated to the Scottish Government – the Barnett formula.

Under independence responsibility for the public finances would represent one of the principal new levers open to future Scottish governments.

At the foundation of a successful fiscal framework is a system which ensures that public sector debt and borrowing are well managed. Only if this is achieved can fiscal policy be effective in supporting the economy and greater equity.

Under independence future Scottish governments would be required to establish a framework that promoted fiscal sustainability.

The Fiscal Commission Working Group has highlighted a number of features that should underpin such a framework –

- Fiscal Rules to promote discipline and ensure that the public finances are on a transparent and sustainable path;
- A Scottish Fiscal Commission to provide independent advice and scrutiny;
- A stabilisation and long-term savings fund to manage Scotland's oil wealth; and,
- A ‘fiscal sustainability agreement’ to promote stability within the Sterling Area.

Within this, future Scottish governments would be able to determine the size of the revenues available for public spending and the full range of spending priorities.

F.5 Assessment of Options

The Scottish Government responded to the Working Group's recommendation that it should take forward a programme of work to identify and develop key economic and fiscal policy opportunities and choices in ‘Building Security and Creating Opportunity: Economic Policy Choices in an

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8 The EU has for example made significant progress towards a Banking Union. A Single Supervisory Mechanism (SSM) has already been agreed, giving the ECB oversight of the safety and soundness of the largest Euro Area banks. A Single Resolution Mechanism (SRM) is also being designed with a common system for deposit guarantee – or procedures for coordinating schemes – also part of the roadmap.

9 Box 4.8 provides reflections on the UK’s track record on fiscal management.


http://www.scotland.gov.uk/Publications/2013/11/4732
This report highlighted that:

- Scotland has the economic and financial strengths to be a successful independent nation.

- Scotland’s potential is constrained by the UK model of economic growth which has led to increasing instability and inequality, with growth becoming unbalanced and unsustainable.

- Independence would offer the appropriate balance between managing stability and autonomy – providing the foundations to for improving long-term competitiveness, short term flexibility and sustainable economic growth.
Points Relating to a Formal Monetary Union

The Fiscal Commission Working Group have considered the technical details of a formal monetary union in detail – their proposed macroeconomic framework is a workable model that would ensure financial stability and allow both governments autonomy over economic and social policies.

The Chancellor’s speech highlighted four areas where a monetary union would require agreements between the two governments:

1. An agreement to underwrite each other’s banks
2. An agreement to allow taxpayers in one country to subsidise the other
3. Broad agreements on tax, spending and borrowing levels on both sides of the border
4. A long-term commitment to monetary union.

ISSUE 1: The Chancellor says that a monetary union would mean Scotland and rUK would have to underwrite each other’s banks.

1. **The Fiscal Commission proposition set out in chapters 7 and 9 ensures common financial regulation within a highly integrated market**

   “Both Scotland and the UK have a shared interest in ensuring financial stability, and therefore a common approach should underpin the design of the framework.” [FCWG First Report, p188]

   “Given the close linkages between macroeconomic stability and financial stability, the core proposition is for key elements of prudential regulation (both micro and macro) to be discharged on a consistent basis across the Sterling Zone.” [FCWG First Report, p31]

2. **The aim of international reforms is to ensure that no country has to bail out its banks**

   - Basle III, Vickers recommendations, new resolution tools for the Bank of England, and European legislation (including powers to ‘bail in’), are all designed to break the link between taxpayers and banks.
   - The UK Banking Reform Act received royal assent on 18th Dec 2013. It includes reforms to separate the most risky and speculative financial activities from retail and high street banking, and reduce the likelihood of future crises.

3. **The size of the Scottish Banking Sector is in line with that of the UK**

   - The size of the Scottish financial services sector as a proportion of the overall onshore Scottish economy is 8.0% – similar to the UK – and smaller than the UK at 6.7% when a geographical share of oil and gas output is included.
   - In contrast, London accounts for just short of 50% of UK financial services output (GVA)
   - UK analysis overstates the size of the banking sector in Scotland - To obtain a figure of £1.89 trillion (equivalent to over 12 times the size of the economy) a large proportion of the assets ‘allocated’ to Scotland relate to activity based in London. This activity would not, under

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11 [http://www.scotland.gov.uk/Publications/2013/02/3017](http://www.scotland.gov.uk/Publications/2013/02/3017)
the UK Government’s existing plans to split retail and investment banking, be covered by any future government bail out\textsuperscript{12}.

- In a recent statistical publication, HMRC estimated Scotland’s share of the Bank Levy (a charge on the balance sheets of banks) to be 7.3% of the UK total. This is 1/3 of the 25% required to be consistent with this analysis by HM Treasury\textsuperscript{13} and more in line with the economic footprint in Scotland.

