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The Smith Commission – buying the Great SNP Bluff

From Bob Lyddon, the author of

"Why Scotland must keep the pound - and why it can't. SNP afraid of exposing Scotland's credit rating – but it must, and expose the real future for an independent Scotland"

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Preface – and the Thirty Aspects of the Great SNP Bluff

This paper was started only a few days after the referendum in which a vote of 55% for No rejected the SNP's Yes proposal, and thereby their entire Prospectus for an independent Scotland.

Since then that democratic decision has been undermined by the contention that these 55% all voted for a major change in the relationship between Scotland and the UK.

This undermining started with the 'vows' made by Cameron, Clegg and Miliband to deliver greater devolution of powers in the event of a 'No' vote, and then led on to the assumption that this intervention swung the result.

This unproven and unprovable thesis has been developed over the intervening period into the Smith Commission Report, and now the document "Scotland in the UK: An enduring settlement", incorporating the draft clauses of a future Scotland Bill that would convert the 'vows' into law. Within this document the "Smith Commission Report" as it is called on its title page has morphed into the "Smith Commission Agreement". The "Smith Commission Report" thus pretends to be more than it is: the original was not signed by its supposed parties and simply contains a number of debatable assertions ordered into chapters to which it has assigned the title "Heads of Agreement".

By these increments the unproven, unprovable and debatable take on the guise of undisputable fact. Each stage entrenches the fault lines in the previous one, and the output of each stage of entrenchment attests to its own validity in terms of previous entrenchments, and to the openness of the debate that has led to its findings.

The Smith Commission is built on false foundations but the speed of its creation and conversion - short-circuiting public debate and the chance of detailed examination of contents, let alone challenge – has served to mask this.

Where did it all go wrong? At the beginning and in the mandate given to Smith Commission. That is where the problem lies and why it has been decided that this paper should still focus on the Smith Commission Report and all that led to it, and why the Smith Commission Report is invalid and should not be allowed to stand.

There can be no rational dispute but that "Scotland in the UK: An enduring settlement" does accurately and consistently convert the "Smith Commission Report". It is not a betrayal of Smith Commission as the SNP has claimed. The betrayals came much earlier, in the basis for and inputs into Smith Commission.

This is not to defend The Smith Commission Report in any way, a document convinced of its own merit and fairness, and oblivious of its shortcomings and myopia.

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The report simply glosses over the factors that fatally undermine it:

- That the UK is one nation and that the Scottish people voted decisively for it to remain so
- That no deal which involves money and borrowing in Scotland can be neutral to the rest of the UK: the concept of a "no-detriment" deal is a pipe dream
- That it is fundamentally wrong that the group of Scottish politicians be allowed to make a deal which has applicability to the whole of the UK without any representation from rUK in the room
- That the language about the future fiscal deal between Scotland and the UK and about fiscal responsibility are laughable when one considers the UK's current fiscal situation, the lop-sided arrangements between Scotland and rUK now, the many government entities that borrow and spend irresponsibly now, and particularly how the SNP has been so irresponsible already with its PFI spending
- That we learned during the independence campaign that Scotland scarcely has a private sector economy of its own now, beyond oil&gas, but it is enjoying above-average public spending per head with below average taxes contributed per head
- That Scotland would have had no chance of keeping its public spending at £62.5 billion per annum after independence
- That Scotland's deficit as a percentage of GDP is far higher than that of the UK as a whole, and it is making a disproportionate contribution to the increase in the UK's national debt

Scotland - as an independent nation within the EU – would not be a wealthy country. It could afford a living standard in line with EU periphery countries and a much lower level of public services, pensions and benefits than now. Its financial situation would at once come to resemble that of Greece, ruled by a party that bears a strong likeness to Syriza.

The Smith Commission appears to have deliberated in a bubble, and to have largely accepted the thesis that Scotland would have been perfectly fine as an independent country, that instead it is rUK that benefits from Scotland's continued membership of the UK, and that in consequence Scotland needs to be awarded extra freedoms and benefits.

This threatens to perpetuate the myths woven by the SNP during the referendum campaign and which caused the 'Westminster' politicians to make their last-minute 'vows'. This will perpetuate the UK's instability and leave rUK with a gun to its head.

