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Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 19 February 2014

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
4th Meeting 2014, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Christian Allard (North East Scotland) (SNP)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
Hanzala Malik (Glasgow) (Lab)
*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Rt Hon Danny Alexander MP (Chief Secretary to the Treasury)
Lewis Macdonald (North East Scotland) (Lab)
Jenny Marra (North East Scotland) (Lab) (Committee Substitute)
Martin McDermott (Scottish Government)
Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities)
John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 1

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 19 February 2014

[The Convener *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the Economy, Energy and Tourism Committee's fourth meeting in 2014. I remind everyone to turn off or at least turn to silent all mobile phones and other electronic devices. We have apologies from Hanzala Malik and we are joined by Jenny Marra as his substitute. I welcome Lewis Macdonald as an additional member at the meeting.

Under agenda item 1, are committee members content for us to take in private item 4 today and future reviews of evidence?

Members *indicated agreement.*

Inquiry into Scotland's Economic Future Post-2014

09:30

The Convener: Item 2 is the start of our inquiry into Scotland's economic future post-2014. We will have two panels of witnesses this morning. I am delighted to welcome our first panel—the Chief Secretary to the Treasury, Danny Alexander MP, who is joined by Stephen Farrington, deputy director, economics of Scotland and the United Kingdom, Her Majesty's Treasury. Before we get into questions, would Mr Alexander like to make an introductory statement?

Rt Hon Danny Alexander MP (Chief Secretary to the Treasury): Yes. Thank you for inviting me to give evidence. As you said, we are joined by Stephen Farrington, who is a senior official at the Treasury—a future Sir Nicholas Macpherson, perhaps.

I very much welcome the evidence sessions that the committee is undertaking as a way of illuminating some of the important economic issues that will face us as a country in the years to come. As the convener said, I am here as Chief Secretary to the Treasury, but also as the member of Parliament for Inverness, Nairn, Badenoch and Strathspey, so I have a number of direct interests in the subjects that are under discussion.

I believe that Scotland's economic performance as part of the United Kingdom is strong. We are more successful and stronger economically because we are part of the UK. We benefit from the UK's large and integrated domestic market. Over the past 50 years, the economic growth rate per head in Scotland, at 2.2 per cent, has been ever so slightly higher than the economic growth rate across the UK, which has been 1.9 per cent.

We are fully integrated into the UK domestic market. About two thirds of all Scottish exports go to the rest of the UK—that is four times more than the amount to other members of the European Union, for example. In 2012, Scotland's exports to the rest of the UK were worth £48 billion and its imports from the rest of the UK were worth £59 billion.

One can look at a range of measures, but I would say that, outside London and the south-east, Scotland is at the moment the most successful part of the United Kingdom economically in terms of growth, employment and attractiveness for foreign direct investment. Our performance is comparable to and in some cases better than that of the other smaller European countries that the Scottish Government typically uses as points of comparison. For example, in

2012, Scotland had a higher level of economic output per head than Denmark, Finland and Portugal and a higher employment rate than Finland, Ireland, Portugal and Luxembourg.

All those things show the strength of Scotland's economic performance. The committee might be interested to know that the latest employment and unemployment figures, which were issued three and a half minutes ago, show that the number in employment in Scotland increased by 9,000 over the past quarter and that the number of people in work has increased by 92,000 over the past year, to 2.6 million. The unemployment rate is falling. The employment rate in Scotland, at 72.8 per cent, is higher than the UK average of 72.1 per cent. Across the UK, the number in employment is up by 193,000, and 1.7 million private sector jobs have been created since 2010. Economic performance across the UK is improving and Scotland is very much in the lead on that.

From an economic point of view at least—I know that other inquiries will no doubt range more widely, but the committee is focusing on the economics—the positive case for staying in the UK is that the UK has great scale and diversity and, as a result, we are better placed to meet today's economic challenges and to achieve prosperity together.

For example, the UK has 28 million taxpayers pooling resources into a single pot, and when Scottish financial institutions needed assistance from the rest of the UK in the form of guarantees and indeed direct injections of cash to save jobs, the UK did not hesitate. That is part of the benefit of those pooled resources. We benefit from the pound sterling, one of the strongest and most stable currencies in the world.

At the same time, we have the best of both worlds, with devolution and a strong Scottish Parliament. This morning I announced a further step. As members of the committee know, the Scotland Act 2012 is providing significant additional economic powers for Scotland, through the income tax-raising powers that come in in 2016 and borrowing powers for the Scottish Government. We have decided to take forward the proposal that the Scottish Government should be able to issue bonds on the international markets, as part of the tools that it has to fulfil the borrowing powers.

What we have got works well. We are stronger, safer and better together. Those are good reasons why the United Kingdom is the right platform for Scotland to continue to grow and prosper in future. I hope that that was a helpful way to start the conversation.

The Convener: Thank you for those introductory remarks, Mr Alexander. You raised a range of issues that I am sure that committee members will want to explore. Before we get into questioning, I remind committee members to keep their questions short and to the point, and I ask that answers be as short and to the point as possible. We have a lot of ground to cover in the time that is available and I am sure that we want to get through as much as we can.

I will start by picking up your point about today's announcement about the issue of bonds, which is a new proposal, under the Scotland Act 2012. What interest rate is likely to be payable on such bonds, and will it be higher or lower than the rate on UK Government bonds?

Danny Alexander: We carried out a detailed consultation with the financial markets on how that would work. I think that the view was that there would be likely to be a very small premium for bonds issued by the Scottish Government within the United Kingdom, because of the relative lack of liquidity that would be involved. Obviously, Scotland being within the wider United Kingdom would give the markets a degree of certainty around that.

It is worth dwelling on the position if Scotland were to become independent, as a point of comparison. The National Institute of Economic and Social Research has done the most detailed analysis on that point and calculates that an independent Scotland would have an interest rate premium over gilts of between 0.72 and 1.65 per cent. That would add £1 billion to £2.2 billion in debt interest payments in an independent Scotland, and at the central point on that range that would mean an extra £1,700 a year in mortgage interest payments.

Of course, that is calculated on the basis of a stable transition and Scotland accepting a fair share of the national debt. In the event of a default and a refusal to accept debt, one investment bank, Jefferies, has done what I think is the only detailed estimate that is out there. Jefferies suggested that, under those circumstances—the default scenario—there would be a premium of more like 500 basis points, or 5 percentage points. That, assuming a 75 per cent pass-through from bond rates to mortgage rates, would mean an extra cost of about £5,200 on the average mortgage in Scotland.

None of those things is certain, but you can see the range of possible financial risks that come with borrowing under an independence framework. However, within the United Kingdom, given that the ability to issue bonds on the market has been requested and has been proposed by various independent organisations, it is right that we take the idea forward. Of course, as with every other power under the devolution settlement, it is for the Scottish Government and the Parliament to decide whether they want to exercise those powers or not.

The Convener: Would the Scottish Government require Treasury approval prior to issuing the bonds, or would that be automatically granted?

Danny Alexander: It would not require approval for any particular issuance. Of course, it would be within the limits that are set out in the Scotland Act 2012, which provides powers to borrow. Actually, there are two separate borrowing powers, one of which is for capital purposes and is 10 per cent of capital spending up to a limit of £2.2 billion. That limit would obviously rise over time as public spending grows. There is also the limit of £500 million for shorter-term borrowing to help meet fluctuations in tax revenues and smooth the path of revenues, given the devolution of income tax-raising powers, stamp duty and other minor taxes. Those borrowing powers are part of how you would manage revenue fluctuation. The total amount for borrowing is up to £2.7 billion. Obviously, it would be a matter for the Scottish Government to decide whether it wanted to borrow from the national loans fund within the UK framework or to raise any money on the international markets.

The Convener: I have just one more question, and then I will bring in Dennis Robertson. Just going back to what you said about the effect of a yes vote on the cost of borrowing, particularly if there was a default on a share of the UK's national debt—although it is obviously difficult to be precise about these things—does the Treasury or the UK Government have a view on what the broader impact on the Scottish economy would be in that case?

Danny Alexander: The impact of highly elevated bond yields, which is what you would expect under a default scenario, would be severe in terms of extra debt interest payments and particularly in terms of the pass-through to the real economy. We know that there is a well-established economic relationship between bond yields and interest rates in the market. That is illustrated most simply in terms of extra mortgage costs. Clearly, though, those higher rates would also be passed on to businesses, which would have a significant and damaging effect.

If we assume that three quarters of the elevation is passed through to mortgage rates, the extra mortgage cost is estimated to be £5,200, taking the Jefferies investment bank estimates of an interest rate that is 5 percentage points higher under those circumstances. That is quite modest compared with the experience of countries around the world that have defaulted. Of course, we are talking about something different here from what happened in Ecuador or Argentina, where we saw increases of 50 percentage points in Argentina's case and 90 percentage points in Ecuador's case. We are talking about something quite different under independence, which is why I think that the Jefferies estimate of a 5 percentage point premium, which is the only estimate out there, seems like a reasonable starting point from an analytical perspective. There are of course uncertainties around it, but I think that it gives people a flavour of what the impact of a default-type option would be.

The Convener: Thank you.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning, minister. I am going to go on a slightly different tack, but I am sure that others will come back to the bonds issue as we go through this evidence session. Back in 2011, the Chancellor of the Exchequer said that if we pursued the referendum agenda, it would have an adverse effect on businesses coming to Scotland and that, in fact, investment would probably go down. You are aware that we have had probably record investment, and that is in the full knowledge that there is an independence referendum coming up. Was the chancellor wrong to make that statement at the time?

Danny Alexander: I am very pleased with the work that we have been able to do as a coalition Government to ensure that, by sticking to the plan that we set out, the UK has a strong economic recovery. I made the point earlier that, in terms of employment and gross domestic product—and in terms of your point about the attractiveness to investment—outside London and the south-east, Scotland is the most successful part of the United Kingdom.

That said, I am aware of companies—some of them have commented publicly on this—saying that they want to wait and see what happens in the referendum before confirming investment decisions.

I do not think that the chancellor's claim was wrong, but I am pleased that, through our work to support the economy across the whole United Kingdom and the work carried out by agencies such as Scottish Enterprise and Highlands and Islands Enterprise to attract inward investment, we have been able to ensure continuing investment in Scotland.

09:45

Dennis Robertson: So you concede that, despite the fact that an independence referendum is on the horizon, there has still been record investment in Scotland.

Danny Alexander: I concede that we are seeing investment in Scotland within the United Kingdom.

Dennis Robertson: In addition to some of the positive statements that you made in your introductory remarks, you might wish to congratulate our cabinet secretary, John Swinney, on his stewardship of the economy, under which we have had this record investment in Scotland. You also mentioned the unemployment and employment figures and, again, we are delighted with the progress that has been made in Scotland under the stewardship of John Swinney and the Scottish Government.

When he was in Scotland last week, the chancellor stated categorically that, in the event of independence, Scotland would not be able to enter into a currency union with the rest of the UK, and on Monday, I think, you said that, as a Scot, you did not favour that option either. Are you and the chancellor simply dismissing the findings of the fiscal commission working group, which is led by Crawford Beveridge and includes Professor Sir James Mirrlees?

Danny Alexander: You have raised two issues—jobs figures and currency union—and I would like to address both.

First, I think that John Swinney is an effective finance minister in the Scottish Government. I deal with him regularly and work with him closely in the finance ministers' quadrilaterals that we have in the UK. Scotland's successful economic performance is down to the current constitutional arrangements, and many of the levers that help the Scottish economy to grow are in the hands of the UK Government. Some of those levers are in the hands of the Scottish Government, but I think that Scotland's economic performance in recent years speaks very well of the current constitutional arrangements, under which Scotland has a strong Scottish Parliament and a strong Scottish Government. I would like to see that get stronger within the UK, and I would say that the jobs figures that you referred to make the case for not changing the arrangements.

As for the currency union, I have read the fiscal commission working group report, which I feel is in some respects rather more nuanced than has been reported. We are engaged in some very serious and deep analysis of the issue; indeed, last week, we published a Scotland analysis paper on the assessment of a sterling currency union that the committee will have seen and which I hope every member has had a chance to read. Given the document's finding that a currency union would not work for either an independent Scotland or the rest of the UK, I do not think that there is any point in pretending that it is something that could be agreed. It is important that, where we can be clear on these things, we are clear for people who are going to vote in the referendum.

One of the points that worried me about the fiscal commission working group report and the Scottish Government's white paper was the statement that a currency union would be temporary and that transition to other monetary arrangements could take place. We need only look at the problems that arose with the Czech and Slovak monetary union, and the dissolution of that union. Having decided to go their separate ways, the two countries wanted to have a currency union. However, it lasted for 33 days; it found itself open to speculation because it was regarded as temporary on both sides of the border. It is one of a number of reasons why I think the currency union proposal is very deeply flawed.

Dennis Robertson: So what you are really saying is that, despite the fiscal commission working group's work and despite the fact that the group itself includes fairly eminent people, you do not agree with its findings and outcomes.

We are looking at the two futures for Scotland. The first scenario is an independent Scotland and in the second Scotland remains in the UK. What is the Treasury's analysis of what will happen in the rest of the UK in the event of independence?

Danny Alexander: In terms of Scotland's economic prospects?

Dennis Robertson: Yes.

Danny Alexander: Our analysis is that, of all the options that are available to Scotland, the current monetary and economic framework is the one that works best. The data that I set out earlier is evidence that backs up the fact that the current arrangements work well for Scotland. I hope and expect that continuing with the current arrangements will result in Scotland continuing on its trajectory of strong economic performance within the UK.

Dennis Robertson: So, given that the current arrangements work well, in the event of independence it would be—as Alistair Darling said—logical and desirable to continue with them.

Danny Alexander: Except that you are not talking about continuing with the current arrangements. The current arrangements involve a currency, political, economic and social union, which I would argue is the most successful alliance between countries in the history of the planet. Countries around the world are seeking to come together. In the eurozone, for example, the response to the deep problems that have been experienced with that currency union—which I hope that every person who advocates a currency union will pause to study carefully—shows that, in a range of areas, those countries have realised that they must come closer together and have greater integration.

What is proposed by the Scottish Government is the creation of a currency union in circumstances of disintegration, which would amplify the economic risks for Scotland and for the rest of the UK to an unacceptable degree. That is why I could certainly not recommend that idea to my constituents in the Highlands and why my party could not agree to it in the UK.

Dennis Robertson: I am sure that we will go into that in more detail as we progress.

The Convener: Quite a few members want to ask about the currency, one of whom is Margaret McDougall.

Margaret McDougall (West Scotland) (Lab): Good morning, minister.

I want to continue with the theme of currency union. If the Scottish National Party realises that a currency union is not going to happen—which it seems to find quite difficult to do at the moment—we need to know what the alternatives are. Have you given any consideration to what the alternatives could be for the Government of an independent Scotland?

Danny Alexander: That is an extremely important question. No one should be in any doubt about the fact that a currency union is not going to happen. In "Scotland analysis: Currency and monetary policy", which we published last year, we set out an analysis of the range of different options that are available to any independent state and which would be available to an independent Scotland.

There would be the option of joining the euro, which the Scottish Government used to advocate but no longer does.