4. **As highlighted in chapter 7 and 9 of the First Report of the Fiscal Commission, Scotland would take its fair share of responsibility**

**Lender of last resort**

“The proposition is that the Bank, as the institution responsible for financial stability, would provide liquidity support for institutions across the Sterling Zone as part of its day-to-day operations. This would be entirely consistent with common prudential regulation of systemically important institutions and overall macroprudential stability.” \textsuperscript{[p190-191]}

**Crisis management and resolution**

“This proposition effectively retains the Bank’s crisis management remit. Agreement will be required between the Scottish Government, the UK Government and the Bank to develop an effective authorisation and indemnity procedure for a system that has two separate fiscal authorities. This should be straightforward. A key aim will be to ensure that this enables swift and effective crisis management.” \textsuperscript{[p191]}

**Deposit protection**

“A similar scheme would be delivered in Scotland. Consistent with moves at the European level to harmonise DGS schemes, and reflecting the nature of existing pan-UK financial institutions, there is merit in looking to apply a consistent and commonly maintained scheme across the Sterling Zone.” \textsuperscript{[p192-193]}

**ISSUE 2: The Chancellor says that a monetary union means allowing taxpayers in one country to subsidise the other.**

1. **A political union is not needed to successfully operate a monetary union**

- The Fiscal Commission considered Frameworks of a successful monetary union in detail and concluded that Scotland and rUK were well suited to monetary union [FCWG First Report, p132-135]
- A mechanism to deal with shocks that affect only part of a monetary union is required:
  - Fiscal Commission recommended SG use stabilisation fund (oil revenues) to deal with any such occurrence\textsuperscript{14}
- The UK Government has already said that it will underwrite existing UK debt so there is already a shared interest in servicing existing debt.

2. **The Fiscal Commission considered these issues in detail**

- These issues were discussed in detail in Chapter 8 (page 151 – 178) of the Fiscal Commission’s Macroeconomic framework report.


Analysis shows that Scotland less likely to suffer from asymmetric shocks given close economic linkages with the rest of the UK – much less likely than in Euro Area.

Fundamental economic structures – such as high degree of mobility and trade – mean that adjustment in real economy will be easier in Scotland and UK than in Euro Area.

Independence would provide economic levers to respond to economic challenges/opportunities. This in turn would increase the resilience of the Scottish economy.

Stabilisation fund designed to reduce fiscal risks.

Recommendation to put in place a fiscal sustainability agreement with overall objectives for ensuring that net debt and government borrowing do not diverge significantly.

3. The Fiscal Commission noted that -

On economic linkages:

“At the macroeconomic level, the Scottish and UK economies share similar structures and industry compositions. On most assessments, Scotland and the UK have similar degrees of labour market flexibility (e.g. regulation, skilled workforce, wage bargaining), share similar institutions and asset market structures.” [FCWG Assessment of Currency Options15, p7]

On stabilisation fund:

“It would be particularly important for Scotland within the context of a monetary union in that it would provide a useful policy lever to mitigate the impact of any asymmetric shock while still remaining within overall parameters for fiscal responsibility”. [FCWG First Report, p167]

On Economic Levers

“Limitations on borrowing and deficits are typically at the composite level, and still allow for flexibilities in the design of the underlying tax system and a range of specific policies suitable for each Member State. Indeed, such flexibility is vital to the success of a monetary union as it provides the autonomy and policy levers to target country specific differences (advantages and weaknesses) which cannot be tackled with a common monetary policy. This should help ensure alignment in terms of economic performance.” [FCWG First Report, p94]

On Sustainability Agreement

“The economic linkages means that the problems encountered in the Eurozone are of less relevance to the Scottish (and Sterling Area) case. However, as highlighted in the FCWG’s first report, it would still be advantageous for the governments of Scotland and the UK to enter into a fiscal sustainability agreement as part of a Sterling Area framework.” [FCWG Fiscal Rules and Fiscal Commissions16, p66]

ISSUE 3: The Chancellor says that a monetary union requires an agreement on broad levels of tax, spending and borrowing on both sides of border

1. The Fiscal Commission have proposed a sustainability agreement that would ensure financial stability

“In order to promote stability within the proposed monetary union, there is merit in putting in place a fiscal sustainability agreement with overall objectives for ensuring that net debt and government borrowing do not diverge significantly”. [FCWG First Report, p33]

2. Scotland would have full fiscal and economic freedom to set taxes and economic policy

Professor Sir James Mirrlees confirmed this point on 13 February:

"The need for partners in a monetary union to share some sovereignty in common institutions is no disadvantage if monetary policy is then well conceived."  

