



“SAVING SCOTLAND FROM FINANCIAL MELTDOWN”

Now is the time to send a loud message – the SNP does not stand for Scotland

A paper for the Scottish Research Society

Written by Ewen Stewart

FOREWORD

The Scottish Research Society mounted a full campaign in 2014, against Scottish Independence.

The organisation published research and recorded the views of many across the social and political spectrum, that emphasised strongly the feelings of those who opposed Separation.

Now, despite the ‘once in a generation’ claims of the SNP government, we are here facing the prospect of a second independence referendum, should the Nationalists remain in control of Scotland after June 8th.

Ewen Stewart, who wrote the acclaimed paper *“Much Cost - Little Benefit”*, in 2014, has again been commissioned by us and has written cogently about the risks and weaknesses an independent Scotland would face.

“Saving Scotland from Financial Meltdown” is a tightly argued and factually researched paper that we are privileged to publish.

Cameron Buchanan

Chairman

The Scottish Research Society
(SRS Research Ltd.)

“SAVING SCOTLAND FROM FINANCIAL MELTDOWN”

**Now is the time to send a loud message – the SNP does not stand for Scotland
A paper for the Scottish Research Society**

In 2014 we wrote a major paper analysing the impact on the Scottish economy - *Much Cost Little Benefit* - warning that leaving the UK would severely undermine Scottish prosperity and cohesion.

Today, on the eve of the 2017 General Election, we examine the current economic position. Our analysis, based using statistics from the Office of National Statistics and the Scottish Government is that Scotland would face severe economic dislocation if she separated from the UK. The social consequences would be devastating. Indeed, the current economic underperformance is a warning of what would most probably unfold.

We urge Scotland's voters to reject the SNP's narrow definition of Scotland and embrace the benefits of being part of the UK which has helped promote stability, economic prosperity and enabled substantially higher public spending in Scotland than in the rest of mainland UK.

Scotland is intertwined through economy, trade, security, culture, family ties and education with the rest of the UK. Scotland enjoys the best of all worlds with substantial devolved powers, a generous fiscal settlement and mutual exchange. Separated, we believe there would be severe economic and social dislocation which would result in highly unpalatable decision making of precipitous cutting of public services, or raising taxes, or more likely both. The economic case for Scottish independence was very weak in 2014. Should it happen now we believe it would be economically and socially catastrophic.

Scotland made the patriotic choice in 2014 to be both Scottish and British. We encourage all who can vote to think carefully as to how they use their vote on June 8th and we believe the threat of separation is the overwhelming concern that must be halted in its tracks for the sake of future generations' prosperity and well-being.

We judge this threat to be of such magnitude that we urge you to vote for whomever is most likely to defeat the SNP in your constituency. A separate paper by Brendan McKee, will offer advice on the optimal vote in each Constituency to protect our Union with the UK.

What would the cost of separation be?

In our paper of 2014 we argued that separation made no sense and would make the average Scot worse off by between £850-1400 per annum. Since then Scotland's economic position has deteriorated significantly in three principle areas.

- The price of oil has collapsed from over \$120 a barrel to \$51 today. This has cut North Sea Petroleum Tax revenues from £6.66bn in 2014 (peak £12bn in 2009) to £60m today. That is a 'hit' from the 2014 level of £1200 a head.
- Scottish GDP has continued to underperform UK GDP as a whole, thus widening the Scottish fiscal deficit relative to the rest of the UK. This lack of growth threatens long term prosperity and services. Poor policy choices and a fixation on constant constitutional uncertainty from the SNP are largely to blame.
- The decline in educational standards is starting to bite. While this may not greatly impact prosperity in the short term the relative decline of educational standards, compared with the rest of the UK and globally, creates longer term challenges and, if allowed to continue, will impair long term growth. Again the SNP have failed to address this.

The case for separation was weak in 2014. It is even weaker today. We estimate the cost, per head now would be a bare minimum of £2000 a head, very nearly equivalent to the entire expenditure of the NHS in Scotland and very probably substantially more, given the austerity a new Scottish Government would be forced to impose to balance the books, such would be the scale of the spending/ tax revenue imbalance.

Sterling, public spending, tax, trade, oil, education and security - separation makes no sense

The SNP has very substantial devolved powers in most areas of Government; particularly those that affect Scots on a day-to-day basis. They have been in power, in Holyrood, since 2007. Over those 10 years they have presided over the continuing decline of the Scottish economy. They have focused on a second referendum to leave the UK and in doing so, have failed in economic management, taxation, educational standards and police organisation in particular.

The Scottish people voted by a significant majority to remain part of the United Kingdom, in what the SNP described as a “once in a generation” vote. Now they seek to move the goal posts, to hide their failings, with another separation vote.

In this paper we look at the key questions facing Scotland- currency, public spending and tax, trade, oil, education and security. On each count Scotland manifestly benefits from being part of the UK.

We would urge you to look at the economic, security and social performance of the SNP closely and use this election, on June 8th, to ensure that you cast your vote for whoever is most likely to beat them ; as, should they prevail, the damage they would cause Scottish families would be immense. For the sake of Scotland vote for the candidate most likely to preserve our relationship with the UK and unseat the SNP.

Currency - still no answer

The most fundamental question faced by a pensioner, saver or member of the public is how will I be paid? The choice of currency is absolutely critical to the prosperity of a nation. There remains no satisfactory, stable or credible answer that the SNP can give to this most crucial and basic question, if Scotland left the UK.