There is, of course, the option of creating a new currency in Scotland. That would have the advantage of ensuring that as Scotland entered the early phase of the creation of a new nation state—which is an incredibly difficult and uncertain thing to do—it would have the maximum number of economic levers at its disposal, including the ability to control interest rates and to adjust the exchange rate in response to volatility in the price of oil. It would mean that Scotland would not be binding its hands on taxation and spending decisions in the way that it would have to in a monetary union.

Another option is what is known as sterlingisation, which is equivalent to what the Government of Panama does—instead of having its own currency, it just allows the US dollar to circulate. Montenegro does something similar with the euro. Ecuador is quite an interesting example in this context, given recent economic events there. It, too, has the US dollar in circulation, but it does not have a central bank or a lender of last resort to support its financial system. That would be critical in Scotland, given the large scale, relative to the size of our economy, of the Scottish financial services sector and the number of jobs in it.

There are a range of options. It would be enormously helpful for people in Scotland to understand what the plan is. Otherwise, we will be asked to follow a proposal for independence without having a route map or any sense of what the destination is.

Margaret McDougall: If the option of sterlingisation were chosen by an independent Scotland, what would the advantages and the disadvantages be?

Danny Alexander: An advantage would be that the pound sterling was in circulation. I have heard a lot of talk recently about transaction costs in relation to currency issues. That is a relatively small factor in comparison with the much bigger economic risks in a currency union, so I suppose that sterlingisation would have that advantage.

There would be significant disadvantages—particularly the lack of a lender of last resort, which is crucial to supporting a financial sector. For example, an independent Scotland would need to develop its own system of financial regulation, which is required under European law.

There would be big questions about whether Scotland could sustain the very large banking system that is headquartered here, which is a great advantage to our economy at the moment. We can engage in such specialisation in Scotland because we have the strength in depth of the wider United Kingdom. We have a strong insurance sector, for example. All such industries would be seriously threatened under a sterlingisation scenario.

Margaret McDougall: What would happen to interest rates for businesses and to the savings of the ordinary man in the street?

Danny Alexander: In such circumstances, Scotland would not have its own interest rates. It would not have its own central bank or monetary policy. All those things would be decided in the Bank of England on the basis of the economic conditions in the rest of the UK. There would be no ability to alter those things to reflect Scottish economic conditions.

I suspect that interest rates on Scottish Government debt would be highly elevated in comparison with UK gilt rates. I think that interest rates would be significantly higher—much greater than the National Institute of Economic and Social Research's estimate—which would have a big effect on the cost of mortgages, lending to businesses and so on. That would be the case because of the uncertainty that lenders to an independent Scotland would face under such a currency arrangement.

Margaret McDougall: So you are saying that that would be a dangerous route to go down.

Danny Alexander: Some spokespeople for the yes campaign have in recent days floated the idea of such an arrangement, which I think would be a pretty dangerous route, although it is available and some countries, such as Panama and Montenegro, have made it work for them. That is a different arc of prosperity from the one that is often talked about, but the choice could be available to an independent Scotland.

Margaret McDougall: The minister mentioned transaction costs. Can I ask about that, convener?

The Convener: I will give you one more question, but other members need to come in.

Margaret McDougall: We have heard in the past few days about the transaction costs to English businesses. Do you have any idea of how much the cost to Scottish businesses would be?

Danny Alexander: I do not have an estimate of the transaction costs to hand. Given the relative sizes of the rest of the UK and Scotland, I think that the transaction costs for Scottish businesses would be roughly a 10th of the figures that have been quoted for English businesses.

Transaction costs are a very small part of the economic equation. It is interesting that the Scottish Government has drawn its figures from the analysis that the Treasury did in 2003 of the five economic tests for joining the euro, but the Scottish Government ignores the rest of the analysis, which showed why joining that currency union would in many other ways be disadvantageous.

If all that was cared about was transaction costs, joining the euro would be sensible. From the perspective of the rest of the UK, in such circumstances 10 per cent of exports would go to Scotland, 40 per cent would go to the eurozone and 20 per cent would go to the US dollar. If the rest of the UK only worried about transaction costs, joining the euro or the dollar would perhaps be a preferable solution to a currency union in the United Kingdom.

Alison Johnstone (Lothian) (Green): Good morning, minister. Your colleague Alistair Carmichael has suggested that, if Scotland became independent, we should become properly independent, which means having our own currency. I imagine that, in the Treasury, you are looking at lots of options, some of which we have discussed this morning. Do you have a view on the currency option for an independent Scotland that would be likely to bring the most economic benefit to that independent Scotland and the continuing UK?

10:00

Danny Alexander: I do not have a preference. My preference is for the current arrangements, which work better than all the other options.

I will make a couple of points that might shed some light on this. If you were to join—

Alison Johnstone: I do not want to continue discussing the current arrangement. I fully understand that you prefer it, but my question is about the situation if Scotland was independent.

Danny Alexander: I was just going to make a point that might shed light on that. If Scotland was to join the euro or enter into a currency board arrangement to peg a Scottish currency to, say, the pound sterling, all of that would require the establishment of a separate Scottish currency as a sort of staging post.

In effect, therefore, there are two choices. You could establish a separate Scottish currency to be the currency that stands in perpetuity, or as a staging post to joining the euro, or as a way of locking in an exchange rate with the pound under a currency board arrangement. Alternatively, you could say, “We’re not going to have a currency at all,” which is the sterlingisation option that Margaret McDougall was asking about. It therefore boils down to that choice, and you could then have different destinations from the starting point.

The advantages of having a separate Scottish currency would be the power to set your own interest rates and the ability for your exchange rate to fluctuate, which is obviously quite important in an economy that would be heavily dependent on an internationally traded commodity such as oil, for which the price can fluctuate very dramatically year by year. Of course, there is a volatility involved in that, too.

The weaknesses of that option would very much be in the damage to trade, the extra barriers that would be created between Scotland and the rest of the UK, and the other dangers that are set out in our assessment paper on the currency union. I therefore do not think that that option is preferable to the current arrangements, but I have heard some nationalists advocate establishing a separate Scottish currency, so there is clearly a train of thought in the yes camp to seize that as a preferable option.

Alison Johnstone: But you do not have a view at the moment as to what would be in the best interests of an independent Scotland.

Danny Alexander: I do not have a view on that at the moment.

Alison Johnstone: Okay. Do you feel that you have a—

Danny Alexander: I have a strong view about what is in our best interests, which is keeping the United Kingdom together.

Alison Johnstone: Clearly, the Lib Dems, Labour and the Conservatives have a campaign position that a monetary union is not viable. Following the UK Government election in 2015 after a yes vote, would any Government then be willing to sit down in a respectful and courteous manner and discuss the options and negotiate properly? Is it likely that a new UK Government would continue to be unwilling to discuss the options? Obviously, the Scottish Government at the moment is a democratically elected Government that is representing the views of those who elected it.

Danny Alexander: I would say two things about that. First, in the event that Scotland voted for independence—which I fervently hope we will not do—there would need to be a negotiation about a whole range of things. A vast amount of disentangling would have to be done to create this new state. Secondly, on the currency specifically, a currency union is a matter for both Scotland and the rest of the UK.

I really do not think that people should accept the line that our position is just a bluff and that our view would change after the referendum. What you have had is the view of the Chancellor of the Exchequer, the shadow chancellor and me, who are all people who in the event of the UK staying together, as I want, would aspire to leading the finance function in the UK. The idea that any of us would have chosen to make a statement of the sort that we did, which was based on the rigorous analysis that was published, and plan to change our minds a few months later is, I am afraid, just a fantasy. You do not have finance ministers and finance spokespeople making those sorts of statements on behalf of their parties with a view to changing their minds later. Therefore, I think that you should treat what has been said in respect of a currency union—there is a vast range of other issues that would need to be negotiated—as being definitive.

Alison Johnstone: Obviously we do not know who will be negotiating on behalf of the UK Government following the election in 2015.

Danny Alexander: No, but I suspect that it is pretty predictable that the Chancellor of the Exchequer will be George Osborne, Ed Balls or—in some strange set of circumstances—me. [*Interruption*.] I agree with Mr Brodie that that would be the best outcome. Unless there is a massive surge in United Kingdom Independence Party support—which might be your last hope in that respect—one of those people will be occupying that office.

We have all set out our position in different ways. As a Scottish MP, I come at the matter from a different perspective—I look at it not just from a rest of the UK perspective but from the perspective of an independent Scotland. As I have said, an independent Scotland that was embarking on the perilous journey of creating a new state and which was in a currency union would not only have its hands tied behind its back because it would be giving up interest and exchange rates but have its hands bound on tax and spending. I do not think that that economic model would have any advantages for an independent Scotland.

Alison Johnstone: I certainly will not comment on potential postholders—

Danny Alexander: Fair enough.

The Convener: By the way, Ms Johnstone, this will be your last question.

Alison Johnstone: In your opening statement and throughout this morning, you have said that Scotland has performed well because it is part of the UK. You then said that that is if you look through the narrow prism of GDP; after all, we are one of the most unequal economies on the face of the earth.

If we are performing so well economically, why are we continuing to see so many people who are not benefiting from this economic success? Does Scotland need more control over welfare, benefits and so on? I have never had so many people contacting me about their benefits being sanctioned and their reliance on food banks. What are you going to do to address such inequality? Is it not the case that an independent Scotland would be better placed to address it?

Danny Alexander: First of all, I hope that everyone accepts that GDP is the place to start when looking at economic prospects. It would be interesting if an independent Scotland were to say, “We’re no longer interested in GDP.”

We should all be very interested in what is happening to GDP and, in particular, employment. In my view—and, I think, in the view of most people in this country—the best way for those who can to get out of poverty is to get into, progress through and do better in work. In fact, the recent statistics on the Gini coefficient, which is the internationally recognised measure of inequality, show that inequality in the UK is at its lowest level since, I think, 1986.

That is not to say that there is no more work to be done on that front. I agree with you in that respect, but I strongly believe that the only way to build a fair society is to have a strong economy. Anyone who looks at the likely economic prospects for an independent Scotland across a whole range of measures—many of which we will come to—will see that it is beyond doubt that an independent Scotland would be in a weaker economic position than Scotland is within the UK and therefore would be in a less strong position to tackle many of the issues that you have referred to and which both of us care about with regard to ensuring that everyone has the best possible chance to get on in life in Scotland. The framework of the UK helps to create the conditions in which we can improve our performance in that area, which I accept we need to do better in.

Chic Brodie (South Scotland) (SNP): Good morning, chief secretary. It is nice to see you again.

Danny Alexander: I think that, the last time we met, we were members of the same party. It is nice to see you in a different guise. [*Laughter*.]

Chic Brodie: I remind you of the fact that when you are 18 you think that your father is an idiot and by the time you are 21 you are surprised how much he has learned.

Anyway—

Danny Alexander: Mind you, I do not think that you are my father.

Chic Brodie: If I were, you would not be behaving the way you are with the economy. [*Laughter*.]

You talked about having a strong UK economy but I want to dwell briefly on some numbers. With regard to onshore activity, Scotland has a small current account trade deficit, but when you add in offshore international exports such as oil and gas it has a surplus of £7.5 billion. The UK has a trade deficit of £33.6 billion, which goes up to £41 billion when you strip out Scotland. The fiscal deficit in Scotland is £3.4 billion or 2 per cent of GDP while in the UK it is £92.3 billion or 6 per cent of GDP.

Your capital account general liabilities held by overseas lenders are £446 billion. The whole Government accounts for 2011-12 show that public sector debt in the UK is £1.347 billion—£1,347 million. If we take that forward to when Scotland is independent—on a population share of 8.4 per cent of debt—Scotland has a debt level of £146 billion, which is a debt to GDP ratio of 81 per cent. Surprisingly, the ratio for the UK is 104 per cent.

On the basis that we all want to secure stability on both sides of the border going forward, what is the evidential reason for rejecting a currency union between an independent Scotland and the continuing UK? What does rejection mean for the level of sterling for the rest of the UK?

Danny Alexander: You have raised an awful lot of points—I will not dwell on every one. I do not accept at least some of the statistics that you have given, not least because, for example, projections for the deficit in an independent Scotland that are done by the Scottish Government include—

Chic Brodie: I have given NIESR and Office for Budget Responsibility figures.

Danny Alexander: The statistics include heroic assumptions about oil revenues, for example. The correct figures, based on the OBR's forecast, are that in 2016-17, which would be the first year of an independent Scotland, it could expect to have a fiscal deficit of 5.3 per cent of GDP compared with a figure of 2.3 per cent for the UK as a whole.

The Institute for Fiscal Studies has done the most detailed and careful analysis of the issue, which is something that the Government will return to in due course through our Scotland analysis programme. Its analysis looks at the gap in economic prospects between an independent Scotland and the rest of the UK from a fiscal perspective. The IFS tried very hard to find a scenario in which an independent Scotland would do better than the rest of the UK, but it could not find one. Even its forecast for an independent Scotland in the most optimistic scenario was worse than its forecast for the rest of the UK in the most pessimistic scenario.

Chic Brodie: We could swap statistics like this all day, chief secretary.

Danny Alexander: You gave me a list, so I thought that I would give you a wee list back.

Chic Brodie: That is fine. I accept the list, and no doubt we will argue back and forward.

My question is this: what does all this mean for the rest of the UK? Let me make an assumption—as I read the manifesto that you wrote in 2010, I am sure that you will not agree with it, but we can come back to that. UK exports to Europe for goods and services were worth £221 billion. Let us hypothesise—although not too strongly—that the UK pulls out of Europe in 2017. What will that mean for jobs, businesses and sterling in the rest of the UK?

Danny Alexander: The UK will not, on my watch, pull out of Europe—full stop and end of story. The only way for Scotland to get out of the European Union is to vote for independence in September, because we know that the legal position is that, if Scotland votes for independence, it will step out of the European Union and have to negotiate its way back in.

Chic Brodie: Scotland is already a member of the European Union.

Danny Alexander: If you are worried about membership of the European Union, that is a compelling case for a no vote in September.

From the perspective of the rest of the UK, you raise an important question on the currency, which is part of the analysis that we published last week. The big downside of currency union from the perspective of the rest of the UK is the potentially enormous and asymmetric fiscal and economic risks that a currency union would bring.

We have seen in the eurozone—I am sure that you have studied it carefully—the dangers that economic problems in one country are magnified through a currency union and affect other countries. Problems in a number of economies in the eurozone have held back economic prospects across the whole of Europe.

The proposed sterling currency zone would be very asymmetric, as one country would be 10 per cent of it and the other country would be 90 per cent of it. From the perspective of the rest of the UK, you would see all the risks and very few of the benefits. That is why our analysis suggests that a currency union simply would not be acceptable from the rest of the UK's perspective. That goes on top of the point that I made previously about why I do not think that it would work for an independent Scotland either.