All countries routinely set out expected borrowing and debt levels for markets.
- In a monetary union, aggregate levels would be agreed.
- There exists a set of international norms which advanced economies will follow for markets, credit ratings and borrowing costs.
- For example, the European 'Fiscal Compact' came into force on 1st January 2013, which requires Euro members to follow a set of rules to strengthen fiscal discipline.

3. **There are examples of currency unions operating smoothly throughout history within which, different nations/states have differing taxation levels**

- Belgium and Luxembourg Economic Union was established in 1922, and the monetary union operated successfully until the introduction of the Euro in 2002.
- In the 1990’s the central government corporate income tax rate in Belgium averaged 40% compared to an average rate of 33% in Luxembourg. This flexibility has continued under Euro. In 2013 differences still remain, the central government corporate income tax rate in Belgium is 34% compared to 22% in Luxembourg. Luxembourg currently has a standard VAT rate of 15%, the lowest amount permissible within the EU, whereas Belgium’s standard VAT rate, at 21%.
  [Source: OECD Tax Database\(^{18}\)]

4. **Even within currency unions in unified States there is much greater fiscal flexibility**

- Within Canada, States are set a Federal rate of corporation tax of 15% on top of which states can implement a Provincial/Territorial rate.
- In the USA, Nevada has no state level corporation tax whilst its neighbour California has a state level corporation tax rate of 8.84%

**ISSUE 4: The Chancellor questioned Scotland’s commitment to the monetary union, saying that the markets will not accept a currency union.**

1. **The FCWG made their assessment on currency options based on the principles for a successful framework which can operate indefinitely**

   - “Successful macroeconomic frameworks are designed around the key principles that the Working Group have set out in this report (credibility, sustainability, stability and autonomy).” [FCWG First Report, page 207]
   - “The Scottish Government should refine the detail of the proposition set out for a macroeconomic framework which can operate from day one of independence and through any period of transition and indefinitely if required. The framework should ensure monetary and price stability, financial stability and fiscal sustainability.” [FCWG First Report, p19]

2. **There are examples of successful long-standing currency unions**

   - The Belgium and Luxembourg Economic Union was established in 1922, and the monetary union operated successfully until the introduction of the Euro in 2002.

\(^{17}\) [http://www.scotsman.com/news/analysis-benefiting-the-uk-is-most-logical-option-1-3304617](http://www.scotsman.com/news/analysis-benefiting-the-uk-is-most-logical-option-1-3304617)

Annex H


Available at: http://www.scotland.gov.uk/Publications/2013/11/2439

Scotland has the economic and financial strengths to be a successful independent nation. Scotland’s performance relative to the UK as a whole, and its countries and regions, is strong and has improved since devolution. However, Scotland’s potential is constrained by the UK model of economic growth which has led to increasing instability and inequality, with growth becoming unbalanced and unsustainable.

Only independence would create the opportunity for Scotland to pursue a more productive, resilient and fair economic model, boosting long-term competitiveness and short-term flexibility.


Independence would provide Scotland with the opportunity to pursue a more productive, resilient and fair economic model. An independent Scotland would be able to tailor policies to its own conditions and circumstance, pursuing the two overarching objectives recommended by the expert Fiscal Commission Working Group: long-term competitiveness and short-term flexibility.

Maximising long-term competitiveness and short-term responsiveness

Raising productivity, competitiveness and economic growth over the long-term requires an appropriate degree of autonomy to tailor policies to distinct circumstances of the Scottish economy and to take advantage of opportunities to extend Scottish competitive advantages through the efficient, transparent and accountable delivery of public services.

Responding swiftly and effectively to changes in circumstances is of critical importance and will require macroeconomic stability, budgetary stability and affordability and flexibility.

These dual-goals could be achieved through targeted policy making. The Scottish Government and Scottish Parliament lack the full suite of economic levers. The Scottish Government believes that this puts Scotland at a significant disadvantage relative to comparable independent nations.

Independence would provide an opportunity to take a different approach, to grow Scotland’s economy in a more sustainable manner and to boost economic resilience and stability.

Putting in place an effective tax system

For businesses, the opportunity to re-design the tax system presents a significant opportunity to improve on the current costly and complex UK system. Targeted measures could be introduced to address Scottish-specific circumstances. For instance, a reduction in corporation tax could help to counterbalance the pull of London and the South East and designing core infrastructure, such as postal services, transport and energy, to reflect Scotland’s size and geography could remove barriers to growth.