Sterling works well for Scotland. This is because Scotland and the rest of the UK, through 300 years of Union, proximity, common language, population exchange and similar culture are very closely intertwined. As we shall discuss later, trade is a key factor in this network. Indeed over 65% of all Scottish exports go to the rest of the UK, dwarfing exports to Europe, the US and the rest of the world. Sterling is what economists call an optimal currency area, with a high degree of convergence between the regions and nations of the UK.

The SNP has no sustainable answer on currency. They have tried to deflect attention away by claiming it is a technicality. It is not. Indeed the SNP position has changed several times in recent years from : ‘Scotland in Europe,’ with Scotland mirroring the so called arc of prosperity in the EU (The SNP’s case was based on Spain, Portugal and Ireland, all of which have subsequently had very high levels of unemployment, migration away and economic dislocation), to “borrowing” Sterling. Not one of these options is credible.

It is clear that a Separated Scotland would not be allowed to join the EU in the medium term (This has been made clear at the highest level of EU authority. Moreover countries like Spain have also vigorously objected) and indeed the SNP now claim that they would not seek membership, which is quite a U turn given their positioning over the last couple of decades.

Further, they have recently sensibly ruled out Scotland joining the Euro, even if it was on offer as an option, which it is not.

Moreover should Scotland choose to leave the UK, Scotland cannot expect to have its cake and eat it. It has been made very clear that a formal currency union with the UK is not an option. This is not out of spite but very obviously because the UK currency union is democratically founded with the Governor of the Bank of England legally obliged to act in the interest of all the regions and nations of the UK. If Scotland leaves it would no longer be integrated into the UK fiscal, tax and monetary network and thus it could not be formally part of the UK currency union. Thus Scotland has three effective choices; informal 'borrowing' of Sterling, or a new Scots Pound either floating or fixed.

Informal Sterling

Under the current arrangements the Bank of England is legally obliged to consider the optimal monetary response for the UK as a whole, including appropriate conditions in Scotland. Further, the entire UK banking system is protected by the Bank of England's regulatory system and its ability to act as 'lender of last resort.'

This ability to intervene is not theoretical. The Bank played a major role in stabilising the UK banking system, and the Scottish banks RBS and HBOS in particular, in their hour of need. The SNP were the cheerleaders of their calamitous corporate strategies which destroyed their balance sheets and many Scots' savings. Indeed, while Bank of Scotland, through Lloyds, has returned to the private sector that is currently not the case with the Royal Bank of Scotland which continues to be nursed back to health.

However, on separation this would no longer be the case. Monetary and regulatory policy would be set for the remainder of the UK with Scottish interests not being the concern of the central bank. Scotland would effectively have ceded monetary authority to the Bank of England. It would not enjoy banking protection from the Bank of England as lender of last resort, if Scotland chose to use Sterling informally, and would no longer have any influence on policy.

While it may be convenient, from a trading perspective, to use Sterling informally, in reality such a policy would be fraught with danger in the long term.

In periods of economic calm such an arrangement would appear seamless. However, small shocks to the centre would be much more severe for those using the currency informally, without the support of the primary central bank. This would particularly be the case for Scotland, since the Scottish economy is potentially much more volatile than the rest of the UK as its dependence on oil (a highly cyclical sector), financial services (Scottish bank liabilities are around 10x Scottish GDP) and a large public sector, which is currently in substantial deficit, and can only be supported by taxes raised which in turn is dependent on economic growth.

Scotland's population and GDP are just one-eleventh of the UK as a whole. Scotland, given its current assets and substantial liabilities, cannot adopt Sterling informally without a substantial risk of asymmetric shocks.

If Scotland chose the 'informal Sterling' option there would be a number of advantages, namely zero friction costs, no currency fluctuations with Scotland's largest trading partner and apparent minimal disruption. These advantages, however, are minimal when compared with the implied increased economic and financial volatility and risk of shock.

History is littered with the failure of informal currency unions. They are fine until they are not fine. Adopting such a policy is far from risk free. It is nothing more than a cosmetic short-term fix with long-term dangers.

The 'Fixed' Scots Pound

Scotland could set up its own currency, the "Scots pound". There would clearly be logistical issues and costs in doing this but these, while expensive, are surmountable albeit any change would likely take several years to implement.

Given that, whatever the constitutional arrangements, Scotland and the rest of the UK are very closely linked and that Scottish trade is overwhelmingly with the rest of the UK, fixing the value of the "Scots pound" to Sterling at least removes the exchange-rate risk.

The fix can work if there is a very high degree of economic convergence between two countries. That convergence cannot just be in a moment of time, but for all time, as if they drift apart the fix comes under strain. That is the rub and very few fixed exchange-rate mechanisms work in the long term as they lack a central treasury, monetary and fiscal arrangements. Sooner, or later, they tend to blow apart, as is clear from British experience within the ERM.

Further, fixing of the Scots pound to Sterling would compel Scotland, as the junior partner, to mirror fiscal policy in the larger entity. Fixing gives the illusion of sovereignty but the reality of copying the neighbour's policy without having any say it.

Nor is the absence of monetary independence the only problem with a Scots pound fixed to Sterling. If the fix fails, as fixes regularly do given the discipline required to maintain a fix, the consequences can be severe in terms of trade dislocation, asset valuations and internal wealth. At the extreme, Argentina has struggled to recover from the collapse of the peso's convertibility with the US dollar some 15 years ago. A fixed Scots pound sounds superficially attractive. In reality, it is not.