10:15

Chic Brodie: I humbly suggest that, instead of all the sabre rattling that is going on, it would be better to sit down and look at the benefits, because there are benefits to having a currency union. Some might say that the arguments that are being made are a camouflage. The Sheffield political economy research institute report that was produced at the University of Sheffield states that the potential benefits to the UK economy have been squandered in favour of boosting financial services concentrated on London. We have heavily underinvested in manufacturing. James Medway, the former Treasury policy adviser, says exactly the same thing—that we have a weak economy in the UK—and yet you and the chancellor keep saying that we have a strong economy. We can all argue whether that is based on housing or what have you, but facts are chiels that winna ding. This all seems to be a form of camouflage and a way of saying, "We've got a problem so Scotland's got to stay with us," because, as you point out, its economy is relatively stronger than that of the rest of the UK—apart from London and the south-east. Why do we not stop all this nonsense and sit down and look at what a currency union would mean for the stability of the economies going forward, in order to get a meaningful currency union that would secure such stability and the employment and so on that goes with it?

Danny Alexander: I say two things to that. First, it is very important for everybody in this country who has a vote in the referendum to get a clear view on the currency union point. Of course it is one option for those who advocate independence to keep shouting that there will be a currency union in the face of all the evidence and all the facts—

Chic Brodie: I have just given you some facts.

Danny Alexander: That is not a credible position to take. I think it would be much more helpful for those who believe in and want to advocate independence to set out what their preferred currency option would be.

I agree with you about the point that you made that came out of the University of Sheffield analysis. I am not at all complacent about the UK economy or the Scottish economy. There are a number of structural points about the UK economy that need to be addressed. For too long, past Governments of different parties have been too obsessed by financial services in the City of London. We have seen our manufacturing industry decline.

That is why the Liberal Democrats in the coalition Government are driving forward industrial strategies that have got us to a position in which, for example, the UK is a net exporter of cars for the first time in 30 years—car production is at its highest level for six or seven years. We need to do better in areas such as aerospace and life sciences—a huge number of areas that are about growing our economy. My contention, which I think is borne out by what I have said, is that the best prospect for Scotland to do that effectively is for it to be part of the wider and stronger economic family that is the United Kingdom.

Chic Brodie: Perhaps if we looked at the evidence together we might arrive at a more amicable situation.

Vince Cable—your colleague, not mine—talked about London sucking the blood out of the rest of the UK economy. It is a bit like putting Dracula in charge of a blood bank.

Can we dispose of this baseless argument that Scottish banks were bailed out by taxpayers? We know that assets and liabilities rest in the countries where they are incurred. Can you encourage the chancellor in particular to stop going around saying that Scottish banks have been bailed out? We know for example that Barclays, which is an English bank in as much as you would call RBS a Scottish bank, had no Government bailout, yet it received the single biggest bailout of any English or UK bank—some from the US Federal Reserve and £6 billion from the Qatari Government. I ask for such comments to stop.

How will you address—

The Convener: Two questions in one.

Chic Brodie: Sorry, convener. We have talked about the Gini coefficient. How will you manage the City of London? Clearly, it is not being managed today.

Danny Alexander: There are many points in there, most of which I disagree with, but I will dwell on just one or two if I may.

Chic Brodie: There is a surprise.

Danny Alexander: Mervyn King had a good soundbite on the issue when he said that financial institutions are international in life but national in death. The truth is that, when an institution collapses, it is the responsibility of the sovereign state in which that institution is domiciled to clear up the mess. For example, when the United Kingdom Government injected a large amount of capital into the Royal Bank of Scotland and the Bank of Scotland, or Lloyd's Banking Group, that was not just about their assets in the United Kingdom; it was about their position across the world. In the Royal Bank of Scotland, we had a Scotland-headquartered bank that was one of the largest financial institutions in the world and which was in a mess not just here but all over the world. However, it was the responsibility of the UK, as the regulator of that institution and the state in which it was—

Chic Brodie: Why did you not do that with Barclays?

Danny Alexander: I was not a member of the Government before 2010, although perhaps some of our Labour colleagues could comment on that. The truth is that Lloyds Banking Group and the Royal Bank of Scotland were the only two institutions that needed an injection of state capital. You are right that the whole of the financial system benefited from the action that was taken to stabilise those two institutions. Those banks were in the very worst position across the whole financial system. If they had not been supported by the taxpayer to the tune of many tens of billions of pounds—sums of money that would dwarf the financial resources of an independent Scotland—that would have had a big knock-on effect on other institutions.

In that sense, the action was necessary to stabilise the whole financial system. Had Scotland been independent in 2007, and if, under those circumstances, RBS and the Bank of Scotland had decided to continue to be based and regulated in Scotland, it would have been impossible for an independent Scotland to bail out those institutions by itself. The requirement on the state to bail out top-heavy financial institutions was beyond the means of Ireland and Iceland, and we would have seen the same in an independent Scotland.

Chic Brodie: You would not say that about Ireland and Iceland today—

The Convener: Okay—you have had your questions. I will bring in Christian Allard in a moment, but Jenny Marra has a follow-up question.

Jenny Marra (North East Scotland) (Lab): I have questions on currency, if that is okay, convener.

I agree with the chief secretary that people's prosperity and social progress is based on a strong economy. We now know that there will not be a monetary or currency union.

Danny Alexander: Yes.

Jenny Marra: Looking to the alternatives, have your officials given you any advice on the position on the euro? The SNP and the yes campaign do not propose to join the euro, but we also know that the SNP is keen for Scotland to become an independent member of the European Union. Have you had any advice as to whether the European Union treaty obligations—originally under the Maastricht treaty and under the treaty of Lisbon—would still apply to an acceding member state? That is not the SNP's preferred option, so my follow-on question is whether you have had any advice from your officials on the stability of an independent currency, whatever it might be called, and perhaps the economic implications of that for Scotland and the rest of the UK, or for economic growth in Scotland?

Danny Alexander: The answer is yes to both questions. We published quite a lot of that information last year in a paper on currency options. The legal position on the euro in respect of the EU treaties is clear. Every country that has joined the EU since the late 1990s has had to accept, as a condition of membership, signing up to joining the euro when the Maastricht convergence criteria are met. The UK has an opt-out, as does Denmark, but every new member state since the late 1990s has had to sign up to that obligation. So one suspects that, were Scotland to become independent and then apply to join the European Union—we heard from President Barroso at the weekend that that would not be a straightforward process—the rest of the EU would expect Scotland to accept obligations such as joining the euro and membership of the Schengen travel area. Although that would not mean a requirement to join the euro on day 1, it would certainly mean accepting the obligation to enter the euro over time.

I suspect that it would be very hard for Scotland to maintain the opt-out in those negotiations, not least because of the range of other issues that an independent Scotland would no doubt want to bring up in the negotiations. For example, there is the Schengen issue; I know that the SNP has argued that it would want to be part of the UK and Ireland common travel area rather than the Schengen travel area. There would be a lot at stake in those negotiations. Financially, of course, Scotland would be in a considerably worse net position in respect of its contribution to the EU budget because it would not have a rebate of the sort that the UK has. No country has ever negotiated a rebate on accession. However, Scotland would need to make a financial contribution towards the rest of the UK's rebate in the same way that every other EU member state does.

I set out in an answer to an earlier question some of the risks of an independent currency. I have not received advice specifically about the likely volatility of an independent currency, but the point that I make is that in an economy that is more heavily dependent on an internationally traded commodity such as oil, the price of which has been volatile over many years, we would expect the currency also to be volatile because it would be one of the levers through which those price changes would be managed economically. I think that such a currency in an independent Scotland would take time to establish, would be volatile and would face, in particular, higher interest rates on bond yields in order to manage the volatility.

Jenny Marra: You lead me on nicely to my next question, chief secretary, which is on oil. Obviously, the proposal for an oil fund is not yours, but that of the Scottish Government. Have you had any advice as to the sustainability or future prosperity of such a fund, given the current situation with the industry in Scotland?

Danny Alexander: Yes, I have. Again, we published some analysis of this in the paper "Scotland analysis: Macroeconomic and fiscal performance". The argument is that Scotland would be running a deficit and contributing to an oil fund at the same time. There would require to be significant spending cuts and/or tax rises in order to be able to afford to set up any sort of oil fund at all. The Norwegians have an oil fund, but they do not fund it from borrowing, which is what would be advocated in an independent Scotland.

In order to have an oil fund to save up for the future, you would require very serious fiscal restraint above and beyond that which would already be required to keep a new state stable. I think that it is a pipe dream that an independent Scotland could afford to set up something like that. It would be very bad economic management to borrow today to fund an oil fund for the future and to make very significant reductions in public services and/or levy significant tax rises on the people of Scotland to pay for it.

The Convener: Dennis Robertson has a brief supplementary question.

Dennis Robertson: Why did the UK not set up an oil fund 40 years ago?

Danny Alexander: I beg your pardon. Could you repeat the question? I was consulting my official.

Dennis Robertson: Yes. Why did the UK Government not set up an oil fund 40 years ago?

Danny Alexander: Well, I was born only 41 years ago, so it is a wee bit harsh to hold me accountable for those decisions.

Dennis Robertson: I am not holding you accountable for that.

Danny Alexander: The resources from the North Sea have been used for public services and investment in Scotland and in other parts of the UK over a long period of time.

Dennis Robertson: To pay debt.

Danny Alexander: In terms of the argument for independence, you could consider an oil fund only on the basis of what would happen in the future. The analysis that we published said that to set up an oil fund of the sort put forward by the Scottish National Party would imply spending cuts of 13 per cent from current levels or onshore tax rises of 18 per cent in order to pay for it. In a scenario in which there would already have to be significant further fiscal retrenchment just to stabilise the economy, there would be yet further retrenchment on top of that.

Dennis Robertson: I am sure that Mr Swinney would be able to tell you exactly where he was going in that direction, to be honest.

Danny Alexander: As the chief secretary, I have been responsible for taking some very difficult decisions over the past three and a half years to get the UK economy back on the right track. However, I think that the environment that I have faced will look like a tea party compared with the sorts of challenges that will be faced by an independent Scotland in dealing with those fiscal problems.

The Convener: Marco Biagi has a follow-up question, then I must go to Christian Allard.

Marco Biagi (Edinburgh Central) (SNP): If this was 40 years ago, would you advocate setting up an oil fund?

10:30

Danny Alexander: I think that it was 40 years ago that my mother caught my grandfather rocking my pram and saying, "Repeat after me: 'I am a member of the Liberal Party.'"

I am not sure about the issue—I have never considered the question and I will not give an off-the-cuff answer. When we look at Scotland's financial position in the UK, we see significant extra investment here, which is right. That is delivered through the current funding arrangements, which I support. In terms of sensible macroeconomic management, the way in which matters were handled back then was probably right, but I will be happy to consider the question further when I have retired.

The Convener: I call Mr Allard and thank him for his patience.

Christian Allard (North East Scotland) (SNP): I will return to the committee's main interest in this morning's session, which is Scotland's economic future. The economy has been recognised in a BBC poll as the top issue for voters in the referendum—the currency is only fifth on the list and Europe is ninth—so we should talk about the economic future.

Danny Alexander: I agree.

Christian Allard: You said in your introduction that Scotland punches well above its weight in the UK, but I was a bit surprised and disappointed that you did not add what the Prime Minister said when he came up to Aberdeen. He said that Aberdeen is the powerhouse of the UK. As a North East MSP, I was delighted to hear that at last.

David Cameron and Alistair Darling, who leads the no campaign, stated clearly at the start of the referendum campaign that Scotland not only punches well above its weight in how it is recognised and is a very rich nation, but can still be a very rich nation if we vote yes in September. They are confident that an independent Scotland will have all the resources that it needs to stay a very rich nation. You did not say that this morning. I give you the opportunity to repeat what David Cameron and Alistair Darling have said.

Danny Alexander: David Cameron and Alistair Darling can speak for themselves and I will speak for myself. I agree whole-heartedly with your first point that the oil and gas industry in north-east Scotland is one of the key sectors for the whole UK economy. I have never argued that Scotland is incapable of being independent—far from it. However, there are significant economic risks that would result in us being poorer as an independent country in comparison with the current state of affairs.

You mentioned oil and gas; I will mention two other sectors that are important to the Scottish economy: financial services and renewable energy. Scotland has a comparative advantage in both those sectors that is supported by our place in the wider UK. Financial services are supported by the common regulatory environment and the UK's deep pockets, which enable us to stand behind that sector in a way that an independent Scotland would find much more difficult. Scotland has a comparative advantage in renewable energy in many respects. Financial support that is provided by consumers across the UK—by 29 million households—enables the provision of financial support for offshore and onshore wind farms and so on.

In those two areas, for example, our economy is strong because of the strength of the frameworks and institutions that we have as part of the UK, which could not be replicated in the same way or with the same success in an independent Scotland.

Christian Allard: Are you happy to make the same kind of statement that voting yes does not mean that Scotland would become poorer from one day to another?

Danny Alexander: I think that we would be poorer as a country.

Christian Allard: You disagree with David Cameron and Alistair Darling.

Danny Alexander: Over time, for all the reasons that I have set out, the Scottish economy would be damaged by independence. That does not mean that we are incapable of going it alone. I agree with you that the economy is the central thing that we should dwell on. When we consider the choice that we will have in the referendum from the perspective of future economic growth, growing the sectors that matter to the Scottish economy and having the resources to do the things that Alison Johnstone asked about in order to have a fair society in Scotland, we would be in a considerably weaker position under independence than we would be if we continued to have a strong Scotland and a Scottish Parliament whose strength continued to grow within the wider economic framework of the UK.

Christian Allard: We have had a lot of discussion in this session about what would happen if we voted yes and I am delighted that you agree about our strengths—

Danny Alexander: I am just answering members' questions.

Christian Allard: But, as Dennis Robertson has pointed out, the other possibility is that Scotland might vote no. Whether or not we agree with it, the white paper, which I have with me, is a road-map to independence. We have seen nothing from the other side yet. I acknowledge that you have come before the committee—and thank you very much for doing so—but I want to know, in particular, about the future of the Barnett formula, about which you have made many statements over the years. For example, in 2009, you signed an early-day motion calling on the Government to urgently review the Barnett formula. Moreover, the Liberal Democrat manifesto, in which you participated, states that the Barnett formula should be replaced.

Meanwhile, the Holtham commission in Wales has suggested that scrapping the Barnett formula could result in a £4 billion cut to Scotland's budget in a single year. I also note that on page 28 of the coalition agreement document it says:

> "We recognise the concerns expressed by the Holtham Commission on the system of devolution funding. However, at this time, the priority must be to reduce the deficit and therefore any change to the system must await the stabilisation of the public finances."

What are your plans for the Barnett formula and what would be the timetable in that respect?

Danny Alexander: The Barnett formula works well in distributing funds within the UK and I have no plans to change it. In fact, we made a commitment in the coalition agreement not to change it during the fiscal consolidation process.

A specific conversation in which we have been engaged in Wales on, in particular, the subject of additional tax powers is helping to answer some of the Holtham commission's demands that you have described. In fact, in the next year, we will legislate to enable those powers to be given to the Welsh Government.

Look—I do not think that there is any change to the Barnett formula anywhere on the horizon. The only way to change or, indeed, abandon the Barnett formula is to vote for independence. If Scotland became independent, we would immediately give up the financial protections that the Barnett formula has to offer.

Christian Allard: If I mention—

The Convener: This will have to be your last question, Mr Allard.

Christian Allard: I want to talk about what will happen in the event that Scotland votes no.

Danny Alexander: The vast bulk of my previous answer referred to that—I just added a wee point at the end.

