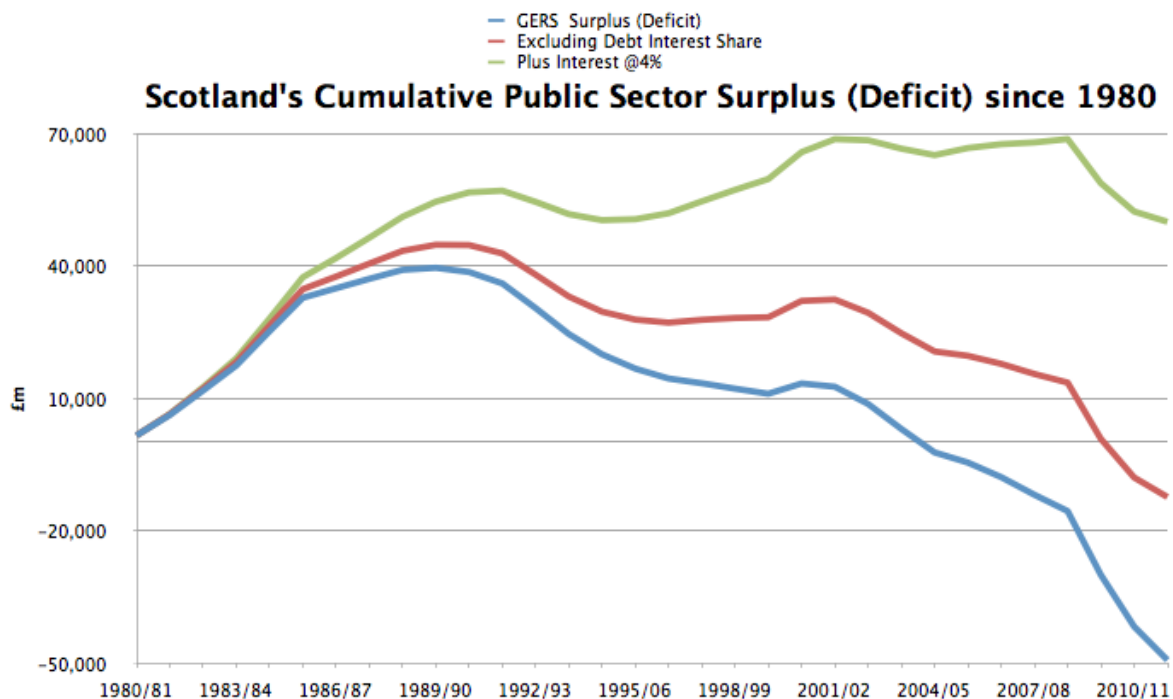


Revealed: The ACCOUNTING TRICK that Hides Scotland's Wealth.

Gordon MacIntyre-Kemp | 05/11/2013



As an independent country Scotland would have enjoyed a massive cash surplus

Every Westminster Government in my lifetime has knowingly diverted billions of pounds of Scottish revenue to Westminster.

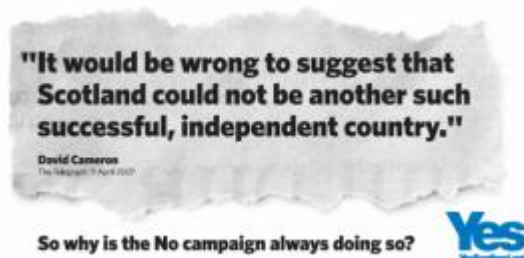
This has led to lower investment in Scotland, higher unemployment, lower economic growth, lower standards of living, economic migration and growing inequality and poverty. This is the sort of government behaviour that often leads to demonstrations and makes headline news, and might have done so here if it wasn't for the fact that the Scottish people have remained mostly unaware of the wealth draining south.

In this article, I will expose the accounting trick that hides Scotland's wealth. I will also supply solid evidence that if Scotland was already an independent country our economy would be booming and public finances debt-free.

The confidence trick

For generations the people of Scotland have been fed a negative narrative on the health of Scotland's economy. A depressing picture has been drawn by Westminster politicians of Scotland as a subsidised state dependent on the UK for charitable hand-outs with higher levels of debt and a dependency on the public sector. Scotland has been told that without the generosity of the UK to bail us out, Scotland would be a bankrupt nation, unable to meet the very basic needs and wants of its people. The reasons given for this belief seem to be a mix of Scotland being too "small" a country, not having the skills, resources and infrastructure, the wrong type of industry (too much manufacturing and exporting) and therefore too much debt.

This narrative is fundamentally untrue. There is simply no evidence to support it whatsoever.