The thesis that Scotland would have been perfectly fine as an independent country is a myth, a bluff, which is broken down in this paper into 30 aspects. In the light of that the Smith Commission report is invalid and should be shelved.

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Thirty aspects of the Great SNP Bluff:

1. The SNP’s Unilateral Independence model means Scotland would not exist
2. The SNP’s currency union required a Separation Treaty to be signed – rUK wouldn’t sign
3. A currency union was possible - on terms negating the SNP’s Prospectus
4. rUK can easily stop Scotland using the pound
5. Walking away from the national debt was the same as Unilateral Independence
6. Scotland might not have been in the EU at once or - under UDI - ever
7. Government work would have moved to rUK after independence – by law
8. Government/financial services work would have moved to the EU – by law
9. Scottish banks would have moved their substance to rUK - with the jobs – by regulation
10. rUK customers would have forced financial services work back to rUK – by demand
11. There is not much oil left for Scotland - or for any of us
12. Barnett Formula Payments of £1,310 per head to Scotland would have stopped
13. Independence would make tax money flow in a different circle but not increase it
14. No certainty that pre-independence public spending could be sustained
15. Scotland would face at least £10 billion of public spending cuts if it was in the EU
16. Scotland would also have been in the ERM if it had adopted a currency like the Danish krone
17. Salmond should learn about the “free-floating” Swedish krona, a dead letter
18. In the EU or outside it: a deflationary monetary policy and wasting of foreign exchange reserves
19. Salmond had to avoid being a ‘Wally Without A Brolly’
20. Scotland may have a black hole in its NHS budget anyway
21. The SNP has maxed out on Private Finance Initiative funding for schools and hospitals
22. Sterlingization, UDI and even independence itself could have put PFI in default
23. Disastrous impact of SNP policies on foreign investors – supposed bedrock of the new Scotland
24. Removing Trident is not a money saver for Scotland
25. Scotland saw itself as a Dubai without the weather
26. Or an Ireland without the Double Taxation Treaties
27. As a socialist nation, it was willing to use all the tools of neo-liberalism
28. Why would Ireland not have vetoed Scotland’s application for EU membership?
29. Why would France, Germany, Italy and Spain have welcomed Scotland to the EU?
30. Thanks to the USA, the market for Scotland’s positioning is shrinking anyway

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Source Documents and methodology

Scotland in the UK: An enduring settlement

Institute for Fiscal Studies: "Scottish Independence: the fiscal context. IFS briefing note BN135"

Summary and full versions of the SNP Prospectus for independence:

- "Scotland's Future: Your Guide to an Independent Scotland – A Summary"
- "Scotland's Future: Your Guide to an Independent Scotland"

UK Treasury Technical Note issued on 13.1.14: UK debt and the Scotland independence referendum

The Smith Commission Report

The Edinburgh Agreement

"Much cost, little benefit – the economic costs of Scottish separation", by Ewen Stewart and issued by the Scottish Research Society

Methodology

"I am a banking professional and do arithmetic. I am not an economist so I have used authoritative economic data, without investigating whether that data itself is sound: it really should be. That means using the Office of National Statistics, the Scottish government, the Institute for Fiscal Studies and others.

However, even then it is very difficult to get consistently based, simply expressed, high-level information over a period of several years. For example there are reams of data from the ONS about percentage changes to GDP, quarter-by-quarter, but it is much more difficult to find the main figure: what is the UK's GDP?

In an era of low inflation and interest rates, I have risked using reliable figures from adjacent years, rather than guessing or extrapolating figures for a particular year where the figure is not easily sourced.

The results of using my methodology are accurate enough, I believe, because the outcome is so obvious that £1 billion here or there does not matter".

Bob Lyddon
Thames Ditton
February 2015

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The author

Bob Lyddon is an expert in international banking, working through his own consultancy company Lyddon Consulting Services.

Bob's particular areas of expertise include banking regulation, the sovereign debt crisis, and international money transfer and electronic banking.

In January Bob wrote the paper "**Why Scotland must keep the pound - and why it can't. SNP afraid of exposing Scotland's credit rating – but it must, and expose the real future for an independent Scotland**".

This paper gained wide publicity during the referendum campaign, not least when a senior executive at Barrhead Travel in Glasgow pointed his staff to it as the best document for understanding the risks of voting Yes, and brought a barrage of CyberNat abuse down on himself.