Christian Allard: The important point is that the coalition agreement says that

> "any change to the system must await the stabilisation of the public finances."

Are you saying that the public finances are not yet stabilised and, indeed, will not be stabilised in the short term?

Danny Alexander: Self-evidently, this country still has to do a vast amount of work on its public finances. The UK Government's fiscal mandate covers two issues, the first of which is to deal with the structural deficit. According to the most recent OBR forecasts, that objective will not be completed until 2017-18. The second issue is to decrease our debt as a share of GDP. There is a lot of work still to do before the country's public finances are fully stabilised. I would say that we are making very good progress, but given the depth of the financial crisis and the huge problems with the country's public finances it will take a long time to get those things sorted.

Christian Allard: Thank you very much for that answer. I now know that a no vote will mean that there will be no change to the Barnett formula.

The Convener: We have about 20 minutes left and three members still want to ask questions.

Danny Alexander: I will try to keep my responses shorter, convener.

The Convener: Thank you very much. I also implore colleagues to keep their questions short.

On which note, I turn to Mike MacKenzie. [*Laughter*.]

Mike MacKenzie (Highlands and Islands) (SNP): Thank you very much, convener. I hope that I did not detect a note of irony in that last remark.

Good morning, chief secretary. You seem to be arguing that although Scotland is doing very well economically and has, in fact, done better than the UK for the past 50 years, it will turn into a basket-case economy overnight if the people of Scotland exercise their democratic will with a yes vote. Mortgage rates will shoot up and there will be general economic meltdown. Are you not overegging the pudding somewhat?

Danny Alexander: I do not think that I have used any of those words in anything that I have said today. What I am trying to point out is that I believe that, and there is a lot of evidence that, Scotland's economic success is supported and encouraged by our wider framework within the United Kingdom, the strength of our currency, the current Government's economic plan, the depth of the UK market, and the ability of Scottish businesses to do business in any part of the United Kingdom equally.

One of the interesting things in one of the papers that we have published, which I am sure you have had a chance to look at, is the analysis of the so-called border effect, which is a well-established concept in economic theory and is borne out by analysis of countries around the world. That shows that simply erecting a new international border in these islands would damage the economies of Scotland and the rest of the United Kingdom. As a result of that, we would be at least 4 per cent poorer, or £2,000 for every family in Scotland. That is one of the many costs that would emerge over a long period as a result of independence. It would simply be a result of creating a border on the small island that we live on.

Mike MacKenzie: That would affect both countries, of course.

Danny Alexander: Of course it would. However, it would affect the rest of the UK less per head because whereas, for example, 60 or 70 per cent of Scotland's exports go to the rest of the UK, only 10 per cent of the rest of the UK's exports go to Scotland. Therefore, there is an asymmetry. However, you are quite right: there would be an effect.

Mike MacKenzie: I cannot imagine that Mr Osborne came to Scotland last week and announced that he will not let us use the pound because he, you and Ed Balls happened to bump into each other in a House of Commons bar and decided, using the back of a beer mat, that that would be the plan. I am sure that it was done on the basis of a very detailed Treasury analysis that looked at and costed all the options.

Danny Alexander: Yes. That is correct.

Mike MacKenzie: On the basis of that analysis, what are the transaction costs of not allowing us to use the pound? What would be the cost to the remaining UK of having to import oil and gas from Scotland using a foreign currency? What would be the effect on the balance of trade deficit? You must have examined that. Responsible government suggests that you must have examined that and therefore know those costs. Can you share them with the committee?

Danny Alexander: You are quite right to say that we have published a serious analysis, which has been in two phases. First, there was the currency and monetary policy analysis that we conducted and then there was the more recent assessment of a sterling currency union. In the first document, we made the point that there would be benefits for both Scotland and the rest of the UK from continuing to use the same currency and keeping transaction costs low, but that would also create significant economic risks. Transaction costs would come from having a separate currency, which would be many millions of pounds for businesses in England and Scotland, but that is dwarfed by all the other dangers of a monetary union.

If you think that transaction costs are the only thing that matters, joining the euro or the US dollar or finding some other currency to ally with wil be equally attractive for a currency union. The dangers of a currency union are elsewhere. They are about the way in which risks are transmitted. There are dangers to both the rest of the UK and—

Mike MacKenzie: I get the point and appreciate that you may not have the important facts and figures at your fingertips. Could you write to the committee and share the downside figures for the UK in not having a continuing currency union with Scotland?

Danny Alexander: I would be very happy to do that.

Mike MacKenzie: That would be very useful.

Danny Alexander: I would be very willing to do that, but those are costs that would be imposed through the act of independence, of course. The best way to avoid those things is through our very successful currency union, which is backed up by fiscal exchanges in the current arrangements. That is what we should keep.

Mike MacKenzie: I think that you have made that point.

Danny Alexander: I will keep making it.

Mike MacKenzie: You have also made the point that we are doing swimmingly well under the union. However, you represent the Highlands, as I do, so you must be aware of some of the profound problems that affect our constituents in the Highlands and Islands.

Danny Alexander: Yes—of course I am.

10:45

Mike MacKenzie: Fuel poverty is at 50 per cent on Scotland's islands, grid connections to our island groups are forever being postponed, mobile broadband is non-existent and the situation is actually getting worse rather than better; fuel prices are so significant that the 5p discount does not really touch them; and parcel and delivery charges are unfair. What kind of commitment can you give me that in the event of a no vote you will tackle those problems in the Highlands and Islands and, indeed, across the rest of Scotland?

Danny Alexander: This UK Government has done more to tackle the problems in the Highlands and Islands than any previous UK Government—and, to be frank, has done more than the current Scottish Government has bothered to do. I have to think only of the failure to carry through promises to invest in the A9 and the abominable proposal for average speed cameras—which, I noticed this morning, has been delayed until October, I presume because Mr Salmond does not want his face all over the cameras for every voter who drives up the A9 to see, just before the referendum.

Mike MacKenzie: Please, Mr Alexander. Let us not get into the blame game.

Danny Alexander: I am making a serious point. When I see the gross centralisation that is going on in this country of Scotland, with powers being moved away from the Highlands and Islands to here in Edinburgh, and I think about what might happen to the Highlands and Islands in an independent Scotland, I have to say that I shudder.

Mike MacKenzie: I am trying—

The Convener: This is your last question, Mr MacKenzie.

Mike MacKenzie: I am trying very hard to have a positive conversation with you.

Danny Alexander: I am very positive about the UK and the prospects for the Highlands and Islands within it.

Mike MacKenzie: I want to allow you to make a positive contribution to the debate with regard to what you will pledge to do to tackle the issues that I have highlighted in the event of a no vote. In other words, I want you to make a positive case for a no vote.

Danny Alexander: I will continue to cut income tax for working people in the Highlands and Islands, which actually has a bigger effect in such places, where incomes are lower, than it does in the rest of the UK. We have already lifted the tax threshold to £10,000, and I will promise to raise it beyond £10,000. We have put in place the framework for renewable energy subsidies to ensure that we have the right environment for investment in offshore renewables, in particular, which has the potential to bring huge benefits to the Highland economy. I will work hard to see that through, but it will be much harder to do it under independence.

I am applying to the European Union right now to extend to mainland Highland communities the fuel duty discount that already exists in the islands. It is the first time that anyone in this country has tried to do that, and I am very proud of pushing that through and will continue to work on it. I will also continue to fund through the UK Government the rollout of superfast broadband in communities across the Highlands and Islands.

Those are just some of the benefits that people in the Highlands get from being part of the UK.

Mike MacKenzie: Just—

The Convener: I am sorry, Mike, but you have had four or five questions and we really need to move on.

Marco Biagi: Ruth Davidson has said that there is going to be no announcement on further devolution. Is it coalition policy that Scotland will get no more powers in the event of a no vote?

Danny Alexander: I cannot speak for Ruth Davidson and I do not know whether the convener will want to or not. The Scottish Conservatives can speak for themselves; I can speak for my party, which is the Liberal Democrats—

Marco Biagi: I am asking about coalition policy.

Danny Alexander: If we are talking about coalition policy, I should point out that just this morning I have announced a further power for the Scottish Government with regard to the issuing of bonds. That should be taken as a token that we all think that there is scope for further devolution to Scotland. I know that the Conservative and Labour parties are thinking about the issue, but politicians on those parties can speak for themselves on the matter.

I draw to your attention the home rule and community rule commission that was chaired by Menzies Campbell and whose report was published last year. I have a copy of the report with me and am happy to leave it with the committee.

Marco Biagi: I am asking about the current Government's views, given your indication that you are unlikely to form the next Government.

Danny Alexander: I am not sure that I would contend that.

Marco Biagi: I think that you admitted that you are unlikely to be the next Chancellor of the Exchequer.

Danny Alexander: The current UK polls suggest that it is pretty unlikely that the Conservative Party will form a majority by itself, and the same is true for the Labour Party. We in the Liberal Democrats will work as hard as we can to ensure that we are in a position to influence the next Government of the UK. One of the key things that we would want to influence is the federalism package that we have outlined in the home rule commission report and which I think the Scottish people want.

Marco Biagi: Today's announcement was based on changes that have already happened. Based on what I have heard, am I right to think that between now and September there will be no coalition announcement of further powers for Scotland?

Danny Alexander: If the coalition was going to make an announcement in a few months' time, I would not announce it here in advance. We will see what the other parties come up with, but I suspect that all the UK parties will have an agenda for further devolution for Scotland.

I think that the most productive area to look at is further devolution of tax powers. Our commission suggested that that could happen with capital gains tax and inheritance tax, and that Scotland could have further powers over income tax. That would result in a stronger financial relationship between the taxes that are paid in Scotland and the money that goes to the Scottish Government, which ought to strengthen accountability and responsibility and create a stronger Scottish Parliament within a strong UK.

The Convener: To be fair, I think that Ruth Davidson said that she did not expect a joint announcement on further powers to be made by the three unionist parties.

Marco Biagi: Hence, I was asking whether the coalition planned such an announcement, which is quite fair.

Before 1999, Scotland's performance, as measured by various economic indicators such as productivity and labour market participation, was not as strong as that of the rest of the UK or as strong as it is now. I take it from the thrust of what you have just said that you recognise the value of Scotland having economic powers. Earlier, you said that the Scottish Parliament has helped. Does that mean that, ceteris paribus, you think that Scotland having economic powers assists with economic growth in Scotland?

Danny Alexander: I think that devolution works very well for Scotland. The balance of powers is good and it could be further improved. I think that Scotland has the best of both worlds—it has a strong Scottish Parliament, in which you and your colleagues take decisions in devolved areas, within a strong United Kingdom that creates a framework of strong institutions of sound macroeconomic management in which the Scottish economy can flourish. If we were to move away from that balance in either direction, either by saying, "Let's reduce devolution," or "Let's move to independence," we would weaken the recipe that has led to the Scottish economy growing and prospering in recent years.

Marco Biagi: On that question of balance, do you agree or disagree with the description that your Liberal Democrat and UK Government colleague, Vince Cable, gave of London on 19 December

"as a kind of giant suction machine draining the life out of the rest of the country"?

Danny Alexander: I think that I answered that question in response to Chic Brodie, when I said that one of the things that the coalition Government is working to do is to get more balance and sustainability into the UK economic recovery through our industrial strategies, through tax breaks for manufacturing industry and through our work to strengthen British exports around the world by using the strength of our diplomatic network, which would be much harder for an independent Scotland.

Marco Biagi: Does that mean that, as an analysis of the current situation, what Vince Cable said is correct and that you are working to change it?

Danny Alexander: I am not sure that I would use that language, but I make the point that there is a lot of work to be done to ensure that manufacturing industry is stronger in Scotland and in the rest of the UK, and that the UK's economy is more balanced. I do not think that Scottish independence would add to that balance, either for Scotland or for the rest of the UK.

The Convener: This is your last question, Marco.

Marco Biagi: If there was a yes vote, would an independent Scotland inherit a share of UK assets? I ask you to answer that as a coalition minister rather than as a Liberal Democrat.

Danny Alexander: That would be part of the negotiations, which would certainly be about the division of assets and liabilities. I found the suggestion that some SNP ministers made recently that an independent Scotland would refuse to accept a proper share of the UK's debts to be utterly extraordinary, because that would threaten Scotland with much higher interest rates as soon as it embarked on its independence journey, which would cost Scots a vast amount of money and would from day 1 set back Scotland's credibility on the world financial markets.

Marco Biagi: So, in principle, an independent Scotland would inherit a share of UK assets, but negotiations would determine the detail.

Danny Alexander: That is correct.

The Convener: Two members want to ask supplementaries, but I am conscious that we are very short of time and that I need to give Lewis Macdonald a chance to ask some questions.

Lewis Macdonald (North East Scotland) (Lab): Thank you very much, convener.

Following on directly from that last point, you said that Jefferies investment bank suggested that there would be a 5 percentage point premium on Scottish Government borrowing in the event of Scotland becoming independent. What is the Treasury's view of the impact of debt default by the Government of an independent Scotland on the UK and on the markets? I am thinking, in particular, of the commitment that was given earlier this year that the UK Government would meet, in full, the contractual terms of all debt incurred by the UK Government. What would the implications be of default by Scotland, not just for Scotland—you have described those implications already—but for the UK and for the money market?

Danny Alexander: The implication for Scotland would be very elevated interest rates that would be payable on debt that was issued. Jefferies bank has said that the interest rate would be about 5 percentage points higher, which would cost people in Scotland a lot of money—it could put more than £5,000 on the cost of an average mortgage in Scotland. Of course, a vast amount of work would then have to be done to rebuild credibility, which would take a long time.

In respect of the rest of the UK, I made the statement that all debt issued by the UK will be honoured by the UK because we had started getting questions about it in the markets. There was uncertainty and worry. Would the people from whom the UK was borrowing have to have that debt repaid by another state? We wanted to reassure people on that point and that the arrangement would be that Scotland would pay the UK Government rather than taking on repayments directly to people who had lent us money.

In that sense, the rest of the UK will be fairly insulated from such things, although if there were economic problems going on north of the border, of course that would have a knock-on effect on the rest of the UK.

Lewis Macdonald: I presume that if there was a default, as you have described it, on payments by the Scottish Government to the UK Government, that would have a direct impact on the negotiations that Marco Biagi was asking about a moment ago.

Danny Alexander: The analysis that I have just offered is the reason why I do not think that that will happen in practice. To do so would be to cut Scotland's nose off to spite its face. It is Scotland that would suffer from that decision, which is why I do not believe the threat that Scotland would not take a fair and reasonable negotiated share of the debt, were independence to happen.

Lewis Macdonald: In which case, I presume that an independent Scotland that was not part of a currency union with the United Kingdom—clearly that is not on the table—and which either pegged its currency to sterling or continued to use sterling without a currency union, would be able to take fiscal or other measures to offset the increased interest rates that would result from lack of currency stability. What would be the implications of that for spending or taxation in an independent Scotland?

Danny Alexander: It tends to be the case that countries that want to bring their debt levels down or that have those sorts of problems need to run a very tight fiscal policy, which means action to tackle deficits and bring debt levels down through tax rises, spending cuts and that sort of thing.

Lewis Macdonald: Would those be Government initiatives that could offset some of the interest?