So manifestly untrue, in fact, that all the available economic data entirely contradicts the age old, absurd and tired Westminster proposition that Scotland could not succeed as an independent self governing country. The "too small, too poor and too stupid" argument has become so discredited recently that [none of the major players in the No Campaign now dare to suggest it.](#)

The reason that most anti-independence politicians have retreated from suggesting that "Scotland's economy is a basket case" is that the truth is now easily sourced. Evidence such as the McCrone Report, classified as top secret for 30 years by the 1970s Labour Government but now publicly available, states that "the SNP had underestimated the nation's oil wealth" and that an independent Scotland would "suffer from an embarrassment of riches". That report was written in 1974 and classified as secret due to worries about "restless natives" if its facts were known by the masses in Scotland. [It was eventually made public](#) only after a Freedom of Information Act request in 2005.

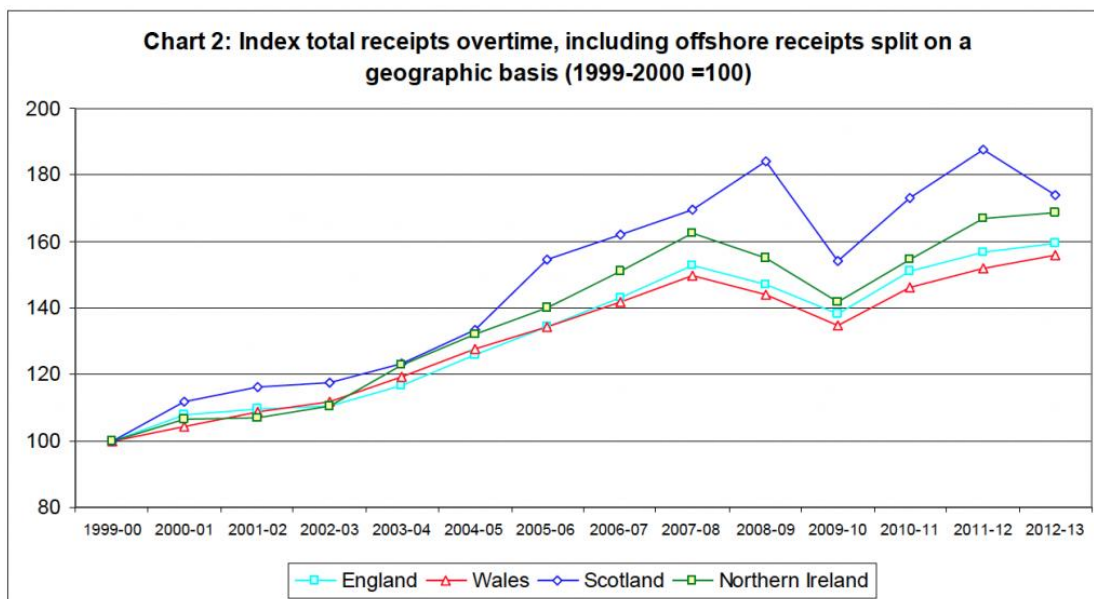


More recently, former Chancellor Denis Healey in an [exclusive interview with Holyrood Magazine](#) said:

“Scotland “pays its fair share” and that “these myths” are simply perpetuated by those that oppose independence”. And that “Scotland’s oil wealth had been squandered by Westminster rather than invested, while being underplayed (in value terms) by the UK government to subdue calls for Scottish independence”.

Scotland pays its way

We also now know from Scotland’s national accounts – [Government Expenditure and Revenue Scotland \(GERS\)](#) – that every single year for the last 32 years Scotland’s tax revenue generation per head has been higher than all the other UK nations. This is solid proof that oil price volatility isn’t a problem, for if it was, then at least once in 32 years Scotland’s revenues would have dropped below the average for the rest of the UK *but it never did*.



Latest regional tax revenue per head (Source UK government).

Last year, for example, Scotland generated 9.9% of the UK’s total tax revenue with only 8.4% of the UK population. When you add in the Barnett Formula, our share of the UK expenditure rises to around 9.3% last year, £4.4 billion short of the figure that Scotland would have had to spend if we had received 9.9%. As Business for Scotland showed previously, the No Campaign is self-evidently wrong when it tries to claim that [9.3% is a larger number than 9.9%](#).

Having had to abandon the overarching “too small, too poor and too stupid” approach, the No Campaign has resorted to obfuscation in its latest attempt to undermine the people’s confidence in themselves. Now they pursue completely untrue micro-arguments to confuse and spread fear and doubt. All of these scare stories have strength only in their complexity but are easily debunked in areas such as [bank bail-outs](#), [border control](#), [EU membership](#), [defence](#) and [currency](#) to name only a few.



Jackson Carlaw MSP
@JacksonMSP



Some of the arguments against #indy are becoming a bit silly #indyref

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The No Campaign's accomplices in some of the mainstream metropolitan media have been giving headline status to even the most ridiculous of scare stories without even a perfunctory examination of the facts. However even some of their own MP's find some of the claims to be embarrassing.