Rebalancing the economy to promote innovation and productivity

In order to rebalance the economy, it will be essential to secure higher levels of innovation. This could be achieved through both direct and indirect support, including tax incentives and through attracting overseas students to ensure that the best skilled researchers from across the world are attracted to work in Scotland.
Building a labour market policy which meets the needs of the Scottish economy and creates opportunities

Similarly, allowing Scottish conditions and preferences to shape employment policy could create large benefits. Employing a social partnership approach which directly linked government, the third sector, unions, employer associations and employers and redesigning the process for increasing the minimum wage could be used to ensure growth is shared more inclusively. A single agency approach to employability could facilitate better alignment of services and coordination of skills and training programmes to deliver a more streamlined and efficient system.

Building a more sustainable economy

In order to ensure that economic growth is sustainable and inclusive, it would be beneficial to use the full range of tax and regulatory powers to help capitalise upon Scotland’s comparative advantage in the low carbon economy. Scotland could take a leadership role through direct involvement in the development and adoption of international climate change regulatory frameworks. Fully developing connectivity across Scotland and policies to address barriers to employment and fulfilling economic potential, such as the delivery of a more effective system of childcare, would help to reduce inequality and ensure growth is shared fairly.

Boosting internationalisation and strengthening Scotland’s place in the world

Internationally, there are clear opportunities to promote Scotland’s presence on the world scene. Promotion of trade, the use of additional “soft” powers and representation of Scottish interests as a full and equal partner in the EU system of governance could provide greater brand recognition for Scotland’s economy and businesses. Within Scotland, this could be complemented through work with airport, airline, tourism and other partners – as part of a Team Scotland approach - to sustain network development activity in both short and long haul markets.

Scottish policies for Scottish circumstances

All of these policies would address Scottish conditions, circumstances and attitudes. Under the current system, Scotland cannot benefit from the increased levels of economic growth that can be achieved through targeted policy making, and will fail to make the vital connections between welfare, taxation, skills and employment that could dramatically reduce inequality or to receive the benefits that better designed public services.

Under independence the government of Scotland will secure the powers of a normal national economy. This will enable Scotland to take advantage of its vast resources and talent and to prioritise economic and social policies for Scotland’s needs and circumstances.

Removing the weaknesses and constraints of the current economic framework will enable Scotland to implement policies that are developed around the dual purpose of ensuring short-run responsiveness and long-run competitiveness.

For example the transfer of key policy areas would include the long-term potential for:

- Establishing an industrial strategy focussed on rebalancing the economy and promoting manufacturing, innovation and boosting productivity. Boosting labour productivity in Scotland by just 1% could raise employment by over 21,000;
- Promoting participation in the labour market by delivering more efficient employability, welfare and skills programmes and transforming childcare. An increase in Scotland’s economic activity rate of one percentage point would be equivalent to an extra 30,000 plus people in the labour market; and
• Boosting Scotland’s recognition and standing in the world, and a linked up industrial, trade and foreign policy. A 50% increase in the value of Scottish exports could increase employment by 100,000 and raise output by £5 billion.
H.2. Summary of the Key Additional Tax and Regulatory Levers Under Independence

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**Key Additional Tax Levers under Independence**

**Corporation Tax** – The core tax on profits and the headline ‘business tax’. In addition to the rate, the base – i.e. incentives for investment and R&D – is important for economic activity.

**Income Tax** – Paid on earned income (e.g. wages) and unearned income (e.g. savings and investments). The tax rate varies according to the level and source of income. It has a key role in the labour market, welfare, and overall progressivity of the tax system.

**National Insurance Contributions** – Collected from both employees and employers. They are, in effect, a tax on wages and are notionally attached to elements of social security (e.g. pensions). Like income taxes they have important links to the labour market.

**Capital Gains Tax** – A tax on gains in wealth (e.g. when shares or property are sold).

**Value Added Tax (VAT)** – A ‘sales’ tax currently with a standard rate of 20% applying to most products, although reduced or zero rates apply to some goods and services and a small number are exempt entirely.

**Excise Duties** – Levied – often in addition to VAT – on certain activities. In most cases, the products are deemed to have negative externalities (e.g. alcohol, gambling and tobacco).

**Environmental Taxes** – So-called ‘green’ taxes designed to incentivise sustainable activities and/or discourage harmful activities (e.g. Climate Change and Aggregates Levies).

**Oil and Gas Taxation** – A specific tax regime for oil and gas to capture ‘economic rents’. There are three elements to the North Sea tax framework - Petroleum Revenue Tax, Corporation Tax and the Supplementary Charge.