Danny Alexander: Those would be the challenges that would be faced by whoever was finance minister in an independent Scotland.

Lewis Macdonald: I would like to ask one more question, which is simply about your projection of the tax implications of decommissioning in the offshore oil and gas industry over the next 20 to 30 years. Is that something that has been calculated by the Treasury in relation to the potential tax take from that sector?

Danny Alexander: I have not done those calculations yet.

The Convener: There is time for a brief supplementary from Chic Brodie.

Chic Brodie: Chief secretary, you wrote the Lib Dem manifesto in 2010.

Danny Alexander: I did. Thank you for reading it.

Chic Brodie: In a previous life I wrote it, but then the Liberal Democrats were running at 15 to 18 per cent.

Danny Alexander: We should compare notes, in that case.

Chic Brodie: On page 17, you say that you will say

"no to the like-for-like replacement of the Trident nuclear weapons system".

On pages 79 and 80, you indicate that you will run high speed 2 from London to Scotland. Most important is that, on page 87, you talk about proportional representation and putting power in the hands of the people. I suspect that the third of those will be in the next manifesto, but what about the first two?

The Convener: Is this relevant to the question of an independent Scotland?

Chic Brodie: We have talked about currency and economy. At the end of the day, is this not about having proper governance and about the democratic choice of the people of Scotland? Will you respect that if they vote yes, whether that means currency or economic construction or whatever?

Danny Alexander: The result of the referendum absolutely has to be respected, just as we respected the result of the referendum on electoral reform, which was unsuccessful. I hope that you would also respect the result of the referendum if people decide to vote no to independence.

In respect of the other two issues, on nuclear weapons we continue to oppose the like-for-like replacement of Trident. I conducted a Trident alternatives review, which has come up with a proposal for buying fewer new submarines. I do not favour unilateral disarmament, but I favour doing what we do at less cost, and changing our posture of continuous at-sea deterrents. I can happily send you a copy of that publication if you would be interested.

As a Government we are taking HS2 forward—phase 1 to Birmingham and phase 2 to Manchester, Leeds and other places. Those steps will significantly reduce journey times between London and Scotland, but once those phases are completed, I will continue to want to see ways in which we can ensure that Scotland benefits even more. One of the advantages of HS2 is that it will change the economic geography of the whole United Kingdom and bring our economy closer together. I would hope that everyone on this committee would want to bring our economy closer together, rather than try to shatter it and break it apart.

The Convener: I apologise to Christian Allard, but we really need to stop there. Thank you, chief secretary. I am very grateful to you for coming along today and answering our questions. It has been very helpful.

11:00

Meeting suspended.

11:06

On resuming—

The Convener: Good afternoon. Sorry—it is not afternoon yet; it has been such a long morning that it feels like the afternoon.

Good morning. I welcome our second panel of witnesses. We are joined by Nicola Sturgeon, Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities; John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth; Dr Gary Gillespie, deputy director in the office of the chief economic adviser; and Martin McDermott—who is not on my list. Sorry, Mr McDermott—I have no idea what you are doing here. Perhaps you could introduce yourself.

Martin McDermott (Scottish Government): Thank you—I work in the elections and constitution division.

The Convener: Thank you—that was our fault, not yours, Mr McDermott.

Before we get into questions, I invite Ms Sturgeon to say something by way of introduction.

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities): Thank you, convener. I will be brief, to allow the committee to get into questioning. Mr Swinney and I jointly thank the committee for giving us the opportunity to be here today to set out the Scottish Government's economic vision for an independent Scotland.

Our starting point is that Scotland more than has what it takes to be an independent country. Our fiscal position and our economic fundamentals are sound. As the *Financial Times* observed just a couple of weeks ago, we would start life as an independent country with healthier public finances than those in the rest of the UK. The gap between spending and revenue is smaller. We would be in the top 20 countries in the world in terms of our GDP per head of population, and in the top 50 countries in the world in terms of our GDP overall. We would be one of the world's top 35 exporters.

As a country, we are fortunate in our natural resources. Even without the contribution of oil and gas revenues, our economic output per head of population is broadly comparable to the UK's. That reflects the strengths that we have in a range of economic sectors, many of which are very vibrant growth sectors. Our starting point would be very strong.

Independence is about the future, and the benefits of independence centre around the ability that it would give us to pursue policies in Scotland that were designed to grow our economy faster and more sustainably, and to tackle the inequality gap—the gap in the UK is one of the widest in the developed world. Examples include the ability that we would gain with independence to set an immigration policy that was suited to our needs and circumstances, and, with control not just of spending but also of revenue, we would be able to transform childcare. Those are two examples of policies that would allow us to grow our working population, which, in turn, is very important for economic sustainability and growth.

We are happy to answer whatever questions the committee has this morning, particularly on our economic strengths as a country and the economic potential of independence. I am sure that the committee will be interested in our proposals around remaining within a currency union.

I think that will suffice for opening remarks, and we can get on with questions.

The Convener: Thank you very much, Deputy First Minister. First of all, I repeat my earlier admonition, which I am pleased to say that committee members took on board, to keep questions focused, short and to the point, and answers as short and to the point as possible. If we do that, we will get through the pretty broad range of topics that we want to cover in the time available.

I am sure that you will welcome the Chief Secretary to the Treasury's new announcement this morning about giving the Scottish Government the power to issue its own bonds. However, he also talked a lot about the Treasury's assessment of borrowing costs in the event of a yes vote. What assessment has the Scottish Government made of borrowing costs in an independent Scotland?

Nicola Sturgeon: I will let John Swinney expand on this in a moment, but I should say that although the very limited announcement made by the Treasury is welcome it is not particularly new. The borrowing powers are set out in the Scotland Act 2012 and are limited, and the announcement with regard to bonds does not increase the Scottish Government's ability to borrow but, instead, expands the range of options.

We repeatedly hear from those on the other side of the debate—I know that you heard as much from the Chief Secretary to the Treasury this morning—that borrowing costs in an independent Scotland would be higher. I contend that there is not a scrap of evidence to support such an assertion. If you look at the borrowing costs in a range of comparable small independent countries, you will find many examples of borrowing costs that are lower than those in the UK.

I accept that there will be those who will say, "You have a legal obligation to do this," but that does not negate Mr Swinney's achievement each and every year he has been finance secretary of running a balanced budget and demonstrating fiscal competence. I therefore simply do not believe that the evidence for the particular assertion that you have highlighted exists. Indeed, Mr Swinney might comment on our experience in our non-profit-distributing programme of attracting finance at competitive rates.

The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney): On the Deputy First Minister's final point, our experience of acquiring finance from the market—which is essentially what bond finance is, although the context is different from that of our NPD projects—is that we have been entirely satisfied with the financial arrangements that we have been able to obtain and see absolutely no evidence of a premium on any of the NPD costs as a consequence of that finance being acquired on behalf of organisations funded by the Scottish Government. That is partly down to the fact that we have been able to put in place robust arrangements to support those projects and partly because of the Scottish Government's financial track record.

Of course, financial track records are very material to any assessment of the cost of borrowing in the market, and our record in that respect is particularly strong. That is, of course, required by legislation, but Parliament will appreciate that the management of the public finances in the ever-tightening environment in which we are operating is no mean feat, and the market very clearly recognises that.

When we look at comparable situations in other smaller European countries, we see that the current yield on 10-year bonds in a variety of countries is lower than that in the United Kingdom, where the yield is 2.8 per cent. In Sweden, the yield is 2.3 per cent; in Austria, it is 2 per cent; in the Netherlands, it is 1.9 per cent; and in Denmark, it is 1.7 per cent. A variety of smaller countries are able to command more competitive borrowing costs, and the Scottish Government's financial track record and the commitment implicit in our approach to the macroeconomic framework of running sustainable public finances would be significant factors in any such assessment.

The Convener: Over the past few days, a number of Government ministers, including the First Minister, have suggested that an independent Scotland might refuse to accept a share of the UK's national debt should there not be a currency union. The Chief Secretary to the Treasury has told us that Jefferies bank has reported that that could lead to a 5 percentage point premium on Scottish borrowing costs. Does the Scottish Government have any analysis to challenge that claim?

11:15

Nicola Sturgeon: Your characterisation of Scottish Government ministers' position is incorrect. We have not said that we want to refuse to take on our share of the debt; on the contrary, we have said that although, on the Treasury's analysis, the Scottish Government would have no legal liability for the debt—the Treasury's statement in January confirmed that the legal title to the debt is in the name of the Treasury—we consider that it would be right and proper for the Scottish Government to take on a share of servicing the debt. We set out in the white paper two possible methodologies for calculating an appropriate share of debt for Scotland: an historical basis and a population basis. Therefore, it is incorrect to say that we have somehow indicated that we do not want to meet that obligation.

We have, however, said that the logic of the UK Government's position on other matters would lead to a situation in which there would be no obligation on the Scottish Government to do that. It was the UK Government that started down the road of characterising the rest of the UK as a continuing state, and it is the UK Government that continues to assert that there would be no Scottish share—at least, no guaranteed share—of UK assets. Last week, we had the chancellor's statement on the use of sterling.

It is the UK Government's position that has led to the conclusion that, if we do not have a share of the assets, by definition, we cannot be expected to take on a share of the debt. However, we do not expect an independent Scotland to be in that position, because we think that the position that the Chancellor of the Exchequer outlined last week will not hold up in the reality of a yes vote. We will be in a position of sensible negotiation and sharing of assets, with a sensible and negotiated share of liabilities, including the national debt.

The Convener: I will respond to that before I bring in Dennis Robertson. Earlier this morning, the Chief Secretary to the Treasury set out his position on the matter. He says that it is clear that he, the chancellor and the shadow chancellor do not support a currency union post-independence. The Scottish Government has perhaps not made it clear, but it has certainly suggested that, in that event, it would not share the cost of meeting the repayments on the United Kingdom national debt. I ask the question again: has the Scottish Government done an analysis of what the borrowing costs would be in an independent Scotland in that scenario?

Nicola Sturgeon: It is not a position that we expect to be in.

The Convener: So you have not done an analysis.

Nicola Sturgeon: To follow your logic, in that scenario, we would not be servicing a share of the debt, but that is not a position that we expect to be in. Although in the current scenario I absolutely respect Danny Alexander's legitimate right to argue passionately for a no vote—that is beyond question—I find it inconceivable that, if the people of Scotland democratically vote yes in September, of the triumvirate who decided to pronounce on the pound last week, he in particular, as a Scot and a Scottish politician would not then be on the same side as Mr Swinney and me, arguing for what is in the best interests of Scotland and the rest of the UK.

John Swinney: I have one point of detail to add to what the Deputy First Minister has said. If we follow to its logical conclusion the Treasury's argument—that the United Kingdom would be the continuing state and as a consequence would in essence have exclusive access to the role and responsibilities of the Bank of England and the sterling currency—the United Kingdom will assume the entire responsibility for the liabilities of the United Kingdom. To quantify that, that would mean that the United Kingdom would take on an additional share of debt, which could be supported by an independent Scotland, of up to £130 billion. That would result in debt servicing costs for the rest of the United Kingdom increasing by between £4 billion and £5.5 billion each year, which is the equivalent of increasing the basic rate of income tax by 1p in 2016-17.

That is the logical conclusion of the position that the United Kingdom Government has adopted by arguing for successor-state status. In the debate that has ensued over the past few days, the point that the Deputy First Minister made has been reinforced powerfully by Professor Christine Bell of the University of Edinburgh, who says:

> "Legally under international law the position is clear: if the remainder UK keeps the name and status of the UK under international law, it keeps its liabilities for the debt. The UK took out the debt, and legally it owes the money. Scotland cannot therefore 'default'."

The UK Government is therefore walking into a liability that would increase by up to £130 billion, translating into annual debt servicing costs of between £4 billion and £5.5 billion. That is, in my estimation, a significant factor that the UK Government would have to bear in mind when deciding what stance to take on the question of a currency union. That is a substantial reason why, notwithstanding what the committee has heard this morning, there will be a different story after a yes vote in the referendum.

The Convener: Okay. Other members will want to pursue the point and I do not want to hog the session. I bring in Dennis Robertson.

Dennis Robertson: Were you surprised at the statement from George Osborne that if we walk away from the union, we walk away from the pound? Were you slightly taken aback when the shadow chancellor read out a statement backing that position?

Nicola Sturgeon: I was not particularly surprised, no. The conduct of those who are arguing for the no campaign suggests that they are prepared to say all sorts of things of that nature, so I would not say that I was surprised.

For reasons that John Swinney has laid out, it is an incredible position to take. If we were arguing that Scotland, as an independent country, should stay within a currency union simply because it was in Scotland's interests to do so, and if that was manifestly contrary to the interests of the rest of the UK, I accept that that might be a rather tall order. However, that is not what we are arguing. We are arguing for a continuing currency union because there are very good reasons why that would be in Scotland's interests and why it would be in the interests of the rest of the UK. John Swinney has just outlined the implications for UK debt if there was no currency union, and I know that the committee rehearsed some of those arguments with Danny Alexander this morning when it discussed transaction costs, the implications for the balance of payments and so on.

There is a whole range of reasons why what we are arguing for is in the interests of the rest of the UK as well as Scotland. That commonsense, mutual and shared interest means that the position that is being taken by George Osborne and his colleagues in Labour and the Liberal Democrats is one of campaign tactics rather than economic common sense or credibility.

Dennis Robertson: You are saying that it is really political rhetoric. Despite the fact that the fiscal commission and the very eminent people in it are outlining the benefits of a currency union to Scotland and the rest of the UK, George Osborne and the others in the better together campaign seem to have dismissed such a union. Was George Osborne wrong to say that business coming to Scotland would virtually dry up if we pursued the referendum agenda? I think that he was wrong because we have seen record investment in Scotland. The chancellor had to change his mind back in 2011 when he introduced, without consultation, a tax levy on oil and gas. Do you reckon that he will change his mind again, especially as he has not consulted the business community?

Nicola Sturgeon: Yes, I do. You are absolutely right to point out that one of George Osborne's previous interventions in the debate, when he said that inward investment would dry up by virtue of there being a referendum, has been proved wrong.

It is quite ironic that Labour in particular seems to think that although George Osborne, as a Tory chancellor, is wrong about absolutely everything, it is slavishly sticking with his opinion on this issue. I will leave that as an issue of private grief—as I am sure it is—in the Labour Party.

I am not questioning the right of people who are campaigning on the other side of the referendum debate to make their arguments in whatever way they see fit. It is absolutely their democratic right to do so. However, people can see through campaign tactics, and when they are set against the hard-nosed economic reality, those tactics become glaringly obvious. It is for the no campaign to decide how to argue its case, but it is arguing a case that is dangerous and demeaning to Scotland because it is effectively saying that Scotland has no stake in the things that we have built up jointly and no ownership of shared assets.

The only thing that the no campaign is arguing that Scotland has a share of is debt. That begs the question why, if that really is the characterisation of the union of which we are part, anybody would want to vote to stay part of such an unequal relationship, in which Scotland clearly does not have the respect that we would expect it to have.

Dennis Robertson: We are looking at two future scenarios: an independent Scotland, and Scotland perhaps remaining in the UK. Why do you think the union parties want Scotland to remain in the UK? What is so good about its staying in the UK from that point of view? What have we got that they want?

