Scottish independence: the fiscal context

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

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• 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

Percentage of national income

- UK, 100% of North Sea oil
- Scotland, including population share of North Sea oil
- Scotland, including geographical share of North Sea oil

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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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