Bob's writings on the campaign appeared in several national newspapers and he made two appearances on BBC World TV, and one on Ireland's Today AM show.

Bob has consulted for major organizations on the Single Euro Payments Area and Payment Services Directive, and in 2012 he published an authoritative paper on the UK's financial liabilities on the European Investment Bank, the European Central Bank and Eurosystem, and the European Community, quantifying the liability at nearly EUR150 billion. This paper – "The UK's risks and exposure to the European Investment Bank and other European financial mechanisms: amounts, safeguards and breaches in the dyke" – contributed to the UK Treasury including the UK's contingent liability on the European Investment Bank in the national accounts for the first time.

Bob is also the coordinator of the central office of IBOS Association, an international payments and electronic banking organization that, thanks to recent expansion in the Americas, now offers access to nearly 60% of global GDP, and 90% of the regional GDP of Europe and the Americas.

Between 1997 and 2000, Bob was a Principal in the Strategic Change Management Consulting practice of PricewaterhouseCoopers, and managed several projects for the original implementation of the EUR, notably in Luxembourg and London. This involved step-by-step planning and implementation of "redenomination", a key component in a change of currency.

In a banking career over 17 years Bob was latterly Director of European Cash Management at BankBoston, where he designed of the Connector multibank payments network, and initially with Lloyds Bank International, where he was involved with Sovereign Risk lending under the Dutch government export credit schemes, financing such projects as dry docks in Nigeria constructed by the Royal Dutch Harbourworks company, and a new airport in Djakarta for the Indonesian government.

Bob obtained a First Class B.A. degree in Modern Languages at Fitzwilliam College Cambridge in 1980, and speaks French, German, Norwegian and Dutch. He had periods of study at the universities of Bergen and Freiburg-im-Breisgau, and lived in Antwerp, Zurich and Amsterdam while working for Lloyds Bank International.

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Executive Summary – the Great SNP Bluff

- The SNP's case for independence was a bluff and they have hijacked the interpretation of the result, breaking the Edinburgh Agreement in many ways
- The Smith Commission offers validation to the SNP and will deliver to the SNP the best of all possible outcomes for them
- 55% of Scots voted against that and the rest of the UK were not even asked their opinion
- It is fundamentally unacceptable that rUK be expected to respect the 'vows' when the opponent – the SNP – has disrespected the Edinburgh Agreement from top to bottom
- With oil at $50-a-barrel, all bets should come off
- With the UK's public finances as they are and Scotland contributing disproportionately to their state, the direction of travel should rather be to re-examine and roll back the existing devolution arrangements and funding, Barnett Formula and all

The SNP economic case for independence was a bluff when oil was at $115-a-barrel, and depended – through the mechanism of keeping the pound as Scotland's currency – on retaining backing for Scotland's debts, banking system, benefits and pensions from rUK.

With oil at $50-a-barrel and North Sea producers clamouring for tax cuts to keep any production flowing at all, we simply have a situation where Scotland is spending £1,500 more annually per head than the UK average of £10,500, and that Scotland's tax revenues fall far short even of £10,500: the gap is bridged by an outright wealth transfer.

This transfer is effected firstly by cash payments: the block grant to Holyrood from Westminster is £18 billion per annum higher than Scotland's tax contribution to the UK from non-oil&gas sources. Oil&gas taxes attributable to Scotland – based on the 84/16 split that pertained in 2012 - were £5 billion in 2012 and £4 billion in 2013.

Secondly, even the non-oil&gas tax revenues that Scotland does contribute are substantially supported by Scotland discharging work in the financial services and government areas that relates to rUK.

Thirdly England is Scotland's largest trading partner: many Scottish jobs – and the concomitant taxes – exist due to England's agnosticism as to where in the UK the products and services it buys are created, an agnosticism that could well have ceased upon independence, especially if Scotland had had a different currency.

This is the antithesis of the picture painted by the SNP's impressionist brushstrokes of a robust, dynamic, young, healthy, and wealthy picture of an independent Scotland in which the SNP had all the negotiating cards in its hand over the terms of the separation from rUK.

The "Thirty Aspects of the Great SNP Bluff" – which add up to this impressionist masterpiece – are enumerated in this paper.

However the main objective of this paper is to consign the Smith Commission report and recommendations to the dustbin.