**Other smaller taxes** – include taxes such as Air Passenger Duty which is levied on air
Key Additional Regulatory Levers under Independence

**Competition Law** – This aims to remove barriers which prevent well-functioning markets, such as anti-competitive behaviour (e.g. monopoly power/collusion), merger and acquisition activity that inhibits competition or a lack of choice in the marketplace.

**Financial Regulation** – Financial markets have a key role in a modern economy. Their stability is of paramount importance. At the same time, they happen to incur some of the greatest market failures, such as moral hazard and asymmetric information. They are therefore subject to regulation both for stability and conduct purposes.

**Consumer Protection** – This aims to promote consumer rights and protect them from unfair treatment.

**Industry Regulation** – Like financial services, a range of particular industries receive specific regulation, beyond general competition and consumer policies. These generally include sectors which involve national infrastructure and/or the market only provides a small number of firms. These include energy, telecommunications, postal services and rail.

**Employment Regulation** – Employment legislation aims to provide protection to workers. It includes minimum pay, health and safety, holiday entitlements and redundancy rules.

**Company Law and Insolvency** – The regulation of corporations covers issues such as governance (e.g. rights and duties of shareholders), finance (e.g. reporting practices) and insolvency (e.g. procedures for rescuing companies or distributing assets).

**Intellectual Property** – IP law provides rights to creators and innovators. Common types of property rights include copyright, trademarks, patents and industrial design rights.
Scotland's Future: A Business Plan for Scotland

Extract from Scotland's Future - Your Guide to an Independent Scotland which illustrates how an independent Scotland would pursue policies designed to create a more supportive, competitive and dynamic business environment.

Only independence provides the opportunity to build an economy to take advantage of our unique strengths and size, and to deliver a more prosperous, resilient and fairer Scotland, fully engaged in Europe and the wider world.

The Scottish Government plans to use the powers of independence to achieve higher levels of growth and job opportunities through: a strong external focus on competing in the global economy promoting areas of comparative advantage to develop a distinctive economy emphasising innovation, technology and manufacturing fostering high levels of trust and reducing income inequality, encouraging a stronger and shared sense of national purpose improving workforce skills and opportunities, particularly for women and young people.

The choices open to us

An independent Scotland will have the opportunity to pursue policies designed to grow the economy and create jobs. With responsibility for the full range of policy levers, the government of an independent Scotland will be able to create a more supportive, competitive and dynamic business environment.

Within the devolved powers currently available, the Scottish Government is pursuing a range of actions to support sustainable economic growth and higher quality jobs, including the Small Business Bonus Scheme, attracting international investment, the Scottish Investment Bank and investment in infrastructure.

With independence, future Scottish governments can build on these policies to enable Scotland's businesses to reach their full potential. Future Scottish governments will be able to make choices over tax, measures to boost innovation and exports, promote good industrial relations and support small and medium sized enterprises.

Our priorities for action

Each of Scotland's political parties will bring forward policy proposals at the future elections to an independent Scottish parliament. If elected in 2016, the current Scottish Government's priorities for action will be as follows.

A competitive and efficient tax environment

Being close to a global economic hub such as London can be an advantage for Scotland. However, London inevitably acts as an economic magnet, attracting jobs and investment (particularly headquarter operations) away from other parts of the UK. The ability to vary tax is essential to redress the unbalanced nature of the UK economy.

We plan to set out a timescale for reducing corporation tax by up to three percentage points below the prevailing UK rate. The intention of pre-announcing the cut is to stimulate economic activity in advance of it taking place and to retain and attract new investment. This will be one way to secure a competitive advantage and help to reverse the loss of corporate headquarters which has been a feature of the Scottish economy over the last 30 years.
Support for the reindustrialisation of Scotland

A key priority will be to re-balance and re-industrialise Scotland's economy, to secure a number of benefits including:

- boosting high-value jobs - through increased manufacturing activity
- promoting innovation - although manufacturing firms account for only 12 per cent of Scottish (onshore) output, they account for 66 per cent of business R&D spending
- addressing geographical disparities - the decline in manufacturing has contributed to geographical imbalances across Scotland. Increasing manufacturing activity in a local area will help develop clusters of economic activity and support local supply chains
- boosting exports - around 62 per cent of Scottish international exports are manufactured and a greater focus on internationalisation across the economy will help boost competitiveness and support jobs

One option for future governments to support manufacturing and boost innovation will be to use the tax system to improve incentives for investment, for example through more generous depreciation allowances for key growth sectors in Scotland.

