To whom it may concern,

I am a UK citizen, originally from Scotland and residing in Scotland, having returned in 2008 after 27 years living and working in a variety of countries around the world.

I am currently the Chief Executive of Buccleuch Estates, but am submitting evidence in a personal capacity. I am not a paid up member of any political party.

The United Kingdom, and therefore Scotland, has a public sector debt level equivalent to over 90% of the Gross Domestic Product. In absolute terms, this represents £1.521 billion or £50,000 per working person. This is equivalent to two years’ average salary per working person. This figure, although alarming in itself, understates the reality of the situation in that it does not cover the unfunded liabilities, nor does it include the local authority debt and a number of other unfunded liabilities, which include the decommissioning costs of hydrocarbon extraction in the North Sea.

To understand the pressure which debt places on us all collectively, one also needs to understand the relationship that collective debt places on each of us, we also need to take account of personal debt levels, which although a matter for each citizen, is influenced by economic policy, macro lending regulations and banking behaviour.

Politicians of all colours, in most western democracies, are driven first and foremost by a desire to get themselves elected. In that pursuit, they will use every slight of policy to avoid difficult decisions. By minimising the scale of the debt problem and the correspondence it has on the level of taxation and the ability to provide public services, they use a number of slights of hand to pretend to the electorate that difficult and unpopular decisions can be avoided. These include, excluding liabilities and certain types of debt, playing for time, relying on unrealistic growth projections and blurring the lines between revenue expenditure and ‘investment’ or capital expenditure. They will also economically blur the debate on what amount of debt might be deemed permanent capital, sometimes referred to as ‘structural’, and what proportion requires repayment, rather than just servicing.

All this is to say that ‘politicians’ in a democracy are severely conflicted in their management of economic policy. In the UK, we have arrived at a situation where our debt levels are such that citizens should not trust politicians to set limits on debt and budgets. The establishment of an independent Bank of England and the Institute of Budget Responsibility are attempts to bring some ‘integrity’ into a dishonest arena. As a benchmark, the EU has identified that a sustainable ratio of debt to GDP is deemed to be around 60%, this compares to our current understated ratio of 90%+, so we are in unsustainable territory.

Looking now to Scotland, the situation is exacerbated because the local authority debt has ballooned faster than the rest of the UK. It is now estimated to be £6,166 per working person, compared to £3,100 per working person. If you factor in the appropriate share of unfunded decommissioning of the North Sea, at a time when oil revenues looking forward are likely to be materially lower, then the situation in Scotland is more severe and requires more difficult choices. Combine this with an economy with a heavier dependency on and political desire for public sector spending, and the risk of ‘dishonest’ economic politics increases.

I would therefore suggest that we need a fully independent fiscal council to be established to provide the electorate with more objective macro-economic projections. We should have a binding set of rules and definitions of debt and liabilities to constrain all levels of government debt creation.
We should have a public debate with leading international economists to determine what sustainable debt management might be, which is acceptable to the next generation. A radical suggestion might be to create specific types of decisions which may only be decided by a generationally defined referendum (i.e. those under 40 years of age only).

Specific, simple rules should be imposed on all parties governing what types and levels of debt can be used to fund specific types of expenditure. For instance, revenue expenditure cannot be funded by debt within the term of parliament.

Likewise, capital expenditure must have a 70% debt to equity cap and debt service ratio.