# The GERS report indicates that Scotland’s finances are in dire shape

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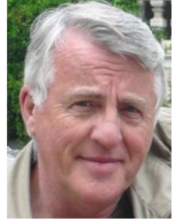
*A report recently published details Scotland’s fiscal position for the year 2013-14. It shows that relative to the UK as a whole, Scotland has been running a significantly higher deficit and has been doing so for 12 of the past 16 years. This is before the oil price collapsed, suggesting next year’s position may be still worse.* ***Brian Ashcroft*** *reviews the report and writes that if Scotland had been independent, or had ‘enjoyed’ full fiscal autonomy, with other things remaining equal, it would have had to have higher taxes, lower public spending or both than the UK.*



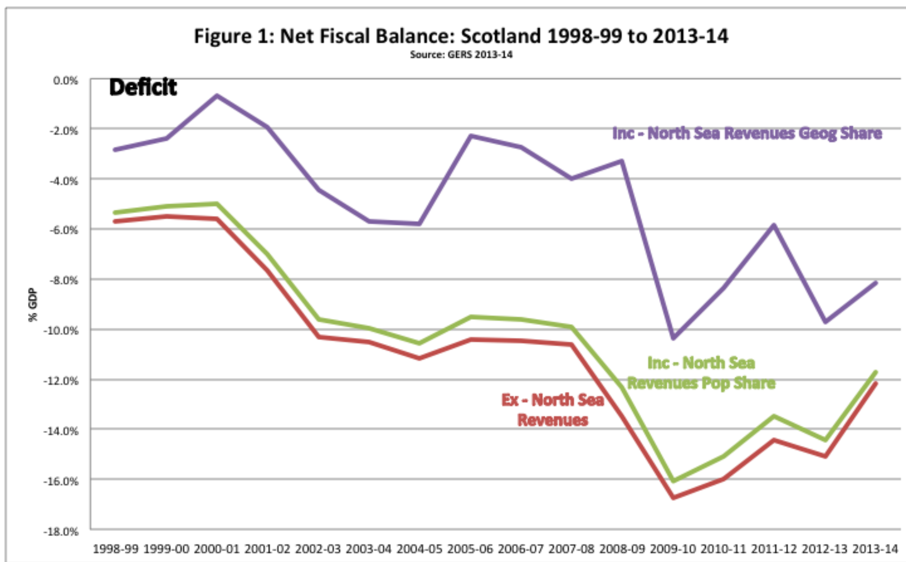
The latest Government Expenditure and Revenue Scotland (GERS), which was published on 11 March with data for 2013-14 provides a fascinating insight into the fiscal position of Scotland. GERS is a National Statistics publication and seeks to estimate the contribution of revenue raised in Scotland towards the goods and services provided for the benefit of Scotland under the current constitutional arrangements.

The only reason this annual exercise is undertaken is because Scotland’s constitutional arrangements are not settled. There has been an historic need to know whether an independent Scotland could “pay its way”, even though GERS would only provide an indication of the position on day 1 of independence. Moreover, following last year’s referendum on 18 September, further devolution is planned as the proposals of the Smith Commission are to be given legislative force after the coming May general election. Further devolution will, for example, require data on yields from shared tax bases and how much the Barnett formula should be adjusted to account for own-Scottish revenue generation. So, GERS is here to stay.