The current Scottish Government will also develop a new industrial strategy for Scotland. Key elements of the industrial strategy will include:

- support for investment, including research and development
- support for indigenous companies and ownership by strengthening the role of the Scottish Investment Bank
- expanding skills development by bringing together employment and skills policies and putting modern apprenticeships at the heart of our approach
- expanding our manufacturing base, with a particular focus on maximising the manufacturing opportunities of our offshore energy potential
- targeted use of loan guarantees

Boosting connectivity

In the modern global economy, air connections are vital to international connectivity. Benchmarking analysis, based on 2011 data, indicated that Scotland's short haul network had almost reached the level of connectivity that would be expected when compared to peer regional networks. However, Scotland's long-haul network performance is not as strong and there are clear areas for improvement to destinations such as the Asia Pacific region and North America.

With independence, government policies - for example, careful design of Air Passenger Duty (APD) - can be used to encourage the types of flights that benefit Scotland. Analysis suggests that the current APD impacts negatively on the Scottish economy, with APD in the UK now the highest tax of its type anywhere in the world.

A recent study estimated that APD will cost Scotland more than £200 million a year in lost tourism spend alone by 2016. We plan to reduce APD by 50 per cent in the first term of the independent parliament, with a view to abolishing it when public finances allow.

As an independent nation, Scotland will be better placed to work with airport, airline, tourism and other partners to sustain network development activity in long-haul markets, as part of a Team Scotland approach. The Irish Government has for example struck a deal with Customs Authorities in
the US to allow passengers travelling through airports in Ireland to clear passport control before boarding the plane.

Maximising the opportunities of our overseas representation

At present Scottish Development International has offices across Asia, the Pacific, Europe, the Middle East and the Americas. An independent Scotland will prioritise our effort and resources to strengthen our international presence in the nations and markets that are of greatest economic importance to us. It is worth noting that 91 per cent of total Scottish exports currently go to 21 countries.

A crucial part of the role of Scotland's proposed overseas representation (see Chapter 5 of Scotland's Future) will be to identify opportunities to directly promote Scottish goods and services. The Team Scotland approach will be built on and with independence our government departments, the private sector and our diplomatic missions will work together to promote Scotland.

Other actions

In addition to the priorities outlined above - all of which are designed to improve productivity, participation and cohesion - we will also take the following actions:

Support small and medium-sized enterprises

This government will continue our commitment to the Small Business Bonus which has reduced, or eliminated entirely, business rates for tens of thousands of properties across Scotland and to maintaining Scottish business rates parity with the rest of the UK. The tax system in Scotland will be designed to reduce compliance burdens facing small and medium-sized enterprises in particular. The Government will also examine the case for an increase in the National Insurance employment allowance for small business.

Streamline competition and regulation policy

Competition is a key driver of productivity, exports and consumer value and choice. An independent Scotland, as part of the EU, will continue to meet the regulatory requirements associated with membership - many of which relate to the operation of the Single Market. We will also develop and deliver a streamlined and efficient regulatory model with a combined regulatory body with a single, strong voice, both in Scotland and internationally, on competition and consumer issues.

Strengthen consumer protection

Scottish consumers are an important part of the economy. In order for economic activity to flourish it is important that consumers are able to trust businesses. We will establish a more integrated, simplified consumer landscape with a single consumer body to take into account Scottish specific issues, such as unfair parcel delivery charges in rural areas, building on the Scottish Government's proposal for a combined economic regulator.

Directly influence EU legislation

With independence Scotland's government will be able to represent Scotland's interests as a full and active participant in the EU.

Maximise investment

Investment in infrastructure will remain a central part of the Scottish Government's approach to supporting long-term sustainable economic growth. On independence the Scottish Government will make our own decisions about resources for capital investment. We will have full access to capital
borrowing and will take forward infrastructure priorities as set out in our Infrastructure Investment Plan.
Increasing innovation throughout Scotland's economy

Innovation is a key driver of productivity and growth. Firms innovate in order to stay ahead of their rivals, through the production of new knowledge or the application of existing knowledge. The top-performing small independent countries emphasise science and innovation in their economic strategies. Many small countries have been increasing their research and development (R&D) spending, as a percentage of GDP, more quickly than larger economies. From 2001 to 2011 total R&D spend rose as a percentage of GDP in Finland, Denmark and Ireland. In contrast, R&D spend as a percentage of GDP in the UK and Scotland remained broadly unchanged over this period.

This investment in science and technology, and in education and training more generally, has allowed many of our competitors to strengthen their performance in export markets - in particular high technology export markets - and support economic growth.

The largest proportion of R&D spend comes from the private sector - on average around two thirds of total R&D expenditure across OECD countries. However, in Scotland this proportion is considerably lower, with the largest contribution to total R&D spend coming from investment by the Higher Education sector.

Scotland's investment in Higher Education R&D is world class - the latest official statistics show that, in 2011, Scotland's Higher Education R&D expenditure as a percentage of GDP ranked top of the 12 countries/regions of the UK, and fourth highest among the OECD countries.

