



Institute for Fiscal Studies



Scottish independence: the fiscal context

Carl Emmerson

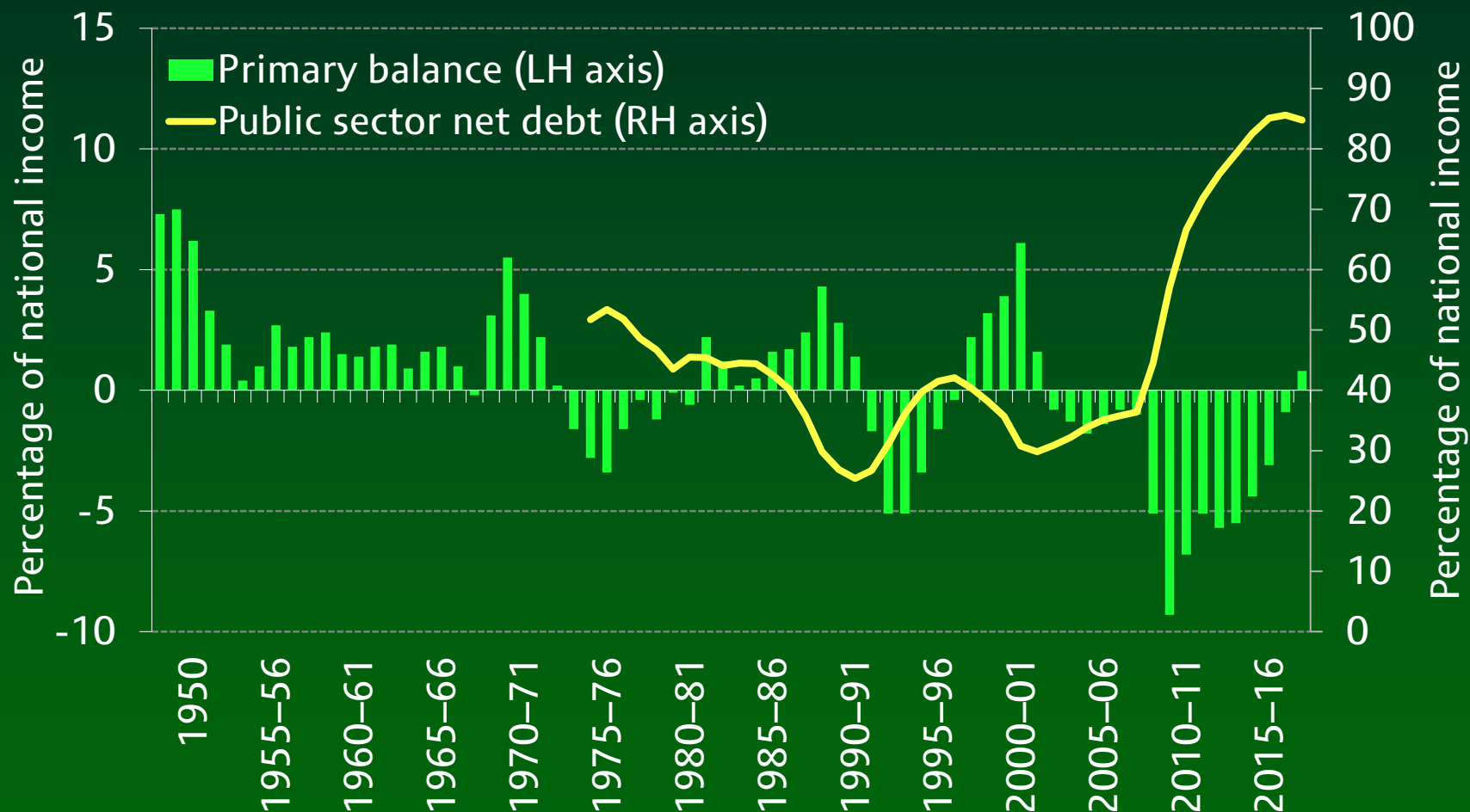
Presentation for ESRC seminar on “Future of the UK and Scotland”,
House of Commons, London, 12 June 2013.

<http://www.ifs.org.uk/projects/408>

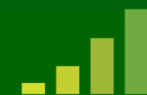
Scottish independence: the fiscal context

- The UK faces significant fiscal challenges from both the recent financial crisis and longer-term public finance trends

Financial crisis & associated recession did significant damage to the UK's fiscal position...