Nicola Sturgeon: You are coming quite close to asking me to get inside the head of George Osborne.

Dennis Robertson: That would be impossible.

Nicola Sturgeon: I am not prepared to attempt to do that. I will leave that to his colleagues in other parties.

It is clear that there is merit for the rest of the UK in continuing to have access to Scottish resources. I do not want to be too glib in the point that I am making, so I will make it briefly. If Scotland is so incapable of being a success economically, as the no campaign sometimes appears to suggest—although, strictly speaking, it does not argue that any more—why would the rest of the UK want to continue to subsidise us, to use the no campaign's term? I referred to the *Financial Times* earlier and will do so again. It said that Scotland has all the ingredients of a successful nation state. I hope that that argument is now beyond serious dispute.

Jenny Marra: I will start with a supplementary question on borrowing costs, which I will direct at the Cabinet Secretary for Finance, Employment and Sustainable Growth. Mr Swinney, you said that, from your experience of borrowing in the NPD programme, you had absolutely no evidence of an increase in borrowing costs. Can you guarantee to the committee that, in negotiations with banks on NPD borrowing up to this date, there has been no increase as a result of the uncertainty about the currency?

John Swinney: Yes, I can give that guarantee.

Jenny Marra: Okay. You can guarantee to the committee that there has never been a negotiation with a bank on an NPD borrowing contract in which the bank has charged the Scottish Government more money because of the uncertainty about the currency.

John Swinney: Yes, I can.

Jenny Marra: Okay. Thank you.

I want to move on to the fiscal commission. After this week's events, we now know that there will not be a currency union, and the Deputy First Minister told me yesterday that the Scottish Government is not considering the euro. Which options will the fiscal commission consider on reconvening?

John Swinney: The fiscal commission is not reconvening. To reconvene, something has to be not convened in the first place. The fiscal commission has been continuously convened and has given advice to the Scottish Government.

Jenny Marra: On remeeting, then.

John Swinney: Pardon?

Nicola Sturgeon: Jenny Marra said "remeeting". The commission is continuing to meet.

John Swinney: The fiscal commission is not remeeting; it is continuing its meeting programme, which has not been interrupted in any shape or form. It has fulfilled an on-going advisory function to the Scottish Government on issues connected with the macroeconomic framework. I put on record my appreciation of the time and commitment that some very distinguished individuals have given to ensure that the debate in Scotland is very well informed.

In looking at the fiscal commission's first report on the macroeconomic framework back in spring 2013, it is important to recall that the content, substance and comprehensive nature of that framework is a tremendous foundation to consider the analysis that was applied to the debate by the governor of the Bank of England when he was in Edinburgh a couple of weeks ago. I read Mr Carney's speech, which was an outstanding contribution of independent, quality technical analysis to the debate. Essentially, it covered the ground and material that the fiscal commission had assessed.

The fiscal commission looked at all the issues in relation to the currency options for Scotland. It recommended to the Scottish Government that the establishment of a sterling zone and the maintenance of the utilisation of the pound sterling was the best option. We accepted that option, and it remains the position of the Scottish Government. I think that the fiscal commission has made a substantial contribution to the debate by explaining how that can happen.

11:30

Of course, Mr Carney's speech also set out exactly how a currency zone can operate. Many of the tests that were implicit in his dispassionate speech were tests and issues that the fiscal commission had considered already, so I think that the commission's analysis stands us in very good stead and I certainly recommend it. I said to an audience that I addressed last night that possibly the best way for members of the public who are seeking guidance on the whole question would be to look at the fiscal commission report and Mr Carney's speech and to consider the contents of those two documents. I think that that would give people the best opportunity to assess where the technical and substantive detail rests and to leave the politics to the politicians.

Jenny Marra: Going forward, what currency options will the fiscal commission be considering?

Nicola Sturgeon: I am sure that you have read the statement that was issued by Crawford Beveridge on behalf of the fiscal commission on Monday; it reaffirmed the commission's original recommendation that a sterling currency zone was the best of the options that it had considered. As you will know, I am sure, from close study of the original report from the fiscal commission on the macroeconomic framework, it looked at all the viable options for a Scottish currency. It looked at the pros and cons for each, and it recommended a continuing currency zone.

The statement that was issued on Monday referred to a number of things, chief of which was the Treasury's statement in January that the Treasury would in all circumstances accept legal liability for debt repayment. The fiscal commission's statement also referred to the chancellor's statement and said that the fiscal commission would give on-going advice to the Scottish Government on the basis of that. However, Monday's statement did not depart in any way from the fiscal commission's original recommendation, which is for a sterling zone.

Jenny Marra: Is the Scottish Government still happy to accept that the fiscal commission thinks that that is the best option, despite the fact that it has been ruled out?

John Swinney: We are back into the political space here. I tried to say in my earlier answer on this question that people will have to try to weigh up what political conclusion is likely to be arrived at.

Mr Carney made it crystal clear in his speech that a currency union could be constructed and could work. He set out various tests. I have no issue with those tests, which were covered by the fiscal commission. I think that Mr Carney did an excellent job in setting out all that information. However, what he also said, as did the fiscal commission, is that ultimately it is a political choice. We are then into the politics: will the UK Government come to the table? Instead of talking to us by foghorn, will it actually engage in a mature discussion across the table to try to resolve the issues in the interests of everybody? It is not just in the interests of Scotland, but in the interests of the rest of the UK.

I have just explained to the committee that the logic of the Treasury's position means that the Treasury is walking into the payment of an extra £4 billion to £5.5 billion a year in debt interest charges to sustain an extra amount of up to £130 billion of debt. Under the proposition that we are putting forward, which is contained in the document "Scotland's Future: Your Guide to an Independent Scotland", we would be quite happy to pay that debt as part of our negotiated arrangements, which would include participation in a sterling zone.

We get into the choices that have to be made by the UK Government. After the referendum, I think that the United Kingdom Government will retreat from its foghorn on this question in the same way that it has had to retreat from its foghorn on debt. The chief secretary told this committee just a few moments ago that he had had to reassure the markets because the UK Government's rhetoric had been that an independent Scotland will default on its debt. That was the UK Government's rhetoric, not ours. The UK Government has now had to reassure the markets because of its own actions. If it then has to face up to an extra £4 billion to £5.5 billion of debt interest charges—my goodness, that will give the UK Government something to speak to the markets about.

Jenny Marra: I asked the Chief Secretary to the Treasury about an oil fund, and he said that setting up such a fund would require serious fiscal restraint. Will you comment on that?

John Swinney: All I can say is that I wish that there had been some serious fiscal restraint over the past 40 years, when the UK Government was dishing out oil money left, right and centre and not ensuring that it was invested for the long-term future of this country.

I was in Norway last Thursday. The Norwegian oil fund is sitting there as a lifelong insurance policy for the people of Norway, constructed by a fiscally responsible Government that has invested for the long term. What has the UK Government got to show for 40 years of oil revenues? It has £1.3 trillion of debt. Forgive me if I refuse to accept lessons on fiscal restraint from a United Kingdom Government—and certainly from the Treasury as communicated by the permanent secretary.

The Convener: Hold on—

Jenny Marra: With respect, Norway is not in a currency union. Will not that affect things?

John Swinney: Norway has an oil fund that provides Norway with long-term financial security. My point is that the opportunity of North Sea oil over the past 40 years has been squandered, which is why the Scottish Government is determined to acquire the powers to ensure that that does not happen again.

Jenny Marra: The irony of—

The Convener: Mr Swinney, I think that you misnamed the chief secretary when you said "permanent secretary".

Nicola Sturgeon: He was talking about the permanent secretary.

John Swinney: I was making another point, and the convener's intervention allows me to elaborate on it. It was about the letter that the permanent secretary to the Treasury decided to write to the chancellor on 11 February, which criticised—in the permanent secretary's words—the financial profligacy of the Scottish Government.

I want to make absolutely clear to the committee the degree of personal exception that I take to that remark by a senior civil servant. I have fulfilled all my statutory obligations to balance the budget of this country for the past six and a half years, and I take the greatest exception to the permanent secretary's remarks, given that he has presided over an increase in the level of debt in the United Kingdom to £1.3 trillion. That is the point that I was making, convener.

Alison Johnstone: We heard from Mr Alexander this morning, and he said in his submission to the committee:

> "A currency union would not be in the interests of either an independent Scotland or the rest of the UK."

Do you consider that that is simply a political campaigning position and not a fact? I want to be certain about that.

Nicola Sturgeon: It is a statement that is not borne out by the facts. I do not want to be overly repetitive, but we can set out the advantages to Scotland, in terms of trade and so on, of continuing to be in a currency union, and those advantages apply to the rest of the UK. In the past few days we have spoken about the £500 million in transaction costs that businesses in the rest of the UK would face, and we can talk about the £30 billion contribution of oil and gas exports to the sterling zone's balance of payments. We have had a discussion this morning about the inescapable implications of the UK Government's position regarding its debt.

For all those reasons, the facts of the matter, as opposed to the political rhetoric, point to a continuing currency union being in the mutual shared interests of Scotland and other parts of the United Kingdom.

Alison Johnstone: Will you elaborate on the monetary and fiscal powers that the Scottish Government might be willing to cede to be part of a formal sterling monetary union? Would a point ever come at which conditionality threw up more barriers and a currency union was a less attractive option?

Nicola Sturgeon: John Swinney will want to come in on this. The first point to make is that we live in an interdependent world. All independent countries choose, to a greater or lesser extent, to cede and pool sovereignty. The difference between Scotland's position now and an independent Scotland's position is that it would be for us to decide when it was or was not in our best interests to pool sovereignty.

France and Germany have chosen to share a currency, and no one—certainly no one sensible—would argue that France and Germany have not continued to be completely independent countries.

The extent of the sharing of sovereignty in a sterling currency zone is laid out in great detail in the fiscal commission's macroeconomic report. We make it very clear that, in addition to the institutional and governance arrangements that would be required for the Bank of England and for the regulatory framework, there would require to be fiscal sustainability agreements that would cover aggregate levels of debt and borrowing to underpin the stability of a currency union.

Those are the kind of constraints that any fiscally responsible independent Scottish Government would choose to apply to itself anyway. To follow on from the point that John Swinney just made, given that our Government has, under devolution, run balanced budgets whereas the Westminster Government has run up £1.3 trillion of debt, such fiscal constraint might be easier for us to deal with than it would be for the Government in the rest of the UK. That is the kind of pooling of sovereignty that is required.

The idea that we would have to go beyond that to give up fiscal independence, have common rates of tax and agreements on exactly what we spend and how we spend it is not borne out by reality. We can look at the example of the currency union that persisted for 80 years or thereabouts between Belgium and Luxembourg before both those countries went into the euro. They operated within a very stable currency union, but there was no tax harmonisation between the two countries and there were differences in tax. That is the nature of the ceding of sovereignty, which, as I said, all countries in the modern world do to a greater or lesser extent.

Alison Johnstone: Mr Alexander's submission suggests that

"Scotland has performed well"

economically

"because it is part of the UK."

That is not a view that I necessarily share and I pointed out that we are one of the most unequal societies on the planet. I would welcome any comments that you might wish to make on the levers that Scotland needs to tackle inequality more effectively and, for example, boost median household income and ensure greater participation of women in the workforce.

Nicola Sturgeon: On Scotland's performance within the UK, largely thanks to the measures that have been introduced in budgets and the decisions on financial management that John Swinney has taken over the years, we have managed, even through recession, to perform relatively well. Employment and unemployment statistics and foreign direct investment are examples of that. However, I would argue that that is us doing relatively well in spite of the constraints and limits on our powers, and that if we have expanded powers we can do better.

We published an analysis that showed that, if our growth rates between 1977 and 2007 are compared with UK average growth rates and the growth rates of comparable European countries, we have lagged behind, which represents income forgone to the country and to people living here. We were challenged for not extending that analysis to 2012, but even if it is taken from 1997 to 2012, there is still a lag in economic performance. Our argument is that by having our hands on all the levers of economic power as opposed to only some of them, we can do more to get our economy growing and to tackle inequality. In my view, the growing inequality gap in the UK is one of the most compelling reasons for us to get the ability to do things differently.

The white paper sets out a lot of what this Government—if we were the Government in an independent Scotland—would do. That ranges from raising the minimum wage, providing support for the living wage and ensuring that we encourage more innovation in the economy and have a more collaborative economic model in terms of labour relations, through to our proposals to reform the welfare system and to transform childcare. Those are all things that we cannot do to the extent that we need to do them with the limited powers that we have now.

Alison Johnstone: May I ask one more question, convener?

The Convener: Briefly.

Alison Johnstone: There are those who, like myself, have serious concerns about the impact that lowering corporation tax will have on tax receipts and on society in general. I would like a bit more information about why you are convinced that lowering corporation tax will suddenly result in a flow of private sector investment into Scotland. Is there not a danger that it could displace existing businesses and encourage a race to the bottom?

11:45

John Swinney: It is about ensuring that we establish Scotland ever more as a competitive place in which to do business. One of the Scottish Government's objectives is to improve economic performance and, by doing that, we tackle many of the income inequality issues that exist in Scotland. That is not the only measure: a variety of other things that the Deputy First Minister has mentioned, such as minimum wage enhancements and encouraging supported individuals into employment, would also have to be part of that programme.

The proposal to reduce corporation tax is designed to ensure that we establish Scotland ever more as a competitive place in which to do business. It sits alongside, for example, the actions that the Government has taken on reducing the burden of business taxation on smaller companies in Scotland—which would be recognised the length and breadth of Scotland as having been an essential measure in supporting economic recovery in the difficult period since 2008—and is designed to give Scotland a further competitive edge to attract investment to support some of the good developments that are under way in the economy. In essence, it is part of fuelling the drive to encourage growth and development within the Scottish economy, which lies at the heart of our vision for a more prosperous and fairer society.

The Convener: We need to move on. I am conscious of the time and a number of members are still to come in.

Christian Allard: Speaking of corporation tax and other taxes, we had the Chief Secretary to the Treasury before the committee this morning but I was not able to ask this question after he stated that there would be no change in the Barnett formula in the short or medium term because the UK finances were not stable enough and, in the same breath, said that more powers would come to the Scottish Parliament. Those powers could include tax income such as corporation tax, excise duties on alcohol and tobacco and personal tax allowances, which were promoted by the Liberal Democrats and the Chief Secretary to the Treasury himself.

How should we understand both statements? In particular, if there is a no vote, how can we reconcile having no changes in the Barnett formula with, at the same time, a promise that there will be more powers for the Scottish Parliament?

John Swinney: Probably the best reference point for that question is the Calman commission and the Scotland Act 2012. The Calman commission was conceived out of the election of the Scottish National Party Government in 2007. It was an attempt by the same people who are part of the better together campaign to put together an arrangement of powers and additional responsibilities that would, in essence, thwart the growth and development of the Scottish National Party and, I assume, result in us being turfed out of office in 2011. We need only to look at how successful a strategy that was.

The Calman commission gave Scotland a very modest increase in responsibilities in relation to taxation, for example. Currently, we control about 7 per cent of our revenues. Under the Calman commission proposals, that will go up to about 15 per cent. The additional responsibilities are welcome. As the Deputy First Minister and I said, we welcome this morning's announcement on bonds but it is not an extra or new announcement; it is within the confines of the Calman announcements that were made.