The debt trick

Looking at [Scotland's national accounts \(GERS\)](#) you can see that there is an expenditure line labelled "**Public Sector Debt Interest**" in 2011/12. This amounts to £4.1 billion and begs the question. Why does an oil rich nation at a time when oil and energy prices are high have to pay so much interest on debt? No other similar nation with a strong onshore economy and the additional bonus of a large and well established oil and gas sector like Scotland is burdened with such payments.

Note: *The £4.1 billion is simply the cost of servicing the interest on a much larger debt, there is no actual capital repayment element in that figure.*

So I looked back at 32 years of historic GERS data and found the following quite staggering:

- Every year for 32 years (the entire available data) GERS includes a deduction from Scotland's block grant equivalent to Scotland's population percentage share of Westminster debt.
- Over the 32 years, Scotland's share of UK debt interest amounted to £64.1 billion.
- However, during that time had Scotland been an independent country with its geographic share of oil revenues established under international law (as would be the case under independence) Scotland's' borrowing over 32 years would have been zero, nil, nothing, no pounds sterling at all.

I hope that is clear but for absolute clarity let me put it in other words. Scotland paid £64.1 billion (sixty-four thousand one hundred million pounds) interest on debt that Scotland had no need for, simply because we are not an independent country! As a result, on average, £2,000 million was ripped out of the heart of Scotland's economy every year for 32 years, to pay interest on loans that Scotland didn't take out and didn't need. ***How on earth does that make us better together?***

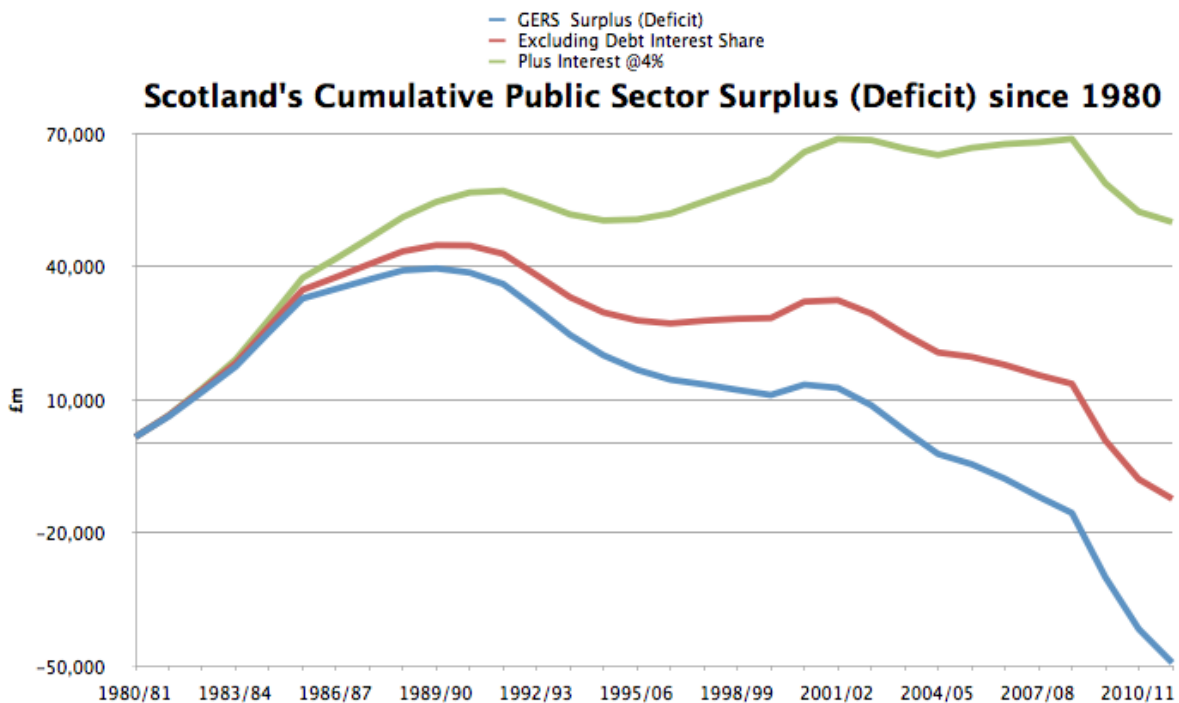
If Scotland only had to pay its own way

If Scotland had only to pay for its own debts then we would have been building up massive surpluses of cash for at least a generation. Cash that could have been invested in a sovereign oil fund to secure our pensions and to secure the NHS, cash that could also have been invested in infrastructure or the business of re-industrialising Scotland to create a larger, more successful and wealthier nation than we have now. When you look at GERS estimates of Historic Fiscal Balances with the interest on non-Scottish debt deducted it shows Scotland

had a cumulative public sector surplus until 2004/05 and a cumulative deficit of £49 billion by 2011/12. The sharp decline from 2005-12 was generated by the banking crash during the stewardship of Westminster Chancellor Alistair Darling, who is of course now head of the No Campaign.