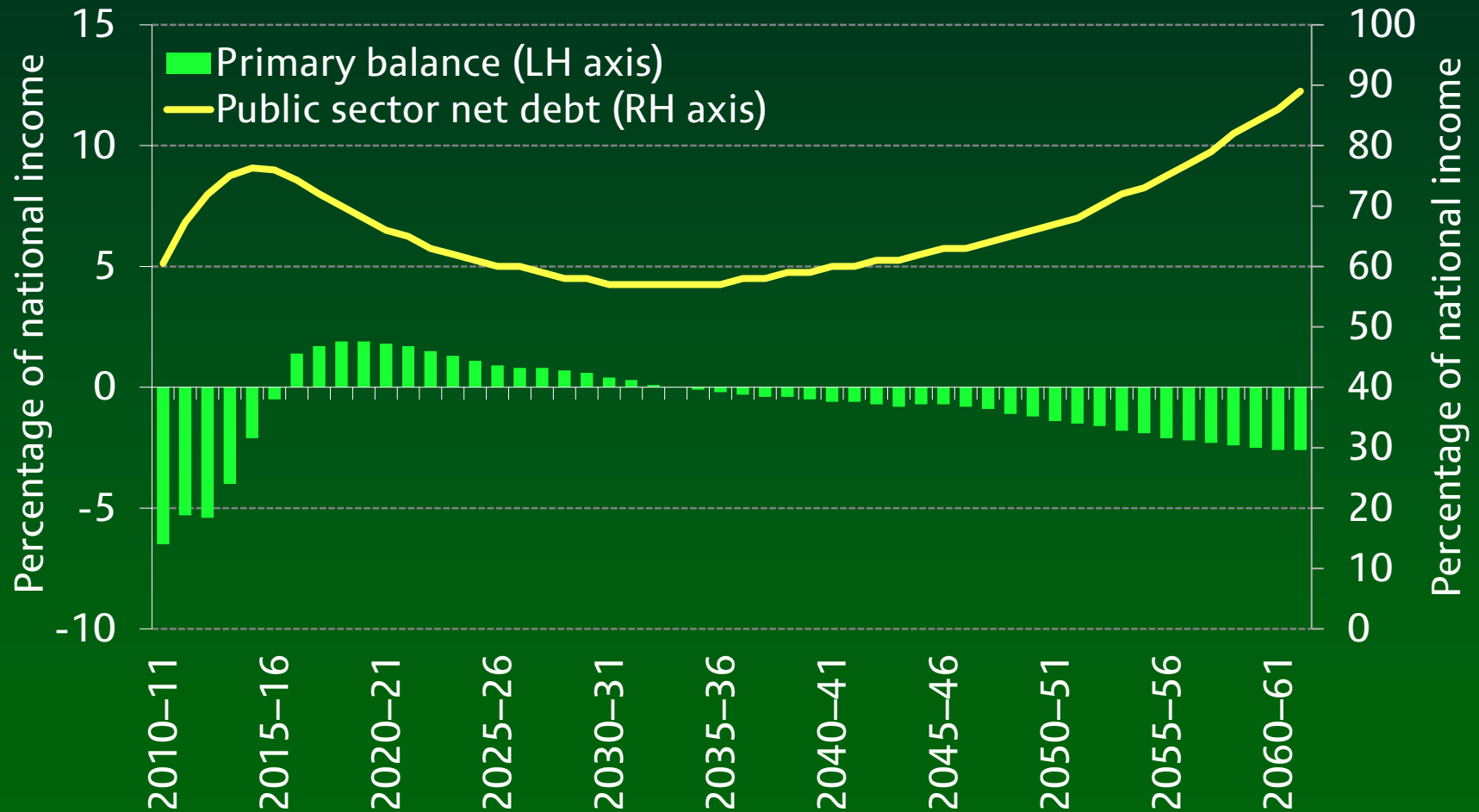


Notes: Data prior to 1955-56 are calendar rather than financial year. Data exclude Royal Mail and APF transfers.
Source: ONS; OBR.