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The Smith Commission appears to have operated in a bubble, a bubble that must now be burst. Outside the bubble the people of the UK as a whole should be allowed to know what the current deal is between Scotland and rUK as regards powers, benefits, and pooling of costs and risks.

That deal needs to be examined, critiqued and justified before it can be allowed to continue. Is it fair to the rest of the UK given the overall situation around the public finances? It has to remain open as a possibility that certain aspects be withdrawn in order to balance the status quo.

Only after the current deal has been re-based can there be a discussion of more powers, and more powers must mean a concomitant reduction of pooling of costs and risks.

And actually it is a sham to imagine that Scotland can create its own risks - e.g. by borrowing, by having different levels of tax, by its PFI deals – that are not pooled with the rest of the UK, or that any financial deal for Scotland does not cause costs and risks for rUK.

That is because the UK is one country and 55% of Scots voted for it to remain so, and not to be subject to a deal that is de facto independence and delivers the SNP almost all of the benefits it wanted but with even fewer risks.

Would it really be so unpalatable and dishonourable to just cancel the Smith Commission and ignore the ‘vows’? After all it was the SNP’s misrepresentations that caused the ‘vows’ to be given. Why should honourable people have to stick to their word when faced with an opponent who doesn’t?

The alternative – a much better deal for Scotland than for the rest of the UK – just plays into the SNP’s hands and strengthens their position and ability to spend more, correspondingly weakening rUK and damaging the cohesion of the UK as a whole. The Smith Commission report pretends that Scotland can have more powers including borrowing without rUK being weakened, but this report demonstrates that this cannot be the case.

Smith Commission is de facto independence and thus fails on its own terms of reference. It countermands the will of the Scottish people, who voted ‘No’ to independence (de facto or de iure).

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False statements in "Scotland in the UK: An enduring settlement"

If you start off on the wrong foot, you will finish on the wrong foot. "Scotland in the UK: An enduring settlement" starts off, in its Preface by David Cameron and Nick Clegg, by entrenching a different interpretation of the outcome of the referendum than the one the Man on the Clapham Omnibus might have been forgiven for reaching when reading his Daily Sketch and seeing that 55% of Scottish voters had answered "No" to the question "Should Scotland be an independent country".

The main false statements are given below; they derive from the process starting with the SNP's big bluff, the opinion polls running up to the referendum, the giving of the 'vows', and then the Smith Commission.

It is the Smith Commission Report that enshrines and entrenches the most dangerous and wrong concepts, which is why this paper focuses on the Smith Commission Report.

What the process really shows is that no cigarette paper can be fitted in between devo-now and a devo-max within a unitary country. By going down this path the 'Westminster' politicians become parrots of SNP doctrine and ensure both MAD – mutually assured detriment – and the undermining of due constitutional process: 55% of voters rejected what "Scotland in the UK: An enduring settlement" will now convert into law.

Statement in "Scotland in the UK: An enduring settlement"	Why it is false
But we have also been clear that the Scottish people did not vote for the status quo	Yes they precisely did: "No" to a simple question is not – in a democratic society – open to reinterpretation. This accepts the SNP version of the result: that 45% of Scottish voters wanted to leave the UK completely and 55% wanted to relationship to change substantially
They voted for more decisions to be taken in Scotland, as part of a fair and enduring constitutional settlement across the UK	Once again that is an interpretation at odds with the question on the paper. It is that question which is the anchor point, not the vague 'vows'
For the first time the majority of money spent by the Scottish parliament will come from revenues raised in Scotland	Is this good when Scottish tax revenues are so weak? Scottish voters opted in the referendum for a retention of the costs-and-benefits-pooling of the UK, the opposite of what is now proposed
This is an important breakthrough that will increase responsibility and accountability of the Scottish parliament to Scotland's citizens	Will it increase responsibility, with the SNP at the helm and new borrowing powers? That is very doubtful. The SNP will max out like they have with PFI, and that creates risks if Scotland is dependent upon its own tax revenues
Crucially this package was agreed by all five of Scotland's main political parties	So what, if the organisation bankrolling the party was not allowed to be in the room? The agreement decided to continue with the Barnett Formula, the mechanism ensuring that Scottish public spending remains at a high level, and why would they not do that? The problem arises when cuts have to be made at a UK level, Scotland's spending is locked in and so the cuts fall only on England. That is the scenario we face and it undermines the "no detriment" concept