Floating Scots Pound

A separated Scotland would be a fairly small nation of 5.3m people, ranked 50th in the world in terms of GDP. Many countries of such scale (and smaller) adopt their own currencies. If Scotland were to abandon Sterling (and, notwithstanding the issues identified elsewhere, the best option would be to retain it) there is no doubt that Scotland could do so and to an extent that would be the only logical choice.

However, a floating currency is no panacea. It would hamper trade with the UK, by adding additional frictional costs, as well as exchange rate risk. Yet at least it would give monetary and fiscal sovereignty to Scotland. That said if Scotland chose to adopt its own currency, it would need to act with great fiscal responsibility or risk acute currency weakness and inflationary pressures. Scotland's fiscal deficit and the upheaval of setting up a new, unproven currency would almost certainly result in immediate substantial currency weakness, as markets react first and ask questions afterwards. This would in turn be inflationary.

The new floating "Scots pound" would need to gain credibility with global markets. Credibility in currency market terms effectively means a fiscal and monetary responsibility, a degree of economic dynamism, and political and economic stability. It is far from certain that Scotland would meet these criteria quickly, especially as its starting fiscal position would be so weak.

Scotland's economic starting point is far too weak to launch the "Scots pound". It would greatly risk savers and pensioners and could prove to be highly inflationary.

Conclusions

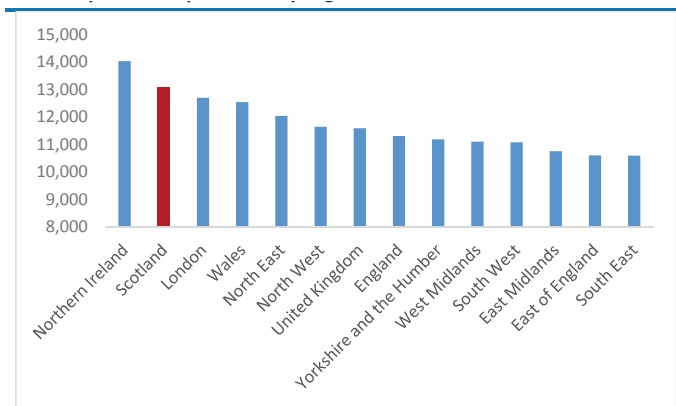
Sterling remains the only viable option for Scotland. Informal Sterling may work for a while but risks major long term shocks as there is no lender of the last resort and monetary policy would be designed for England, Wales and Northern Ireland and simply imported into Scotland without any say.

Fixing a currency is fraught with risks and gives an illusion of independence while offering none and the floating “Scots pound”, while logical, gravely risks inflation and the stability of pensions and savings. Currency mechanisms might sound dull and the SNP might try and deflect the debate away from it but it remains the cornerstone of economic and social cohesion. Mess with that at your peril.

Public Spending and Taxation in Scotland

Scotland has a very high level of public spending both relative to the size of the economy and the rest of the UK. Indeed with total public spending, in 2015/6, in Scotland, of £70.1bn compared with the Scottish economies GDP of £152bn state spending represents slightly under half of the entire size of the economy. This equates to public spending per head, as is demonstrated by the chart below, of £13,054 some 16% higher than in England (comparable expenditure of £11,297 for England).

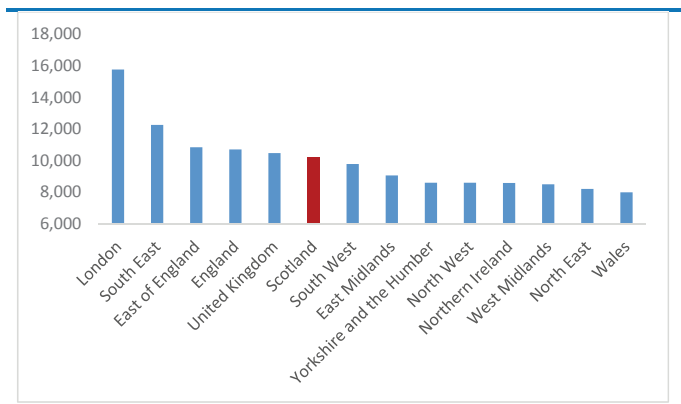
Public Expenditure per Head by region £



Source ONS

However, despite high relative public spending, the Scottish tax take per head was £10,219, which is slightly less than the average for the UK at £10,471 outlined in the chart overleaf.

Tax Revenues per head by Region £

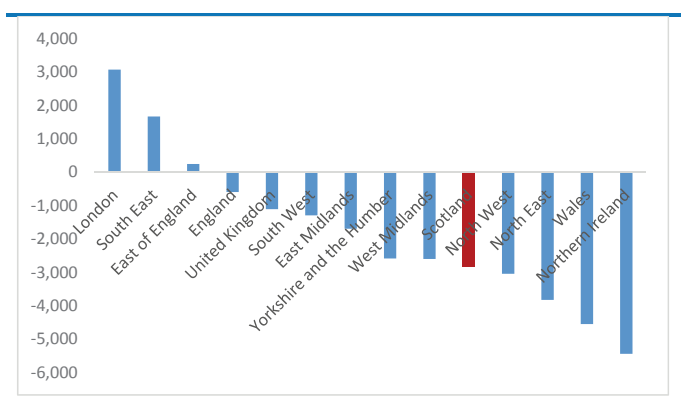


Source ONS

This leaves Scotland with a spending gap of £2,835 a head compared with £598 for England shown in the chart below. Even including geographic share of oil revenues this deficit is substantially greater than the education, public order and transport budgets combined and would need to be bridged if Scotland was separate.