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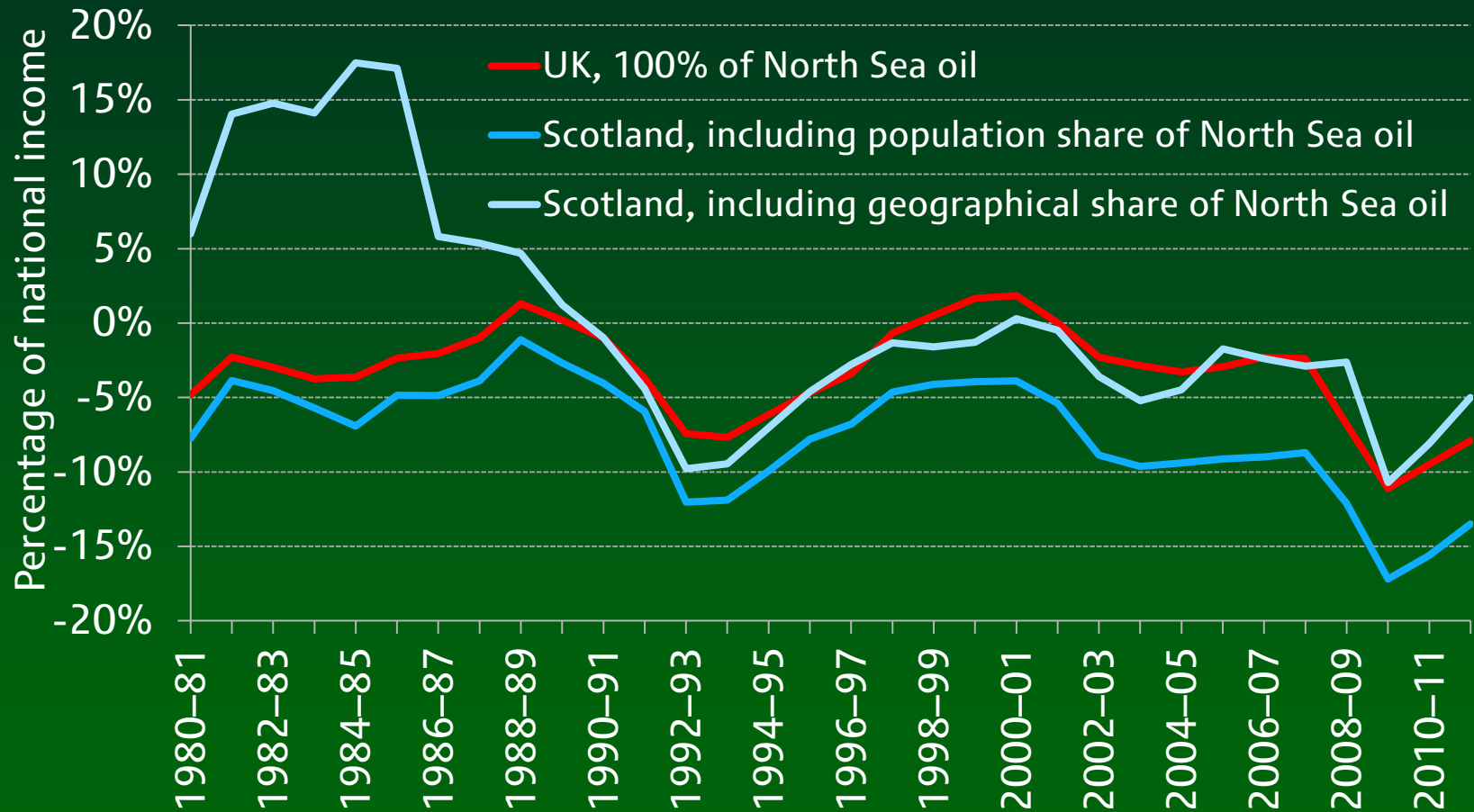
...and ageing projected to create a further challenge, albeit over a longer time-horizon



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- The UK faces significant fiscal challenges from both the recent financial crisis and longer-term public finance trends
- Scottish spending per capita higher than, and non-North Sea tax per capita similar to, the UK
 - in recent years a geographic share of North Sea oil revenues would have been enough to finance the higher public spending per head in Scotland

Net fiscal balance % of GDP, UK and Scotland



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- More important is the longer-term where the public finance challenges facing an independent Scotland if anything appear greater than those facing the rest of the UK

Tax & spend issues for an independent Scotland

- Tax
 - opportunities arise from the fact that the UK tax system has much that can be improved upon
 - specific Scottish differences should impact on design: more equal wage distribution and different labour market
 - very open economy: may make it harder to raise revenue
- Spend
 - potential opportunities from higher spending per head: for example should defence spending be higher than most other small countries
 - careful choices would need to be made on basis of clear analysis of priorities over short and long term
 - Scottish population is older and is projected to age faster than rest of UK, has greater reliance on disability and sickness benefits at all ages

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