Key priorities for Scotland will be to find ways of boosting business spending on research and development, whilst enabling higher levels of commercialisation of the world-class research produced at Scottish universities.

With independence Scotland will further strengthen the relationships and linkages between key partners in innovation - including businesses, universities, funding providers, companies, and public sector agencies - in a coherent strategy with shared priorities.

Direct financing levers

With independence we will develop and expand direct financing instruments, including the provision of credit loans and guarantees and encouraging higher levels of equity financing and venture capital.

Indirect financing levers

Tax based incentives that are aimed at encouraging investment in innovation activities can be applied to either expenditure (related to R&D) or income that results from investment in R&D. Following independence this Government will examine how best to develop and target such tax relief to encourage Scotland's innovative industries.

Intellectual property

We will ensure continuity of the legal framework for protecting intellectual property rights. Independence will also allow Scotland to offer a simpler and cheaper, more business-friendly model than the current UK system, which is bureaucratic and expensive, especially for small firms. The UK is one of the few EU countries which does not offer a scheme which covers the basics of protection.

Scotland could follow, for example, the German model which protects technical innovations. Scotland also has a distinctive body of expertise in dispute resolution through the Scottish Arbitration Centre which could be developed as an international centre of excellence in arbitration.

We recognise that researchers are highly skilled, and globally mobile. Scottish universities recruit researchers from across the world, whilst many Scottish researchers work in institutions in other
countries. With responsibility for immigration policy this Scottish Government will amend recent Westminster Government restrictions which impact in particular on the ability of our universities and colleges to attract international students. We will develop an approach to immigration to attract international talent at a level that would support high growth companies to develop and grow (see Chapter 7 of Scotland’s Future).

Innovation is not limited to high tech sectors. It can also drive growth across the economy by investing in new approaches to meeting customer needs and attracting attention to Scottish products.

For example, VisitScotland developed a unique partnership with The Walt Disney Company to make the most of the opportunity of the animated feature Brave to boost tourism in Scotland. The Scottish Government and VisitScotland have continued to build on this innovative relationship with the world’s largest entertainment organisation, showing Scottish food, drink and culture and promoting our assets as a tourism destination at the recent eighth Epcot International Food & Wine Festival at Walt Disney World in Orlando, Florida.

**Employee representation and diversity**

In an independent Scotland we will consult on the best form of employee representation on company boards.

We will also take steps to ensure that women have equal opportunities in terms of the quality as well as the number of jobs. Greater action needs to be taken to improve female representation and diversity on company boards.

Whilst the Westminster Government requires firms to report the number of men and women on their boards,[99] and has a target to increase the number of women on FTSE 100 boards to 25 per cent by 2015,[100] a number of European countries have adopted a more progressive attitude to gender balance on company boards. Belgium, Italy, France, Iceland and Norway have already introduced legislation requiring a gender quota on boards.[101]

The Scottish Government will consult on a target for female representation on company - and public boards - and, if necessary, we will legislate as appropriate.

**Skills and Employment - pages 103-110**

The Scottish Government has used our responsibilities to support employment, in particular to address the challenge of youth unemployment. The action we have taken includes a commitment to 25,000 new apprenticeship opportunities in each year of the current Parliament, the majority of which are targeted at young people; and Opportunities for All, which is a guaranteed place in education or training for all 16-19 year olds not already in learning, training or employment.

Independence will enable future Scottish governments to create a more coherent framework for employment and the labour market - one that links education, employability training, welfare, taxation and health with action aimed at creating a supportive business environment to foster job creation. It will also allow us to create joined up services which match job seekers and opportunities, within a supportive culture, offering help and assistance to those furthest from the labour market.

**Integration of skills and employability - page 108**

Following independence, we will bring together job matching, employability training and career guidance, currently being delivered separately in Scotland by the Department for Work and Pensions and Skills Development Scotland. This will allow local service delivery to be customised more closely to the needs of individuals. We will also aim to provide more tailored and coherent provision and increase the involvement of the Third Sector.
Childcare and the Economy - pages 193-194

The choices open to us

Childcare has important benefits for children and it also provides a key support to participation in the labour market, particularly for women. For example, in Denmark, which has extensive childcare provision, 79 per cent of mothers with children under six work, whereas in the UK the comparable figure is 59 per cent. Of mothers citing childcare as a barrier to working full-time, over 70 per cent say it is because of the costs. Under the devolution settlement, the tax revenues and benefits savings arising from increased labour market participation by mothers would flow to the Westminster Government. With independence, these benefits would accrue over time to the Scottish Government, substantially bolstering the financial case for a transformational change in childcare provision.