Indeed a deficit of this size is only possible as Scotland is able to use the much larger UK wide balance sheet, with the ability to fund this deficit, as a result of the credibility that the Bank of England has built up over generations.

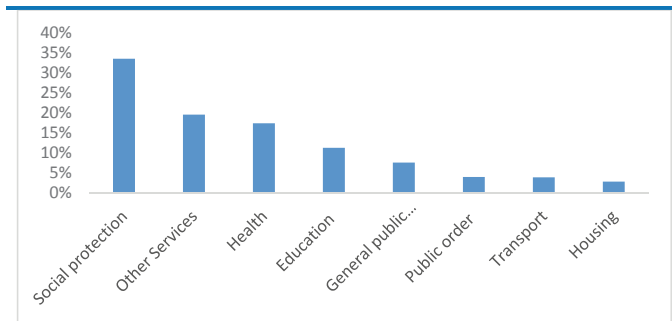
Regional Fiscal Balance £



Source ONS

Public spending priorities in Scotland, although higher than in England, are broadly similar. Effectively 33.4% of all spending is on social protection (pensions, unemployment benefit, housing benefit and the like), 17% goes to the NHS and 11.3% is spent on education. These are all large spending departments which are growing structurally due to increasing longevity, expectations and drug discovery for example. Thus, if spending commitments are to be met, longer term, it is imperative that the economy continues to grow, otherwise these services become unaffordable. For reasons we shall discuss later, separation would greatly imperil future economic growth and further negatively impact Scotland’s ability to fund the current level of public service.

Identifiable Public Spending in Scotland by Category %



Source ONS

The bottom line is that Scotland continues to receive spending commitments substantially greater than the tax she raises. This is only possible as Scotland benefits from the UK balance sheet. In a separate country, taxes would need to rise very substantially, spending cut drastically or a mixture of the two.

All this is before the SNP's 2017 manifesto commitments which envisage increased public spending for the UK as a whole, which would also add to Scotland's public spending and thus its deficit.

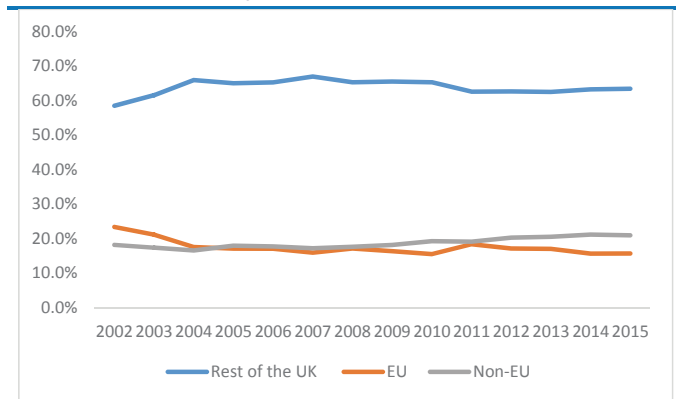
But we need to be in the Single Market?

The SNP argue that Scotland needs to be in the EU Single Market and they are claiming that the UK potentially leaving that Single Market is a fundamental reason for a new Scottish Independence referendum. We shall show that such a claim is absurd and the UK single market, which separation would severely undermine, is more than 4x more important to Scotland than the EU Single Market.

It is beyond the scope of this paper to discuss the merits or otherwise of the BREXIT debate but what is abundantly clear, is that the SNP is using the debate as an excuse to stir up anxiety; for if single markets are important why are the SNP imperilling prosperity by ditching by far Scotland's most important market, the UK?

In 2015, the last available data, Scotland exported £49.8bn of goods and services to the rest of the UK. That same year Scotland exported £28.7bn to the rest of the world. Moreover of the exports outwith the UK £16.4bn was to the US, Asia, Australia, Africa and the like and just £12.3bn was with the EU. Furthermore the share of exports to the EU is diminishing, over time, not rising, having fallen from 23.3% in 2002 to just 15.7% today. The direction of trade showing the overwhelming importance of the UK market is highlighted by the chart overleaf.

Destination of Scottish Exports %



Source Scottish Government

England, Wales and Northern Ireland are critical to Scotland for exports. £48bn of sales is equivalent to £9,000 a head or almost one third of the entire Scottish GDP. It would be extremely damaging to Scotland to erect a hard customs border with our closest neighbour, which is exactly what separation would do.

The SNP's mock hysteria over BREXIT is entirely irrational in this context. If they believe staying in a Single Market with £12bn of trade is critical why do they think separating from where Scots send £49.8bn of trade is not?

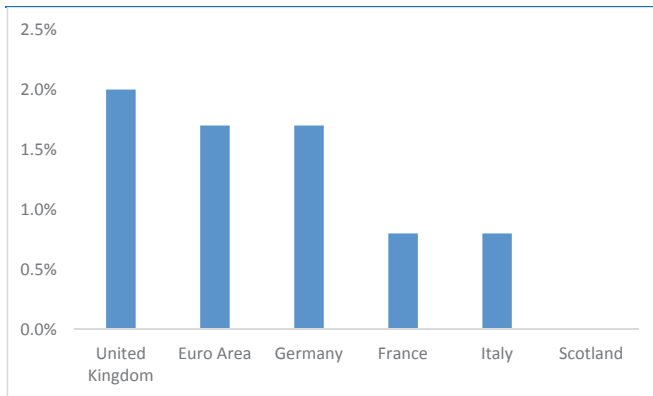
Scotland's economic performance - a major cause for concern

The SNP have 'run' Scotland now for 10 years. They control a substantial proportion of the tax raising powers, and determine education, health, policing and transport policy with direct influence over large swathes of local government spending. The reality is they have been responsible for policy choices and the success, or failure, of Scotland's economy is very largely down to them.