Accumulating a massive surplus

However, if the Scottish population share of UK debt interest payments are removed from the Net Fiscal Balances, we can see the figures as though Scotland were an independent nation for the past 32 years. In those circumstances Scotland would have had a cumulative operating surplus until 2010/11 and lets not forget that the Scottish Treasury would have received interest on each annual surplus which changes the picture significantly. This assumes a 4% interest on the cash surplus, a very modest assumption since this is a nominal interest rate and much higher nominal interest rates were common during much of this period.



As an independent country Scotland would have enjoyed a massive cash surplus

That would mean that Scotland's cumulative surplus would have topped out at £68,718 million in 2008/9 and even after paying our fair and required share of the bank bailout (which was arguably caused by poor Westminster regulation but let's include it anyway), Scotland would still had a cumulative surplus of £50 billion in 2011/12. That £50 billion surplus is also after Scotland has paid for the cost of military spend such as nuclear weapons and action Scotland's Parliament voted against, such as the illegal war in Iraq which cost [British taxpayers at least £10 billion and ipso facto cost Scotland approximately £1 billion](#).

NOTE: With higher interest rate assumptions this would be a much higher surplus. The 4% interest rate is even more conservative if you factor in that Scotland could have started a sovereign oil fund such as Norway's which returned 14% growth last year, this means

that Norway has succeeded in creating an oil fund worth £460 billion since mid-1996. In fact, out of the 20 largest oil-producing nations in the world, only the UK and Iraq have not established oil funds. A point agreed with only last week by former Labour Leader Neil Kinnock.

The impact on Scotland

Clearly, we can see that Scotland is a wealthy nation but being part of the Westminster system has stopped us from becoming a wealthy society. The fact that Scotland's wealth does not stay in Scotland has led to a lack of investment in business and infrastructure, created worries about pensions, more poverty, lower life expectancy, a slow down of our economy and a population decrease due to the need for economic migration (a brain drain to London and the South East). These worries are the stock and trade of the No Campaign message – a bit like an arsonist complaining about a fire he started!

Respected former Scottish Office economist Jim Cuthbert and Margaret Cuthbert former economics lecturer and consultant recently wrote:

“In GDP growth, Scotland has been under-performing relative to the UK average and relative to other EU countries of similar size since at least 1963. The data showed that, over the period 1963 to 2011, in real terms, UK GDP increased by 329.3%, while Scottish GDP increased by 263%. In terms of average growth rates per annum, that for the UK was 2.514%, while that for Scotland was 2.04%: an average annual difference of 0.5%. Or to put it more simply [had Scotland's GDP grown at the same rate as the average of the UK since 1963, Scotland's GDP would be 25% larger than it is today](#)”.

Conclusion

In the 2011/12 Scottish public accounts, 70% of Scotland's nominal operating deficit was due to £4.1 billion of interest payments on debt we didn't need. If Scotland had been an independent country over the last 32 years we would have a cash surplus of around £50 billion even if we assume we would still have had the same expenditure including payments for banking collapse and nuclear weapons etc. If we had invested some of that £50 billion in a sovereign oil fund we would probably now have a much larger fund than Norway's and our economy could be 25% larger than it is today.

The very fact that the No Campaign can point at Scotland's economy and even remotely suggest that an independent Scotland would not have a massive advantage is testament both to a massive misinformation campaign over decades and to generations of economic mismanagement of Scotland's resources by Westminster. Most culpable of all is Alistair Darling. Not only did Alistair Darling fail to reinvest Scotland's oil wealth but was also asleep at the wheel during the banking collapse and the various banking scandals under his watch.

It is clear to all who investigate more deeply to establish the facts, that Scotland paying £64.1 billion of interest on debts taken out by Westminster to pay for its own failures – does not qualify us as better together. A yes vote will release Scotland's potential and remove the Westminster shackles, if we vote yes then Scotland's economy will thrive.

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About the Author ([Author Profile](#))

Gordon MacIntyre-Kemp is the Founder of Business for Scotland. Before joining Business for Scotland full time first as its MD and then CEO he ran a small social media and sales & marketing consultancy. With a degree in business and economics, Gordon has worked as an economic development planning professional, and in marketing roles specialising in pricing modelling and promotional evaluation for global companies (including P&G). Gordon benefits (not suffers) from dyslexia, and is a proponent of the emerging new school of economic thinking. Gordon Blogs for Business for Scotland, The National and The Huffington Post.