Our priorities for action

We will:

- in our first budget: provide 600 hours of childcare to around half of Scotland's two year olds. Those whose parents receive working tax credit or child tax credit will benefit
- by the end of the first Parliament: ensure that all three and four year olds and vulnerable two year olds will be entitled to 1,140 hours of childcare a year (the same amount of time as children spend in primary school)
- by the end of the second Parliament: ensure that all children from one to school age will be entitled to 1,140 hours of childcare per year

This transformational change to childcare in Scotland will allow parents, in particular women, to choose to work without worrying about the cost of looking after their children. With independence the benefits of their work - in economic growth and tax revenues - will stay in Scotland, contributing to meeting the cost of this childcare provision.

We published on Wednesday 27th November a briefing note on childcare and female labour market participation. The following extract sets out how greater participation in the labour market benefits the economy.

Greater participation benefits the economy

- There are a range of factors that influence the rate of female participation in the labour market but childcare policy could be a crucial element of the wider equality and welfare policy package that could improve this measure.
- Scotland and the UK both lag behind some OECD countries in terms of female participation rate. This section highlights the potential effects on the Scottish economy, if Scotland could improve its female activity rate further. In particular, the analysis illustrates the effects of increasing the female participation rate by 2 percentage points and then goes further to examine the impact of matching the rates in Norway and Sweden.
- Increasing female participation rate by 2.0 percentage points would increase Scotland's rate from 71.9% to 73.9%. This would bring Scotland's performance on the measure broadly in line with countries such as Finland and the Netherlands.
- This would constitute around 35,000 more people in the labour market and translate into a 1 percentage point rise in the overall (male and female average) economic activity rate.
- The increase would be even greater if we matched Norway or Sweden (see table below).
### Female Activity Rate

<table>
<thead>
<tr>
<th>2 p.p. increase</th>
<th>Female Activity Rate</th>
<th>PP Change in Female Activity Rate</th>
<th>Level Change in Female Activity</th>
<th>% Change in Total Activity Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Match Norway</td>
<td>75.8%</td>
<td>3.9</td>
<td>68,000</td>
<td>2.6%</td>
</tr>
<tr>
<td>Match Sweden</td>
<td>77.9%</td>
<td>6.0</td>
<td>104,000</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

- At the lower end, an increase in female activity by 2 percentage points could boost the level of output by around 0.6% (£700 million) in the long-run, with tax revenues rising by 0.5% (£200 million). At the higher end, if the female activity rate reached Swedish levels, output could rise by 1.7% (£2.2 billion) and tax revenues by 1.5% (£700 million).

### Impact on the Scottish Economy of an Increase in Female Labour Market Participation

![Impact on the Scottish Economy of an Increase in Female Labour Market Participation](chart.png)

### Immigration - pages 267-271

#### The choices open to us

Scotland has a different need for immigration than other parts of the UK. Healthy population growth is important for Scotland's economy. One of the main contributors to Scotland's population growth is migrants who choose to make Scotland their home. In future our enhanced economic strategy will also do more to encourage young people to build their lives and careers within Scotland and to attract people to live in Scotland.

In April 2012, the Westminster Government stopped the post-study work visa, which allowed recent graduates to work or set up a business in the UK for 24 months thus retaining skilled and educated graduates as part of the UK labour force. Westminster has also set financial maintenance thresholds for most migrants at a standard level across the UK despite variations in average earnings. With independence, each of these decisions will be for Scottish governments, with policy choices made on the basis of Scotland's needs and priorities.

#### Our priorities for action

For non-EU nationals, independence will enable us to develop and operate a controlled, transparent and efficient immigration system. This Government will take forward a points-based approach
targeted at particular Scottish requirements. The system will enable us to meet the needs of Scottish society with greater flexibility, for example by providing incentives to migrants who move to live and work in more remote geographical areas, assisting with community sustainability, or adding new categories of skills.

We plan to lower the current financial maintenance thresholds and minimum salary levels for entry, to better align them with Scottish average wages and cost of living. This will open up greater opportunities for key skilled individuals from overseas who could play important roles in our society and economy and fill vital vacancies in individual businesses.

A particular issue for Scotland is the post-study work visa. There are over 30,000 international students from more than 150 countries in Scotland; over 11 per cent of all students studying in Scotland are drawn from elsewhere in the EU and about 10 per cent are from the rest of the world. This Government plans to reintroduce the post-study work visa. This visa will encourage more talented people from around the world to further their education in Scotland, providing income for Scotland's education institutions and contributing to the local economy and community diversity.

Scottish Government
February 2014