The results are far from encouraging, as can be seen from the two charts below. Scotland's economy is currently on the verge of recession having declined by 0.2% in Q1 2017. This contrasts with steady growth for the UK economy as a whole and indeed most of the EU. BREXIT is not to blame, for the UK's economy has been strong, it is constitutional uncertainty and poor policy choices that have caused Scotland's economy to under-perform.

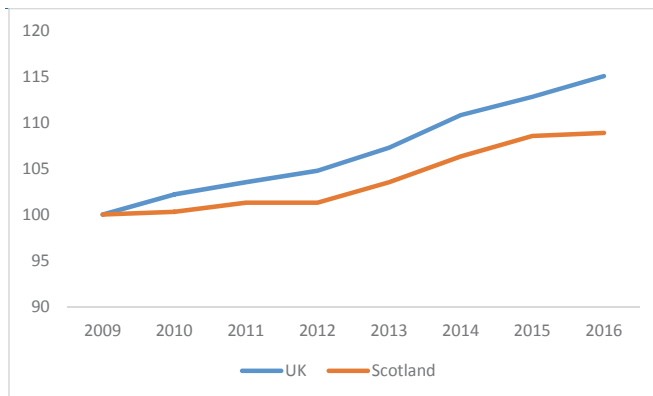
Such under-performance has become acute in recent years with the UK economy growing by 15% since 2010 with Scotland up by barely 9%, or just three-fifths of the overall UK rate. This may not sound much but if the Scottish economy had grown in line with the UK economy since 2010 it would be some £10bn bigger today.

GDP performance of Key European nations 2016 % change



Source: EuroStat and Scottish Government

GDP performance of Key European nations 2016 % change



Source: Scottish Government & ONS

While there are numerous competing theories as to why Scotland is so manifestly under-performing the rest of the UK the uncertainty caused by a possible second independence referendum is irrefutably a major factor coupled with a private sector that is simply too small to support the current scale of public spending. Certainly the SNP's tinkering tax and spend approach, without tackling the fundamental causes of decline, have exacerbated the problem.

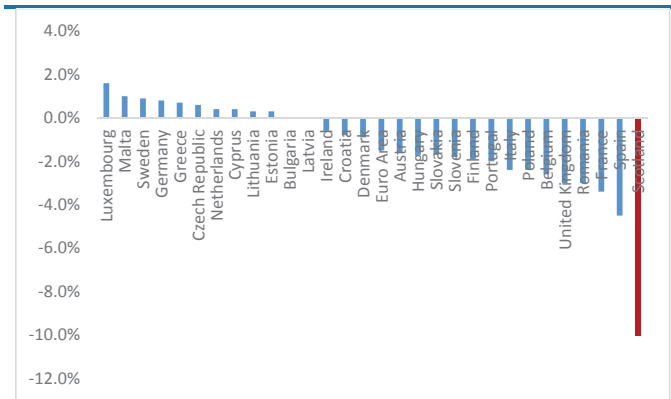
Scotland fiscal position – the weakest in the EU and not sustainable

Business is well aware that Scotland, separated, would be in trouble. Its fiscal deficit would be the worst in the EU, Greece included, which would result in very unpalatable economic decisions being required. Scots would quickly discover the true meaning of austerity, not the modest fiscal containment of recent years, which the SNP incorrectly characterise as austerity.

Put simply, the Scottish fiscal deficit is unsustainable separated from the UK balance sheet, being by far and away the most significant in the EU.

To put the deficit in context at £15.1bn, as can be seen from the chart below, equates to 10% of GDP. Spain is in the next weakest position with a figure less than half that.

Fiscal deficit 2016 % GDP- by EU country



Source EuroStat

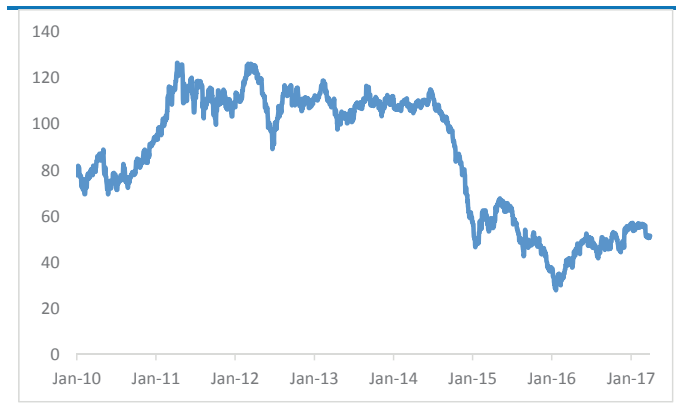
While countries can run deficits most economists view a figure of around 3% GDP to be the outer edge of what is credible in the longer term (that is the criteria the EU uses in the Maastricht Treaty). The UK has been operating >3% for a decade now, thus helping to sustain Scotland's current fiscal deficit rather than allowing scope for future flexibility. In other words, even assuming trend growth (circa 2% pa) Scotland would be faced with either £10bn of cuts, or tax rises. Remembering that Scotland spends £12bn on health alone, the quantum of cuts required, immediately becomes apparent

Oil- basing prosperity on the unpredictable is a dangerous promise

It is not wise to build an economic case on the unpredictable. The price of a commodity, like oil, is indeed unpredictable. The Scottish Government, in their data light 2014 independence case, certainly did not foresee a collapse; for not one of their six scenarios suggested the price might fall. As is now well understood since mid-2014, the price of Brent Crude has plummeted from around \$120/barrel to less than \$30/barrel. At the time of writing, it is trading around \$50/barrel and may well do so for the foreseeable future as OPEC tussles with low cost US shale producers.