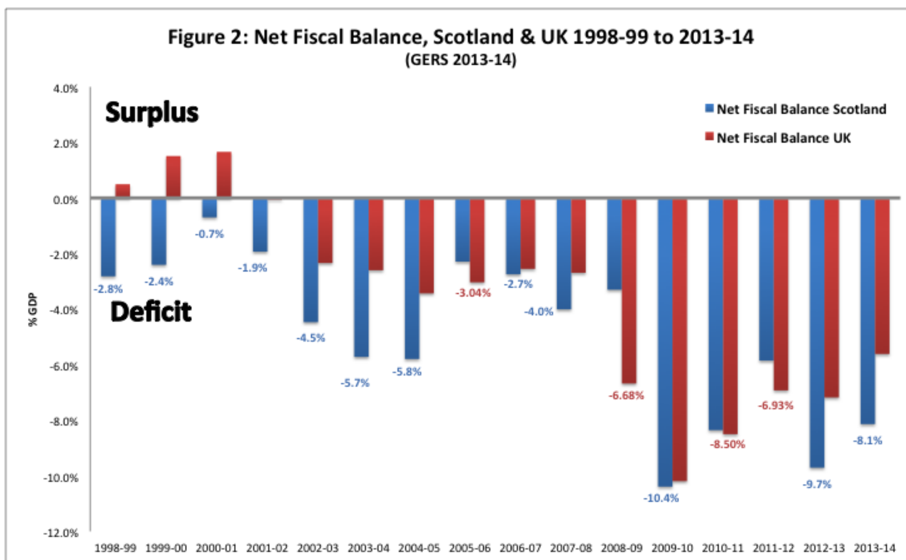
The latest GERS reveals Scotland to have a net fiscal deficit of 8.1 per cent of GDP in 2013-14 – when a geographical share of oil revenues is assigned to Scotland – while the UK deficit is 5.6 per cent. This greater Scottish deficit in 2013-14 is not a one-off phenomenon. The tables that can be downloaded from the Scottish Government’s website to accompany the GERS publication provide runs of data back to 1998-99. The reason for doing this is that a new system of economic and government accounting has been adopted in the UK first and now in Scotland. This system, known as ESA 2010, along with some other revisions, have resulted in, quoting GERS 2013-14:

> *“public revenue, expenditure, and GDP are higher than previously estimated. This has led to revisions to Scotland’s fiscal aggregates in all years.”*

Figure 1 shows that Scotland has run a deficit in each of these years. However, when a geographical share of North Sea oil revenues is included the deficit falls considerably.




But as Figure 2 shows the deficit is invariably larger than for the UK as a whole. What is evident from Figure 2 is that in only 4 of the 16 years was the net fiscal balance in Scotland better than in the UK. (I have included data labels only for the largest deficit, Scotland or UK in each of the years.) What that means is that in 12 of the 16 years if Scotland had been independent, or had 'enjoyed' full fiscal economy, with other things remaining equal, it would have had to have higher taxes, lower public spending or both than the UK.




The absolute size of Scotland's estimated net fiscal deficit in 2013-14, at a time when oil prices – the principal driver of oil revenues – were almost twice as high as they are now, was £12.4 billion. This means that if Scotland had 'enjoyed' full-fiscal autonomy (FFA) in 2013-14 the Scottish Government would have had to fund that deficit by a mix of borrowing, higher taxes and lower public spending. If we assume that under FFA Scotland could have been able to borrow to fund a deficit the equivalent of the UK's 5.6 per cent – which would have been a tall order for a sub-state government, or an independent Scotland, at the same borrowing rate as the UK – then a further £3.8 billion would have had to be funded by higher taxes and lower public spending.

Now we need to be clear about the significance of that. £3.8 billion amounts to half the cost of the Education & Training budget and one third of the Scottish Government health budget. So, it is not a trivial sum, to say the least.

The Institute for Fiscal Studies (IFS) have estimated that the situation will almost certainly deteriorate further in the coming fiscal year due to the halving of oil prices in 2014 and the possibility that oil prices may stay considerably lower than the Scottish Government's expected price of $110 per barrel for some time. They estimate Scotland's deficit would be around 4 per cent of GDP, higher than that of the UK as a whole. In cash terms, this is equivalent to

a difference of around £6.6 billion.

Moreover, Fiscal Affairs Scotland have estimated that by 2019-20 with declining oil production as well as continuing low oil prices, using the OBR's forecast of oil revenues and the current UK coalition government's fiscal plans, Scotland's overall fiscal balance will amount to a deficit of 2.7 per cent of GDP compared to a 1 per cent surplus in the UK.

The Scottish Government has plans to grow the Scottish economy and so the 'other things equal' assumption stated above may not hold. A faster growing economy would raise tax revenues and reduce the deficit. But it is not at all clear how they propose to raise the growth of the economy and whether such a policy would be successful. Against that background we can reasonably ask, what price Scottish fiscal autonomy and what price Scottish independence?

*Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting. Featured image credit: Joel Suss CC BY 2.0*

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