SCOTLAND’s ECONOMIC FUTURE POST-2014
UPDATED SUBMISSION FROM YES SCOTLAND

This summary of previously submitted Yes Scotland evidence is intended to provide an overview of the economic arguments for a Yes vote in September and is arranged in two sections, the first confirming that Scotland can be a successful independent nation and the second setting out why we should be independent. It contains updated figures, published since our evidence was submitted in February of this year.

A. Scotland’s got what it takes to be a successful independent country

As the Scottish Government set out in March 2014, Scotland would be 14th in terms of economic output per capita in the OECD, compared to the UK at 18th. For many in Scotland it does not feel as though we live in a country that is wealthier per head than the UK as a whole. The great opportunity with a Yes is that we will be able to make sure Scotland’s wealth and resources deliver more for people living in Scotland.

Looking only at our public finances, Scotland’s national accounts have been healthier than the UK’s over the past five years and over the past 30 years. Debate often focuses solely on Scottish public spending, but when both sides of the financial equation are taken into account, this demonstrates a stronger fiscal position. Indeed, in each and every one of the last 33 years, Scotland has contributed more tax per person to the UK coffers than the UK average. Our finances have been stronger than the UK’s over the past 5 years to the tune of £1,600 per person or £8.3 billion, which equates to a contribution of 9.5% of UK tax revenues (compared to receipt of 9.3% of UK spending).

Scotland has the economic and financial strength to be a successful independent nation, a position confirmed by UK Prime Minister, David Cameron, who has said: “Supporters of independence will always cite examples of small, independent and thriving economies across Europe, such as Finland, Switzerland and Norway. It would be wrong to suggest that Scotland could not be another such successful, independent country”.

The Prime Minister’s assessment was given further backing by an eminent group of international economists, including two Nobel Laureates, who concluded that, “by international standards, Scotland is a wealthy and productive country”. In addition, analysis by the Financial Times has concluded that “Scotland has all the ingredients to be a viable nation state” and that we would “start with healthier state finances than the rest of the UK”.

Our undoubted strengths include an extensive range of world leading industries and substantial natural resources. We have five of the world’s top 200 universities and an international reputation for the quality of our research. The energy sector is a vital area for technological advance and export growth with a report from Sir Ian Wood suggesting an additional £200 billion could be extracted if the approach to managing and regulating the North Sea was improved. As we look forward, there
is the opportunity of a second energy windfall, with Scotland blessed with 25% of Europe’s potential offshore wind and tidal energy and the home to a host of innovative offshore renewable companies and devices.

In addition, we have hugely successful food & drink, tourism, construction and agriculture sectors worth billions every year. Recent figures show food and drink exports at an all-time high of £5.4 billion. Our world-leading industries include engineering, life sciences, tourism, life assurance and wealth management. As the Financial Times has indicated, we punch above our weight when it comes to exports. This shows the breadth and depth of the Scottish economy and the strong foundations that exist for future success.

Conclusion: There is now little serious challenge to the view that Scotland could be a successful independent nation like Norway, Finland or Switzerland, as the Prime Minister suggests. This is agreed across the Yes and No campaigns and the Committee is urged to make this a key part of their considerations. When we look at the many strengths across Scotland’s economy, it is clear that they all point to the enormous potential for an independent Scotland to deliver the higher levels of social and economic success that have been beyond our reach while economic policy has been decided at Westminster.

B. A Yes means important benefits for Scotland’s economy
There are many reasons why Scotland should choose independence and, in this evidence, we set out three of the most important:

The Westminster system isn’t working for the people of Scotland or our economy.
The trajectory we have been on as a result of Westminster policy is one of relative underperformance, compared to both London and the south-east and comparable international nations. The position has been stated succinctly by a group of economists writing recently on the London School of Economics’ British Politics and Policy blog:

“The fact that after nearly ninety years of regional policy Britain’s economy is still spatially divided between South and North suggests that the problem is a systemic one, requiring a systemic solution. It is often claimed that the success of London and the South East is merely testament to the ‘natural workings’ of the market. Some take this argument further and suggest that we should encourage economic activity and workers to abandon northern towns and cities and move to the South to maximize growth there. Such pronouncements fail to acknowledge the reality that the economies of London and the South East are not simply driven by market forces, but also heavily underwritten by the State; that this part of the country enjoys preferential access to finance; that it is able to exert a disproportionate influence on government economic policy; and that in London it has a city which has a degree of political and economic autonomy not found in other UK cities.”

There is massive and unsustainable imbalance in the UK economy, driven by the consensus approach to economic policy over more than three decades: an

economic consensus that sees Scotland as little more than a region, when what we urgently require is a national approach and a national economic policy.

**Conclusion:** Scotland needs the powers, urgently, to make different and more sustainable economic choices and to give ourselves greater confidence and security into the future. Proximity to London should be an economic advantage for Scotland, but at the moment we do not get the maximum benefit, but instead bear the full weight of London’s gravitational pull. We would ask the Committee to investigate whether or not the Westminster government has, in living memory, introduced a policy on tax or the economy designed to give Scotland an economic advantage over London.

**Developed nations of Scotland’s size enjoy an independence bonus, which Scotland too should claim**

Over a period of 30 years, whether before the crash, or including the period of the financial crisis and recession, Scotland’s growth rate has lagged behind growth in the UK and in similar, independent nations. As the Fiscal Commission Working Group reported, “It is widely accepted that, in terms of economic growth, Scotland has underperformed relative to both the UK and other small EU countries.”