If the better together parties went to all the trouble of having the Calman commission and the Scotland Act 2012 to give us a pretty insignificant amount of extra powers, we should take with a pinch of salt any idea that there will be some great accumulation of new powers and responsibilities. We can see that from the internal dynamics of all the UK parties wrestling with those questions, perhaps with the exception of the Liberal Democrats. Internally, the Labour Party and the Conservatives are nowhere near a point of agreement about any additional powers for the Scottish Parliament.

My final point is that although it is nice to hear what the chief secretary said about the Barnett formula, we will need to consider what everyone else is saying about the formula. Last week, I met the president of the Local Government Association. He was quite blunt in saying that he wants the Barnett formula to go. Big voices are out there waiting for Scotland to miss the opportunity to take responsibility for our own lives; if that happens, they will be after the Barnett formula and there will be no prospect of additional powers.

Christian Allard: That is quite interesting, particularly with regard to the levers of power. If we vote no, I am not certain how we could get the full extent of the levers of power or whether we could even increase our current powers or get additional ones.

For example, the white paper set out the changes that we could have in childcare with independence. It was argued in Parliament that we could not make those changes with the current settlement. Are there any other examples? I have read about housing in the white paper. Do you agree that, with a devolved system, we will never have full powers on housing?

Nicola Sturgeon: You mentioned childcare. If the parties in the better together campaign ever manage to put forward a combined offer of more powers, which I am very sceptical about, perhaps it would be appropriate to apply a childcare test to those powers. For example, that could test the extent to which the powers on offer would give to the Scottish Government the revenues that would come with the transformation of childcare. On housing, we have only to look at the bedroom tax scandal to see the hard implications for people of powers over housing benefit being left at Westminster. Like John Swinney, I am very sceptical about whether we will get more powers in the event of a no vote.

Like everyone else, I heard the chief secretary say that there were no plans for the Barnett formula. The image that came into my mind was that of him signing the no tuition fees pledge. The Prime Minister has said that there are no plans on the horizon for the formula. As John Swinney has said, very powerful voices across all the UK parties want to see the Barnett formula go. That could have serious and significant implications for the Scottish budget.

People have to be alert to the consequences of a no vote. I fully accept and welcome the scrutiny of what will happen should we vote yes, but people must be made aware that voting no would not be a consequence or cost-free option and that very real implications are attached to that.

Christian Allard: Before the cabinet secretary answers my question on housing, I reiterate Alison Johnstone's point about inequalities. The bedroom tax is a point of inequality. Growth is a problem, too. In Aberdeen, we lack housing and we need more investment. It seems that the devolution settlement cannot provide that, unless the cabinet secretary can tell me otherwise.

Nicola Sturgeon: We have had a brief discussion on the bond announcement with regard to borrowing powers. As part of my broader portfolio, I am responsible for housing. We are doing everything that we can to maximise Government investment in housing, as well as looking at different and innovative ways of financing housing. If we had full borrowing and economic powers, the options available to us would be much greater than they are now. You are absolutely right to point to the importance of housing with regard to not only the physical infrastructure, but the overall social wellbeing of the country.

The Convener: Thank you. We are doing okay for time, but it would be helpful if we could sharpen up a little bit on our questions and the responses.

Chic Brodie: I will not rehearse all the economic factors that show that Scotland's performance is substantially better than that of the UK, whether that is on the trade deficit, fiscal deficit, borrowing or what have you.

I return to last week's letter from the Permanent Secretary to HM Treasury. I have a problem with what he says about Scotland taking on its share of the United Kingdom debt. Perhaps I am being a bit naive. Can the panel help me to understand how, if the liabilities and assets are in sterling and we do not have sterling or an agreed exchange rate, we value the Scottish responsibility?

John Swinney: The simplest approach is the proposition that we made in "Scotland's Future", which is that we would have to go through a process of deciding how the range of assets and liabilities that have been built up over many years would be made up.

The premise of the Chancellor's speech last week was that the United Kingdom will be the continuing state and, therefore, "We will take on all the assets." If, as Professor Bell of the University of Edinburgh has said, one's position is to take on all the assets, one's position must also be to take on all the liabilities.

Chic Brodie: How would that be valued? What process would the RUK apply? If there is no currency union and there is no sterling in Scotland, what would be the process for determining the exchange rate at which it would pass over the value of liabilities and assets in the new Scottish currency?

John Swinney: I am keen to explain why I think it is in all our interests, in Scotland and the rest of the United Kingdom, to take the responsible approach that we have set out in "Scotland's Future", which is to have a discussion about the fair distribution of assets and liabilities and, from that, to come to an agreed position on the continued use of sterling and the establishment of a currency zone, with an independent Scotland taking and fulfilling its obligations in relation to debt repayments to the United Kingdom

Government. For me, that is the answer to the point that you raise.

Chic Brodie: Deputy First Minister, the SPERI report that was released at the weekend—from the Sheffield political economy research institute at the University of Sheffield—said that, because of the weakness of the UK economy,

"potential benefits to the Scottish economy have been squandered in favour of boosting financial services concentrated in London."

In an independent Scotland, how would we avoid that type of centralisation of economic power, taking into account your cities strategy?

Nicola Sturgeon: The concentration of economic activity in London is an issue of growing concern, not just in Scotland but in many parts of England, too. I made a speech in London last week during which I spoke a little bit about that. I hope that this does not need to be said, and this is not an anti-London point—London is a fantastic global city—but it is in nobody's interests across the entirety of the UK for so much economic wealth, activity and job creation to be focused in such a concentrated way.

The obvious and first answer to your question is that the biggest constraint that we have in Scotland just now is not having the ability, through the economic powers that lie here in this Parliament, to do things that level the playing field. There is a one-size-fits-all economic policy and we lack the ability to level or tilt the playing field in our direction. We have already had a discussion on corporation tax and, when we get powers over tax, that starts to give us the ability to compete much more effectively with the City of London. That is a key argument in favour of independence. There are people in England who could legitimately say that that is a key argument in favour of the decentralisation of power across different parts of England, too. Undoubtedly, it is a key argument in the independence case.

Chic Brodie: Do you see the decentralisation of power sitting alongside the cities strategy, for example?

Nicola Sturgeon: We are having the discussion in Scotland now, under the powers that we have—and it is a very healthy, important discussion—about how we equip our cities, recognising them, in their wider regions, as key drivers of economic growth. That debate is on-going in the cities alliance with regard to how we better support cities to work together in order to maximise their potential, while ensuring that power lies where it best lies. There is also the continuing work with our island communities to consider how the distribution of responsibilities across Scotland best supports economic growth.

Right now, Glasgow City Council is in discussions with the Treasury about a city deal for Glasgow. Aspects of that are very difficult for us to get deeply engaged in, because we do not have the tax powers. We could view a city deal with Glasgow—which I would support in principle—as hitting the block grant of the Scottish Government. It makes much more sense to have those powers in a cohesive way; then we can decide where they best sit, in order to support maximum growth across all the different parts of Scotland and avoid the concentrations that apply in London in the UK context.

Chic Brodie: Reports on the economy, currency analysis and so on, particularly HM Government reports, keep talking about the volatility of North Sea oil. However, revenues to a country involve not just the price of a barrel of oil but the number of barrels of oil that can be produced.

Is there a possibility that, because North Sea oil has been there for so long, we have been seduced into a position in which we omit to recognise the huge opportunities in relation to oil at Clair Ridge, for example, and—I would say this, wouldn't I?—in the Firth of Clyde?

12:00

John Swinney: There are clearly remaining and significant economic opportunities for Scotland arising out of the oil and gas industry in two respects. One is in relation to the production of oil and gas, with the most recent estimate being that there are up to 24 billion barrels of oil yet to be landed as a consequence of the development activity that is under way.

The second concerns the contribution that the oil and gas sector makes to the international economy as a consequence of the fact that many of the achievements of exploration and development and the development of new technology in this sector have emerged out of the experience in the North Sea sector and are now being promoted on the international stage as a consequence of the international capability of the oil and gas sector.

In those two respects, whether we are talking about production and development or the contribution that oil and gas can make to the internationalisation agenda and the export agenda of Scotland, the industry has a great deal still to contribute to the economic future of Scotland.

Margaret McDougall: Despite the fact that the Chancellor of the Exchequer has said that there will not be a currency union, my understanding, from what I have heard from yourselves, is that you still want there to be a currency union and that you think that that will happen. Everyone else is taking the word of the Chancellor of the Exchequer. Can we move into reality and at least consider a plan B? Could we hear from you what those alternative options are? Is sterlingisation the only option that you are considering?

Nicola Sturgeon: A shudder ran down the spine of every Labour Party activist in the country as Margaret McDougall said that we should accept implicitly the word of George Osborne. However, I shall leave that to the internal grief of the Labour Party. It is amazing how things develop.

We have rehearsed these arguments and I am happy to do so again as often as anyone wants. In its first report, the fiscal commission set out the range of currency options that would be available to an independent Scotland: the use of sterling within a sterling zone; the use of the pound without that; a separate Scottish currency, pegged or floating; and, of course, the euro. It assessed the pros and cons of each of those options and came to a clear recommendation. It set out its rationale for that recommendation, which was based on what was in the interests of Scotland and the rest of the UK.

It may be the way of doing things in the Labour Party these days that people get bullied out of arguing for what is in the best interests of the country by a Tory chancellor, but that is not my way of doing things. I continue to consider that the option that we have set out is in the best interests of Scotland and the rest of the UK, and I will continue to argue that case.

Ultimately, people will make up their minds. As John Swinney said earlier, people have the ability to look at the work of the fiscal commission and the statements of the Scottish Government, which I think align closely with the comments of the governor of the Bank of England, and they can weigh that up against the words of a chancellor who is passionately arguing against the whole concept of Scotland becoming independent. Again, I am not criticising him in that respect. People can also consider whether the position that Scotland has no share of joint assets and no stake in things that we have jointly contributed to is reasonable. They will make their judgment on those points and vote accordingly on September 18. However, not only in relation to this debate but as long as I am in politics, I will continue to argue for what I think is in the best interests of the people I represent.

Margaret McDougall: Yes, well, nothing has changed, then. You are still of that mind.

Can you perhaps imagine—try really hard—that you do not have a plan B and that sterlingisation is not being considered. What will that do to the economy of Scotland?

Nicola Sturgeon: There are examples of various currency options around the world that work perfectly well for the people who use them. We can continue to have this debate—I am not sure that it would get us very far—but I am not going to start to argue for something that I do not believe is the best option. I will argue for the option that I think is the best option.

People can read for themselves—they do not need me to say anything—what the fiscal commission said about the pros and cons of the options other than the one that we have been arguing for. You can read that, too. They could decide that one of the other options would be better. Danny Alexander, who sat here not too long ago, went into the 2010 general election on a manifesto commitment to join the euro. People can have different views about what the best currency option is, but I will argue for the one that I consider to be best.

I return to a point that was made earlier. If we were arguing for something that was manifestly against the interests of the rest of the UK, those who are on the no side of the debate might have a point, but we are not. It is obviously in the interests of Scotland and our neighbours elsewhere to continue within a currency union, and we will continue to argue the sensible case that we are putting forward.

Margaret McDougall: I will move on, then.

We have had some discussion, today and earlier this week, of the transitional costs. In your opinion, what would be the transitional costs to Scottish businesses?

Nicola Sturgeon: Are you talking about transaction costs?

Margaret McDougall: Sorry—I mean transaction costs.

Nicola Sturgeon: We are not arguing for a separate currency, so our position would result in no transaction costs for businesses in Scotland or elsewhere.

It is perfectly legitimate for me to be quizzed and scrutinised closely on my policy proposition, but I do not think that I should be scrutinised on somebody else's policy proposition. It is for other people to argue what they consider the implications would be for Scotland if we had a separate currency. This week, we have simply pointed out what the reality would be for a UK chancellor who proposed, in the eventuality of a yes vote, separate currencies for Scotland and the rest of the UK. That would be a fairly considerable bill in transaction costs for every English business that exports to Scotland.

It is perfectly legitimate to point that out as the logical conclusion of the policy proposition that some people are putting forward, but it is not my proposition. My proposition is the use of sterling within a currency zone, which would avoid those transaction costs for businesses in England and Scotland.

Margaret McDougall: But you have published those figures. Let us move on to taxation.

The Convener: This will be your final question.

Margaret McDougall: We have heard that there would be changes to corporation tax in an independent Scotland. What would income tax look like in an independent Scotland, if that should happen?

Nicola Sturgeon: It would have been interesting to hear Danny Alexander's answer to the question if you had asked him, "What will income tax be in 2016, Chief Secretary to the Treasury?" He would have said, "That will depend on the budget in 2016."

We have set out in the white paper the only tax changes that we propose. Apart from the changes that we have set out in the white paper, we will inherit the prevailing rates of income tax and any other tax, and they will stay at those rates until such time as a democratically elected Scottish Government chooses to change them in its budget. I hope very much that John Swinney will be the first chancellor in an independent Scotland and that his judgments at that point will set the levels of tax. However, until we change the taxes, the prevailing rates that we inherit from the UK will continue to be the rates that are in operation.

Margaret McDougall: You would not change the income tax levels, although it would be within your powers—

Nicola Sturgeon: Of course, Scottish Governments will, over the years, inevitably make changes to rates and exemptions from tax in the way that the UK Government does now. What I am saying is that we have set out the changes that we propose to make to corporation tax and our intention not to go ahead with the married couples tax exemption that the Tories are planning—I am not sure whether that is another Tory policy that Labour agrees with. We have set out the changes that we would make to tax right now and we are not proposing any changes over and above those. However, Scottish chancellors—in the same way as UK chancellors do in their budgets every year—will make an assessment and will set tax rates accordingly. That is how budgets are set in every independent country in the world.

The Convener: Before I bring in Mike MacKenzie, I want to ask a follow-up question about transaction charges. You have clearly carried out an assessment of the cost of transaction charges to rest of UK businesses but have you done a similar assessment for Scottish businesses?

Nicola Sturgeon: We are not proposing—

The Convener: That was not my question—I asked whether you had done an assessment.

Nicola Sturgeon: We have published our assessment. We are not proposing a policy that would lead to any businesses north or south of the border having higher transaction costs.

The Convener: Right, but have you done an assessment?

Nicola Sturgeon: We have published the assessment that we have done, which is the assessment of the cost to businesses in the rest of the UK.

The Convener: Have you done an assessment of the impact on Scottish businesses?

Nicola Sturgeon: We assess lots of things all the time, but given that we are not proposing this particular policy we do not consider that the eventuality will arise. We are simply pointing out the logical conclusion of the policy that George Osborne articulated last week.

The Convener: Okay—so you are not going to tell me.

Mike MacKenzie: Do you share my disappointment in Danny Alexander's constant comparisons this morning between Scotland and countries that are much less fortunate and prosperous than Scotland? Do you think, as I do, that many people in Scotland will be offended by that and that the Scottish electorate is sophisticated enough to see through that overegging of the pudding?