The assumptions the SNP Government made, prior to the 2014 vote, were imprudent to say the least and subsequent events have demonstrated that it is not sensible to build an economic case based on factors beyond the control of Government.

Brent Crude USD



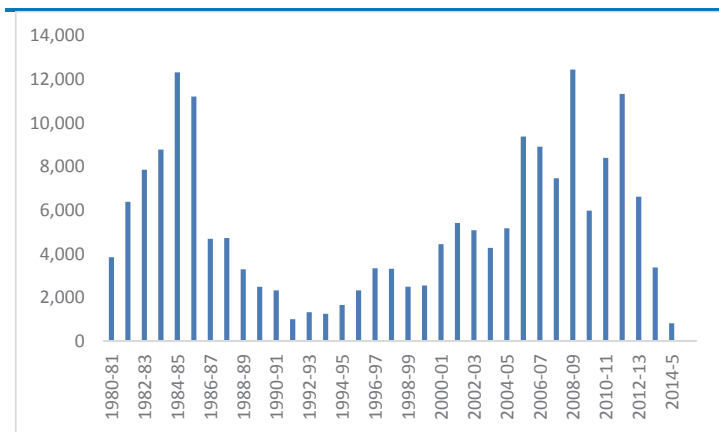
Source OPEC

The North Sea oil fields are deep water, mature and expensive to extract, thus they are highly impacted by falling oil prices. Even after significant cost cutting, many still have lift costs >\$50/barrel, ie are operating at a loss.

UK tax revenues from North Sea oil & gas are thus highly cyclical having peaked at around £12bn in 2009, were £6.6bn in 2014. Last year the Exchequer received just £60m. But, these figures overstate the receipts attributable to Scotland, as a significant proportion are derived from fields out with Scottish waters.

All of this is before the burgeoning decommissioning costs and their adverse impact on Treasury receipts.

North Sea Oil Revenues £bn

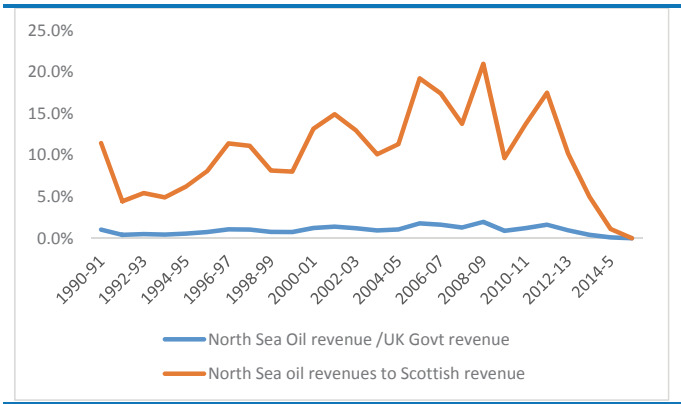


Source ONS

For Scotland this is highly material. Even in 'the good times' oil revenues represented less than 2% of all UK tax revenues. However, as is demonstrated by the chart below, swings in tax revenues of between nought and £12bn, in a Scottish context, are highly material in the context of total Scottish public spending of £73bn representing anything between zero and 20% of the tax base.

The decline from £6.6bn of revenues prior to the referendum in 2014 to effectively nil, for Scotland is a fall equivalent to over £1200 per ahead, or around half the entire NHS Scotland budget.

Importance of Oil Revenues as % Tax revenues



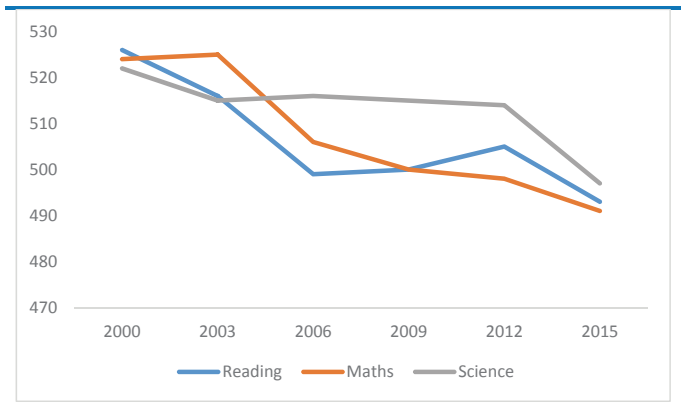
Source ONS

Education

Scotland has always prided itself, rightly, on a world class education. For generations Scotland had one of the finest systems in the world. No longer.