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Statement in "Scotland in the UK: An enduring settlement"	Why it is false
Having a more responsible Scottish Parliament inside a strong United Kingdom delivers the best of both worlds and is what people in Scotland voted for	It precisely is not what the Scottish people voted for if one accepts the meaning of the word "No" and of the question "Should Scotland be an independent country?"
..more decisions affecting Scotland made in Scotland	As per the above: a "No" meant retention of the status quo

And so we are moved, thanks to a combination of the incompetence of the 'Westminster' politicians and the unscrupulousness of the SNP, from a clearly-expressed view of a "No", to a set of recommendations that dissolve the UK on a de facto basis if not a de iure basis.

The arrangement will not be sustainable because it will soon come to be seen as unfair to the rest of the UK. Nevertheless it will go into law in 2015. We are embarked upon that course because the SNP was allowed to control the referendum campaign and, crucially, its debriefing. One cannot fault Alex Salmond for his gifts as a demagogic orator, but one should be able to expect more from his opponents – those from 'Better Together' that spoke for the Scottish majority and – heaven help us – Cameron, Clegg and Miliband whose role was to represent the majority who were compelled to be silent, namely the losers in all of this, the citizens of the rest of the UK.

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Debriefing the referendum result and the SNP's breaching of the Edinburgh Agreement

- The SNP lost but have dominated the debriefing
- They have broken the Edinburgh Agreement, which should be ignored by rUK as well
- The SNP got within a 10% margin of victory not because of the strength of their arguments but because their unscrupulousness
- That should not be rewarded

Notwithstanding the rejection of their Prospectus, the SNP have seized on the debriefing of the result of the referendum, threatening Unilateral Independence (Salmond) or another referendum within 5 years (Sturgeon).

The SNP has not accepted the result as it previously promised to do, inventing instead the claim that it was robbed of victory by the 'vows' of the so-called 'Westminster' politicians made shortly before the vote (how long before they are dubbed the September Criminals?). In reality the SNP only came within 10% of a Yes vote thanks to the many bogus claims in their Prospectus, and their unprincipled invention of a threat to the Scottish NHS.

This paper provides an alternative fulcrum for the debriefing of the result – namely that sufficient voters saw through the SNP's claims to vote No, and that a large number of the voters who went for Yes would have been betrayed when the SNP's Prospectus was later shown up for what it was. It is the Yes voters who were lied to, not the No's.

The SNP chooses to project the Yes vote as a locked-in platform of younger voters, a springboard for a victory in a future referendum, once they outnumber the No voters as the latter start dying off.

Instead the author views the size of the Yes vote as an absolute high water mark. The result was a clear No even though the timing/question/electorate for the referendum were of the SNP's choosing. The SNP had arranged significant window-dressing in the funding of the NHS and Education service to make Scotland look better off than it is. The SNP overestimated the oil&gas tax revenues. The threat to the Scottish NHS from the Conservatives was made up. The SNP's economic and monetary claims were the antithesis of Scotland's actual situation and prospects.

The SNP's debriefing of the referendum result includes a noxious "Stab in the Back" theory.

This theory rests upon the contention that the 'vows' alone deprived the SNP of victory and the Scottish people of their birthright, and that the 'vows' have already been broken.

The negotiations around the next version of devolution are being pursued in an atmosphere of recrimination, fuelled by the SNP with their own set of demands for devo-max:

- 'stab in the back/we wuz robbed' theory
- The SNP claiming that 55% of Scottish voters voted for substantial change of the relationship between Scotland and rUK, and that the rest voted to leave

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One can agree that 45% voted to leave, and because of what the SNP told them. Much of that was false or distorted, which begs the question as to how big the Yes vote would have been if the SNP has been truthful.

The contention that the other 55% of Scottish voters voted for substantial change of the relationship between Scotland and rUK is false and based on the distortion that they all voted 'No' because of the 'vows' and the 'vows' alone. They simply voted that Scotland should not be an independent country.

There is no proof the SNP were ever in the lead – the polls consistently understated the No vote by 5-6%. In addition to that, the SNP only recovered a -20% deficit to a -10% result by making bogus claims of threats to the NHS, which they themselves control in Scotland.

55% voted No both to de iure independence, and also to Scotland having such a degree of devolution that it amounted to de facto independence.