Small differences on an annual basis may not seem like much, but over time they amount to a considerable lag in performance, which translates into fewer business opportunities, fewer jobs, lower salaries and lower standards of living than should be expected. As *Scotland’s Future* argued, similar countries to Scotland have seen higher levels of economic growth for a generation and more. This is because they have the clear advantage of being independent and can make the right choices for their economy. If Scotland had matched the growth rates of similar, independent nations over the last 50 years GDP would be substantially higher. The Scottish Government has highlighted, in particular, the 30 years up to 2007. If growth had matched the average of broadly comparable nations, GDP per head in Scotland would now be 3.8 per cent higher.

There are key advantages of size that Scotland should be enjoying, not only in areas of devolved responsibility but across the full policy range. These include shorter lines of decision-making, greater flexibility and responsiveness and the ability to maximise areas of comparative and competitive advantage. The increased decision-making in Scotland after a Yes will enable us to make more of our natural strengths by designing policy more directly suited to our circumstances. Looking at comparable countries, there is no advantage they have in terms of resources, people or ingenuity that explains the relatively stronger performance: the sole advantage they all enjoy is their independence. This independence advantage is open to Scotland too and matching the economic growth of similar nations will deliver a major, positive economic impact over the short and medium term.

**Conclusion:** Looking to the future, if Scotland simply matches the long-term growth rates of other, similar independent nations – nations like Norway, Sweden, Denmark, Finland or Ireland (countries with no resource or population advantage over Scotland but with the ability to design policy for their specific economic and social needs) – we will see a substantial increase in our overall national wealth.
and living standards. That is the independence bonus open to Scotland, with a Yes.

A Yes means we can make Scotland’s vast wealth and resources work much better for the people who live here
Scotland experiences a Westminster wealth gap, which means that despite Scotland’s economic output being higher than the UK’s, the wealth owned by people in Scotland is substantially lower than the UK average. This suggests that too much of the economic benefit of the wealth created by the people of Scotland is lost to people in Scotland.

The Westminster wealth gap not only impacts on the wealth of people in Scotland as individuals, there is also a national cost. As the Fiscal Commission Working Group has shown, since 1980/1, Scotland has run an average net fiscal surplus of 0.5 per cent of GDP, compared to an average annual deficit for the UK of around 3 per cent of GDP, and yet, the benefit of this surplus has not flowed into Scotland’s economy or public services.

As Scotland’s Future sets out: “[t]he Fiscal Commission has also illustrated that, had Scotland had control of our own resources, and assuming no change in tax revenues or spending priorities, our relatively stronger fiscal position from 1980/81 would have allowed us to not only eliminate a per head share of UK net debt, but actually accumulate assets worth between £82 billion and £116 billion by 2011/12. This would have equated to an asset of between £15,500 and £22,000 per head. In contrast, by the end of 2011/12, the UK had accumulated net debt of over £1.1 trillion, equivalent to a liability of £17,500 per head.”

Moving forward, with full access to Scotland’s tax revenues and the ability to make different decisions on spending across government, policies designed to deliver advantages to people and job creators in Scotland would be possible. It would give us the economic policy tools we need to address the future challenges facing Scotland, for example, increasing our working age population.

The Committee can look to Scotland’s Future, Green Yes and the work of the Common Weal project for a wide range of policy proposals that could be taken forward by future Scottish Governments. It is not Yes Scotland’s place to recommend policy preferences, that is for the political parties, however, we would highlight the positive impact of higher levels of labour market participation, increased productivity and an expansion of exports.

Such advances could be delivered by policies designed to maximize Scotland’s international presence with a more effective overseas network, by policies designed to increase wages, especially for those on low incomes, and by initiatives such as a transformational increase in childcare and early years education provision in Scotland.

In addition to Scotland’s stronger financial position, the wealth we generate as a nation could be used more effectively to deliver real gains for the people of Scotland. For example, we could generate £600 million of savings from things like no longer paying for the UK’s nuclear weapons or no longer sending Scottish
politicians to Westminster. That is £600 million of people’s taxes in Scotland that could be better spent on policies like improved childcare, which would support the creation of as many as 35,000 jobs.

As the Scottish Government has set out, increasing Scotland’s productivity performance by one per cent has the potential to boost employment by about 21,000. A 50 per cent rise in the value of Scottish exports could boost output by £5 billion and create more than 100,000 jobs in the long-term. And, 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.

**Conclusion:** it is by taking forward Scotland focused economic and social policies that we can begin to change Scotland’s economic trajectory, moving growth rates higher, encouraging more young people to stay in Scotland and raise their families here, maximizing labour market participation, getting the most out of untapped assets like our excellent international reputation, ensuring sustainable development and making best use of our wealth of resources and many comparative advantages.

**Final Remarks**
The starting point for an independent Scotland will be the framework set out in *Scotland’s Future*, but we would encourage the Committee to explore with all the political parties in Scotland their vision of economic and social policy with the full powers of independence. We have no doubt that the Scottish Labour Party, if elected as the first government of an independent Scotland, would take forward distinct policies from the SNP and it would be of benefit to the wider debate if the Labour Party, in particular, was asked for more details of its likely economic approach.