The internationally recognised arbiter of global standards is PISA [Programme for International Student Assessment] which publishes annual league tables comparing national performance. Tragically, Scotland's performance has slipped substantially in the key areas of reading, maths and science, as is demonstrated by the chart below. Further in each case Scotland's performance is judged as inferior to that in England, and in reading and science materially so.

PISA scoring of Scottish Education – key category



Source PISA

However this failure cannot be ascribed simply to money as spending per pupil is higher in Scotland than the UK average. Not only that but pupil numbers have been relatively more stable in Scotland than the rest of the UK where migration has tended to be higher. Therefore there should be less pressure of class-room sizes than elsewhere in the UK. Scotland - given that stability and greater funding - should be performing much better.

What is clear is that decline has been persistent and material for a number of years. Further, the failure to explore some of the successful initiatives from the rest of the UK, for example greater diversity in parental choice (Free Schools, comprehensives, technical schools, selective schools for example), a stronger emphasis on the core skills and initiatives, like Teach First, have all positively impacted the UK experience. The Scottish government at Holyrood has had exclusive competence in educational matters since devolution, in 1999. Despite this, the decline in standards has been material and consistent so there's no hiding place for the SNP.

Defence and Security

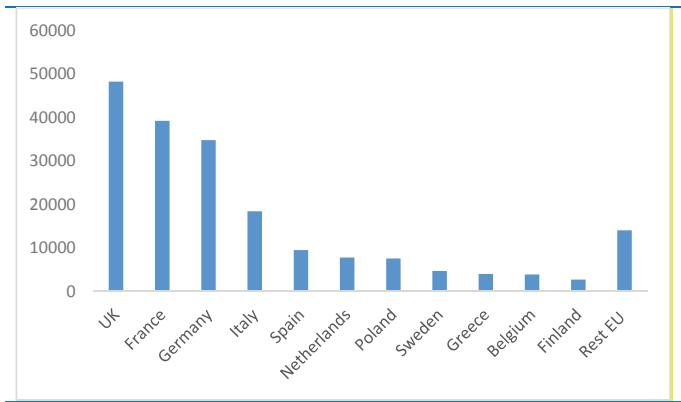
We live in a world with numerous and wide-ranging geo-political risks. A belief that we were moving into a post-ideological age has proven well wide of the mark with a new found Russian adventurism, the rise of ISIL and extremist terrorist ideologies, the impact of growing Asian economies on global equilibrium, rapid technology change, instability in commodity prices and mass migration across the world materially impacting global defence and security.

Many of these challenges are both novel and dynamic and no nation can ever provide complete security at all times and certainly not in terms of being compatible with liberal democracy. However, Scotland greatly benefits by being part of the United Kingdom, in terms of defence and security. Equally, the UK benefits from the expertise of Scottish involvement in British defence. This is a mutually beneficial relationship.

Effectively there are only two substantial military powers in Europe. France and the UK. The UK still possesses a unique range of assets, notably excellence in security, diplomacy and intelligence and a Special Forces capability, that are world renowned.

While conventional forces power has been reduced, together with France, the UK offers the only credible forces that can deploy globally. The chart below highlights defence spending of each of the major European nations.

Defence spending by EU nation €m



Source Eurostat

Further it should not be assumed that only major countries, like France and the UK are terrorist targets. Tragic atrocities have also occurred on the streets of Spain, Norway, Belgium and Sweden in the recent past. Scotland benefits from being fully integrated into the UK intelligence, diplomatic and defence network. Separated, its contribution would be very much weaker and in reality could not provide anything approaching the structures available currently, particularly as the SNP decision to consolidate police services in Police Scotland are widely considered to have created a dysfunctional and underperforming service.

How Independent would Scotland really be?

No nation can ever have unfettered policy choice. All are constrained, rightly, by international law, norms of behaviour and calculation of the impact of actions.

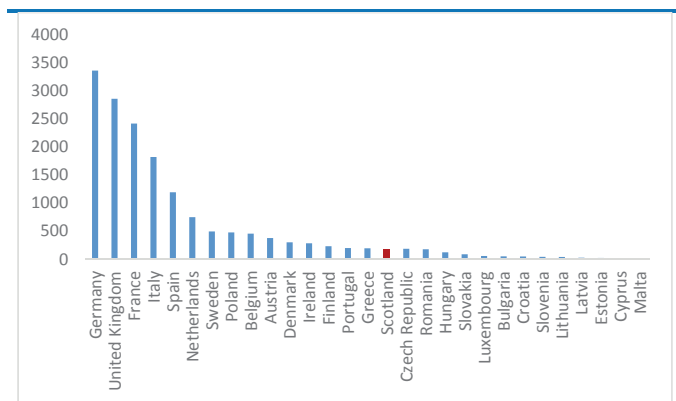
However, if Scotland separated from the UK there is little doubt its global influence would greatly diminish. Scotland has always played a disproportionately large part in UK affairs and, through that, global affairs. However, outside the UK this would very quickly decline. Few southern Irish citizens enjoy influence at the top of UK society, for example, in the way Scots do.

If Scotland was eventually able to join the EU, and it certainly could not in the short term, it would be a very small player in their affairs with a population of just over 5 million out of 450 million, ex UK. That equates to just over 1% of the EU total.

In terms of economic scale Scotland would rank between Greece and the Czech Republic, again representing around 1% EU GDP. It is simply not credible to believe Scotland would carry any meaningful influence in Brussels.

It would be an odd swap to leave a union (the UK) where one had approximately a 10% share of influence, with very substantial devolved powers, and where 70% of trade went for a 1% share of influence in a union (the EU), where relatively little trade went and the constitutional settlement was uncertain at best and the centres of decision making were even more remote.