Nicola Sturgeon: I did not hear all of the chief secretary's evidence this morning, so I am not entirely sure what countries he was comparing us to. I hope that he did not mention Kosovo, because that comparison has already been discredited this week.

I know that this debate can get heated. We are all responsible for that to some extent, because both sides of the debate believe passionately in what they are arguing for. That is fine, healthy and perfectly legitimate but I really hope that we will all accept that certain things in this debate are beyond disagreement, one of which is that as an independent country Scotland would be one of the richest countries in the world. It would, for example, be the eighth richest Organisation for Economic Co-operation and Development country in terms of GDP per head.

We have a sound, strong and diverse economy and at the start of independence our public finances would be relatively strong. As with any country, what you make of your independence comes down to the good sense of your decisions. That is what we are asking for the chance to do in Scotland. We want the full range of powers that other countries take for granted to make the most of our massive advantages, and I hope that people on both sides will accept that, whatever arguments might be in play in the referendum debate, Scotland's economic viability or our ability to be successful as an independent country is simply not a point of disagreement.

Mike MacKenzie: I was also disappointed by Danny Alexander's attempt to imply that somehow or other independence would result in higher mortgage costs for home owners in Scotland. I have to say that I was not able to follow the tortuous logic. I seem to recall, as I am sure others will, that when the UK lost its AAA status a while back there was no effect on mortgage rates. Can you explain whether there is such a link and perhaps give us some reassurance in that respect?

Nicola Sturgeon: Again, there is no scrap of evidence that that would be the case. Going back to an earlier point, there are examples of people in other small European countries paying lower mortgage rates than people in Scotland, as part of the UK, are paying right now. The AAA scare, which was one of the earliest scares of the no campaign, was blown out of the water the moment the UK lost its AAA credit rating, because it did not have the implications for the UK that the no campaign had said that not having a AAA credit rating would have for an independent Scotland. That should act as a kind of reality check.

The mortgage rates that people pay are based partly on the Bank of England's base rate and partly on competition. We have an integrated financial services market; indeed, that is one of the reasons why we have made the proposal to remain in a currency zone. Financial institutions offer mortgages across the whole UK and, apart from anything else, the competitive imperative would operate to ensure that what you suggest would not be the case.

Mike MacKenzie: I am looking forward to meeting a group of politicians from the Balkans just after this meeting. I believe that five Balkan countries have been invited to join the EU; a welcome mat has been put out, the door is open and they are on the journey of harmonisation to meet the various tests and conditions. Given that all those countries, which are now quite radically different from their former Soviet background, will be welcomed into the EU, I do not find the suggestion that the door to EU membership will be slammed in Scotland's face to be credible. Do you find it a credible argument?

12:15

Nicola Sturgeon: I do not think that it is credible in any way, shape or form. We have set out the process by which we think that Scotland can make the transition from being a member of the EU as part of the UK to being an independent member of the EU. We have set out precisely which treaty provision we think could facilitate that process, although which provision is actually used will be the subject of discussion between member states.

As I said yesterday in the chamber, I think that all of us—I say this to people on the no side as well as to people on the yes side—should take a step back and consider calmly what is being suggested. Scotland is a country that has been in and has contributed to Europe for 40 years; which complies with all the Copenhagen criteria and with the whole body of European law; which is Europe's biggest oil producer; which has the largest share of European waters; and which is home to thousands of European citizens. What is being said about that country—our country—is that just because we decide to exercise our democratic right to self-determination, we should somehow be cast outside the EU. If that were to happen, it would be an absolute affront to democracy and it would be totally contrary to the founding principles of the EU, which are about democracy, the rule of law and expansion, not contraction.

Let us be sensible. Of course discussions and negotiations will take place. We will have to go through a process, but anyone who suggests that an independent Scotland would find itself outside the EU for any period of time forfeits any right to be taken seriously.

Mike MacKenzie: Finally—

The Convener: Very quickly, please.

Mike MacKenzie: I was struck by what Mr Swinney said about Sir Nicholas Macpherson. Danny Alexander introduced the young chap from the Treasury who was with him as a potential successor to Mr Macpherson. Perhaps Sir Nicholas Macpherson's letter is analogous to the well-known old Scottish song, "Macpherson's Farewell" or "Macpherson's Lament". It struck me that the Treasury's analysis seemed a bit one-dimensional in comparison with the first report of the fiscal commission, which considers things from a much wider perspective.

The Convener: Can we have a question, please?

Mike MacKenzie: How do you feel about the general quality of advice that the Scottish Government has had from the fiscal commission, the integrity of that advice and its impartiality?

John Swinney: I go back to the point that I made earlier. The two reference points that I would give to individuals who wish to explore the substantive issues are the report of the fiscal commission and the speech by the governor of the Bank of England. Reading those side by side allows one to form a view on what arrangements would be required to create a sustainable currency union between an independent Scotland and the rest of the UK. Those two documents give substantive analysis in that respect.

There are parts of the Treasury's analysis that reinforce the arguments for currency union. In its paper of April 2013, "Scotland analysis: Currency and monetary policy", the UK Government said:

"The structure of the Scottish economy is very close to that of the UK as a whole and Scotland and the rest of the UK follow very similar business cycles."

That would be an argument for monetary union but, having said that, the Treasury came to the opposite conclusion. The extraordinary letter from Sir Nicholas Macpherson rather blows the gaff on the lack of impartiality of the Treasury's analysis.

Marco Biagi: I am interested in looking at the economic opportunities that will exist after September. Scotland ranks very near the top of the Organisation for Economic Co-operation and Development tables for higher education research and development—the University of Edinburgh is in my constituency—but its ranking on private sector R and D is rather low. Could that be addressed with the economic powers of independence? If so, how?

John Swinney: Frankly, that is one of the fundamental issues that we have to confront. Mr Biagi makes a fair point about the role and significance of institutions such as the University of Edinburgh. Scotland is well served by the way in which our university and further education communities have contributed towards the growth of the research community in Scotland and, crucially, the connectivity between that academic research and the private sector. In Scotland, the big deficiency lies in the volume of private sector research. Our private sector research level is dwarfed by that in Finland by a factor of five, which is illustrative of the scale of the journey that we have to make. The Government certainly takes the view that active interventions must be made in the market to try to reverse that. Clearly, the opportunities would arise from our having a broader range of taxation responsibilities to enable us to incentivise research and development.

On the talk about tax incentives at sectoral level in the United Kingdom, frankly, I have lost count of the number of years for which we have been talking about an R and D tax credit for the computer games industry, which is anchored around the University of Abertay Dundee, which is adjacent to my constituency. I have lost count of the number of years for which discussions on that have been going on, but it has never happened. It is sort of back on the agenda now, but we need to get the matter to a conclusion.

Another example is the Edinburgh BioQuarter at Little France—I think that it is outside Mr Biagi's constituency—where there are connections between the University of Edinburgh, NHS Lothian, Scottish Enterprise, and the City of Edinburgh Council to create intense life sciences research, which in particular aims to find solutions to the major neurological conditions in our country. Great work is going on there now and I am full of admiration for it, but it is crying out for further tax flexibility, which would incentivise the work even further, and Scotland would be able to reap the economic rewards of that.

Marco Biagi: On an adjacent issue, universities across the UK have been complaining about the current regime for student visas and the flow of international students. That is an important issue for Scotland on a number of levels. Can you foresee the current situation changing without the powers of independence?

John Swinney: I cannot see how that could happen without the powers of independence.

Marco Biagi: Productivity is touched on in the white paper and in some of the economic reports that have been produced, and the committee has also looked at it. I checked the OECD figures and found that the UK currently ranks 16th for productivity in terms of GDP per hour worked, which is basically behind every other country in northern Europe. Would we want to address that and, if we did, would that have a major impact on the forward economic projections such as those that the IFS has made?

John Swinney: Yes, that would be part of the economic approach that an independent Scotland would have to—and in my view would want to—take. The review that we commissioned last week, which is to be chaired by the former enterprise minister Jim Mather, will look at issues of workplace co-operation between employees and employers to create the most advantageous conditions for improvements in productivity and opportunity. I do not wish to prejudge the outcome of that review in any way, but I will be staggered if its report does not suggest areas of enhancement that are outwith the current responsibilities of the Scottish Government to try to create the ideal and beneficial working conditions and circumstances to improve productivity in the Scottish economy.

Marco Biagi: Before I ask my final question, I declare an interest, in that a family member will shortly commence working at Faslane submarine base. If the Scottish Government no longer had to contribute towards the Trident nuclear programme, what could that money be spent on to boost economic growth and provide greater prosperity?

Nicola Sturgeon: The white paper sets out the savings that we consider we could make in defence spending generally. We contribute more to UK defence spending than is currently spent on defending Scotland. We estimate the savings that we would make in the first parliamentary session of an independent Scotland and factor that into the spending commitments that we are making. For example, in the early years in which we start to transform childcare, before revenues kick in from that, we will be hugely helped by having the money that we would no longer be contributing to defence.

The Convener: There is time to bring in Lewis Macdonald, if he is brief.

Lewis Macdonald: Thank you, convener. I want to take John Swinney back to comments that he made a couple of times about the logic of why an independent Scotland might be able to decline to pay a share of UK debt. I think that he said that the Treasury logic that took his view towards that outcome was that the UK would be a continuing state. Mr Swinney, is it your proposition that, in the event of a yes vote in September, the UK would not be a continuing state?

John Swinney: My contention is that there is a negotiation to be had, which can be undertaken within the confines of the "Scotland's Future" proposition that we have put forward, and which enables us to come to an amicable agreement about how we address issues to do with the assets and liabilities of the United Kingdom. That is the point that I am making.

However, if the UK Government is going to insist on the exclusivity that comes with being the successor state, and all that that entails, I simply point you to the view of Professor Christine Bell, which I have already read to the committee. She said:

"Legally under international law the position is clear: if the remainder UK keeps the name and status of the UK under international law, it keeps its liabilities for the debt. The UK took out the debt, and legally it owes the money. Scotland cannot therefore 'default'."

Finally, Mr Macdonald, you are quite wrong to put phrases about a Scotland that might

"decline to pay a share"

of its debt into my commentary. That has not been part of my commentary. I stand full square behind the white paper and what we said in it on the responsible approach to the management of these issues. I simply point out that if the United Kingdom wants to have its cake, it cannot eat it as well.

Lewis Macdonald: That is clearly true for an independent Scotland, too, in the event of a yes vote. In essence, the vote in September is a vote by the people of Scotland to decide whether to remain in the United Kingdom. It is not a vote about whether the United Kingdom continues in being, because it is not a vote of the people of the United Kingdom. The issue is simply whether Scotland leaves or not. Does it not therefore follow that the correct response of the Scottish Government to the views of the United Kingdom parties on future arrangements between an independent Scotland and the rest of the United Kingdom would be to respect the fact that those parties speak legitimately for the United Kingdom?

John Swinney: I suppose that what I am saying is that if we are to have it that way, the UK Government will have to make provision for £4 billion to £5.5 billion of extra debt servicing costs that it is not currently planning for and will not have to provide if we come to an amicable agreement around the contents of "Scotland's Future". That is the only point that I am making.

I am simply trying to point out that there are compelling reasons why the UK Government will agree to a sterling zone after a successful yes vote in the referendum. We have rehearsed a number of them. There is the contribution of Scotland to the balance of payments. There are the transaction costs that businesses south of the border would have to pay if Scotland was not operating in a sterling zone. There is the cost to the UK Government of additional debt servicing.

I know how tetchy the debate about taxes is in the United Kingdom. If the UK Government is saying that it is quite relaxed about saying to people in England that the basic rate of income tax must go up by 1p to pay for increased debt costs, that is for the UK Government to put to its electorate. I simply point out that it is a pretty compelling reason to get the Government round the negotiating table.

Lewis Macdonald: Is the point not that it is for the United Kingdom Parliament and the United Kingdom Government to determine what is in the best interests of the United Kingdom, not for a Scottish party, which—

John Swinney: I am just trying to inform the debate and provide a little clarity on what is a very clouded position from the finance triumvirate of the United Kingdom, who have managed—across all the issues about which they are hopelessly divided—to come together in a moment of rare agreement. I just think that that stinks.

Lewis Macdonald: In that spirit of informing the debate, will you now tell us what the transaction costs would be to Scottish business of Scotland leaving the United Kingdom currency?

Nicola Sturgeon: None, because we would be in a sterling zone.

Lewis Macdonald: What would the cost be?

12:30

John Swinney: We are arguing for a sterling zone. Mr Macdonald should not get himself excited about an issue such as this, which is not one that is being advanced by the Scottish Government. If he wants an answer to that question, he should go off and ask the United Kingdom Government what its assessment is. If it wants to go down that route, then let it do it; but it will have to confirm the £500 million transaction costs and the fact that it is quite happy to take on an extra £4 billion to £5.5 billion of debt and servicing costs. If it wants to do that, those will be the decisions of the UK Government. However, I think that they are unlikely to be taken, given that there is a compelling argument why we should get into a sterling zone.

Lewis Macdonald: I am sure—

The Convener: I think that we need to call it a day.

Nicola Sturgeon: The point that we are making here is that the question that Lewis Macdonald is asking us is about the consequence of his policy. Given that, he should provide the answer to it. It is not our policy.

Lewis Macdonald: But Mr Alexander was asked—

The Convener: Okay. Thank you. I have one last question for Mr Swinney. You have been very fulsome in your praise of the speech that Mark Carney made in Edinburgh three weeks ago. One of the things that he mentioned was the border effect and the negative impact that that might have on trade between Scotland and the rest of the UK. What analysis has the Scottish Government done of the border effect?

John Swinney: The Scottish Government has of course considered those issues as part of our assessment of the issues raised by Mr Carney. Our judgment is that, given the integrated nature of the economic activity that takes place, we do not foresee the border effect having any significant impact and that the evidence is highly varied on that question. A key judgment in the assessment of it must be about the level and intensity of economic activity that takes place between the jurisdictions. Of course, we all know that to be at a high level, which is why there is such a compelling argument for the sterling zone proposition in order to enable the free flow of goods and services across the border.

The Convener: And have you got an analysis of that issue that you can publish?

John Swinney: I will certainly consider what information we could set out in the public domain. However, it is certainly an issue that we consider would be of very limited significance.

The Convener: Right. Thank you very much. On that note, we draw to a close. I am grateful to you for your evidence this morning and for keeping to time. Thank you all very much.

We will suspend very briefly to allow the witnesses to leave. If members could stay in their seats, that would be very helpful.

12:32

Meeting suspended.

12:32

On resuming—

Deep Sea Mining Bill

The Convener: I reconvene the public session. Agenda item 3 is consideration of a legislative consent motion on the question of amendments to the Deep Sea Mining (Temporary Provisions) Act 1981. We have a paper before us from the clerks that gives the background to this matter, which appears to be fairly non-controversial. If members have no comments, are they content that we recommend that the Parliament approve the draft motion in the legislative consent memorandum, which is in annex A of the briefing paper?

Members *indicated agreement.*

The Convener: Thank you. Are members happy to delegate to the convener and the clerk the production of a short factual report detailing the committee's considerations, such as they were, and to agree to the report's publication?

Members *indicated agreement.*

The Convener: Thank you. We now move into private session.

12:33

Meeting continued in private until 12:35.

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