GDP by EU nation



Source: WTO

Should the SNP ever succeed, Scottish influence and power will decline, not grow. She might have 'nominal' independence but in reality the ability to act independently would be negligible. The EU would dictate economic and trade policy should Scotland eventually join, but in the

meantime global forces would be the predominant influence not Holyrood politicians. NATO might well be indifferent to Scottish membership if it rejects Trident; so how would Scotland's security be guaranteed?

Quite simply, the SNP offers an illusion.

Conclusions

- Less than 3 years ago the people of Scotland voted decisively against Separation in what the SNP described as a 'once in a generation' vote. Our paper *Much Cost Little Benefit* warned then that leaving the UK would severely undermine Scottish prosperity and cohesion.
- We argued that, in 2014, Separation would cost each Scot between £850-£1400 and also made the case that the fracturing of ties would undermine Scottish influence, culture and education.
- Since that referendum the price of Separation has greatly increased for three material reasons: the collapse in the oil price, the under-performance of the Scottish economy relative to the rest of the UK, as a result of uncertainty over another referendum and poor policy choices by the SNP, and a continuing decline in educational standards undermining long term growth.
- We judge that the cost per head of Separation would now be a bare minimum of £2000. To put this in context that is close to the cost of the entire NHS Scotland.
- The SNP still cannot answer the most basic question: what currency would an independent Scotland use? Their policy is based on opportunism morphing from Scotland in Europe, to copying the failed Arc of prosperity from Portugal to Ireland, to not seeking to join the EU, to borrowing sterling.
- Borrowing Sterling swaps influence for no influence as the Bank of England would not consider Scotland's needs in setting monetary policy and there would be no lender of the last resort. The Scottish Government could not have bailed out RBS for example.
- The fixed Scots pound is not credible – few fixed exchange rates hold and Scotland's with a 10% fiscal deficit would quickly find the currency under pressure. A floating Scots Pound would force fiscal austerity on the Scottish Government, or face significant inflationary pressures.
- Sterling is therefore the only credible option and of overwhelming benefit to Scottish savers and pensioners. Separation would imperil this most fundamental building block.
- Public spending in Scotland is 16% higher per head than in England at £13,054. Scottish tax receipts are £10,219 leaving a borrowing gap of £2,835 per head. This contrasts with English borrowing per head of just £598. A Separated Scotland would have to materially cut spending or raise taxes, or probably both. The SNP would quickly discover what austerity really was as a deficit of that scale is simply not affordable.
- The SNP argue we need to be in the 'Single Market.' This is their primary rationale for another disruptive referendum. Their logic is deeply flawed. Scotland exported £49.8bn of goods to the rest of the UK and just £12.3bn to the EU. How can the SNP argue leaving the EU single market is critical when separation from the UK would mean leaving the UK single market which for Scotland is more than 4x more important?

- Moreover Scotland exports a third more to the US, Asia, Australia and Africa than it does to the EU. The SNP are simply using BREXIT as a false excuse to stoke up UK division.
- The SNP have been in power, in Scotland for 10 years. Over that period Scotland's economy has underperformed the UK's by 8%. This has cost in excess of £10bn. The SNP cannot blame BREXIT for this as the UK economy has powered ahead, growing the fastest in the G7. Scotland is on the brink of recession, with the economy declining by 0.2% in the last quarter. The SNP are responsible directly for this weak performance stoking constitutional uncertainty and making poor policy and tax choices.
- The SNP based their case on oil. That was never sensible as no responsible Government bases policy on the unpredictable. Oil revenues have collapsed. Peaking at £12bn in 2009, falling to £6.6bn in 2014. Today these revenues are worth £60 million. This is a hit of £1200 a head. Oil is of only marginal importance to the UK economy as that economy is 11x larger than the Scots economy. To Scotland it would be vital.
- Education used to be a Scottish pride. No longer. Under SNP control Scotland's educational performance has materially slipped and on core reading, maths and science, lags England and the rest of the world, despite significantly higher spending per pupil than the rest of the UK. This is a material concern for the long term wellbeing of the country for which the SNP most shoulder the blame.
- We live in a very volatile and uncertain world with multiple security risks. The UK possesses a unique range of defence assets notably in security, diplomacy, intelligence and Special Forces. Terrorism does not, tragically, respect borders with many European countries, large and small, affected. Scotland could not hope to replicate the UK's world class security network and would be immeasurably weaker as a result.
- Scotland benefits greatly by being part of the UK. The SNP seek to rip this apart. We have shown their policies would damage the very people they claim to represent. We urge voters to vote for whomever they believe has the best chance of unseating the SNP.

“SAVING SCOTLAND FROM FINANCIAL MELTDOWN”

written by Ewen Stewart



Ewen Stewart is the founding director of Walbrook Economics. He has worked in the City for more than a quarter of a century with several major investment banks including Dresdner Kleinwort Benson and ABN AMRO before setting up Walbrook Economics.

Ewen writes and speaks for a number of major think tanks including the Institute of Economic Affairs and the Centre of Policy Studies. He wrote the Scottish Research Society paper *Much Cost Little Benefit* outlining the economic impact that would have resulted if Scotland had voted to leave the UK in 2014.



SRS Research Limited
Reg. No. SC565837

2 Kirkgate, Pittenweem, Fife KY10 2LF