De facto independence comes about when greater freedoms and benefits for Scotland go further than a given line and necessitate a corresponding withdrawal of the pooling of costs and risks with rUK. The deal for Scotland has to be a fair deal for the voters in rUK too. But if the process is followed to its logical conclusion with each ratcheting-up of devo-max to devo-super-max, and corresponding liquidation of cost- and risk-pooling, the UK ceases to be one nation just as surely as if Scotland had achieved de iure independence.

That line is now being drawn, and Gordon Brown, Cameron, Miliband and Clegg risk getting out of step with what the Scottish people voted for, which is that Scotland wishes to retain pooling of costs and risks with rUK.

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The constitutional position of the 'vows', their invalidity and the invalidity of the platform on which the Smith Commission report is built

- The 'vows' have no constitutional validity and should be ignored
- Otherwise we buy off on the SNP's 'stab in the back' theory…
- … and open the way to the SNP mandating independence through a vote in Holyrood
- The Smith Commission process is invalid and unnecessary

Whilst Alex Salmond's line of argument is self-serving and spurious, it is nonetheless coherent within its own logic and it is underpinned by the intervention of the three UK national party leaders. The line is:

- 'Westminster' politicians abused the processes of parliamentary democracy by making the 'vows' without proper discussion in Cabinet or in the House of Commons (yes they did)
- Gordon Brown had no right to intervene, flash rUK's cheque book, and circumvent the democratic process (he didn't – he ceased to be Prime Minister in 2010, and his intervention was both a coup d'état and a coup de théâtre)
- 'Westminster' politicians immediately broke their own 'vows' (no they haven't – not yet)
- that invalidates the referendum result (no it doesn't, but the 'vows' have permitted the SNP to severely muddy the waters as to its meaning)
- why, then, should the SNP not similarly ignore the mechanisms of democracy when those mechanisms have stabbed the Scottish electorate in the back?
- Why should the SNP not put Unilateral Independence in their next Holyrood manifesto, and – as long as they obtain a democratic mandate from the Scottish people – validly vote themselves out of the UK?

The Smith Commission has fallen right into the bear trap of the SNP's argumentation.

The SNP logic chain has an eerie, beguiling and – for anyone with an interest in German history - familiar ring.

Why should Germany after 1933 be bound by the terms of the Versailles Treaty which had been foisted on it by an opponent that spouted the language of democracy and freedom on the one side, whilst crucifying Germany on the other? What was the validity of Germany's representation in the treaty negotiations if it was the same Weimar politicians who had stabbed the German army in the back by signing the armistice in November 1918?

For 'Weimar' read 'Westminster'. Cameron, Clegg and Miliband are then to Salmond what Scheidemann and Erzberger were to Hindenburg and Ludendorff, and later to a certain Bohemian corporal.

The parallel is a good one because in reality Hindenburg and Ludendorff were the sole architects of Germany's political and military demise, had run Germany as a virtual dictatorship since 1916, but threw the whole problem into their opponents' lap at the moment of defeat, so as to absolve themselves from blame and create a myth of betrayal on the back of which they hoped later to be able to regain power.

Equally toxic is Salmond's line that young Scots were deprived of their birthright by the votes of Scots over the age of 55. With that disgraceful 'Tomorrow Belongs To Me' statement as the starting point there is no further ethical bridge to cross before designating older No voters as Enemies of the People.

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The SNP lost because their arguments were fallacious.

They firstly misled the voters about the process of the referendum, just as they are misleading voters now around the meaning of the result.

The SNP misconstrued the Edinburgh Agreement as committing the UK government to work solely in the interests of the Scottish people after a Yes vote, and convert the referendum result into law:

- Ignoring that the Edinburgh Agreement committed both the UK and Scottish governments to work in the interests of the people of rUK as well as of Scotland; it did not make any rules for when the respective interests clashed, a defect in the agreement wording
- Wrongly holding out a Yes to “Should Scotland be an independent country?” as being equivalent to an Enabling Act (an “Ermächtigungsgesetz”) for the SNP Prospectus
- Imagining that the results of a referendum held solely in Scotland amongst Scottish voters could be binding upon rUK as regards the detailed terms of its implementation in areas impacting rUK
- Glossing over the need for a formal separation treaty to be negotiated and signed with rUK, in the absence of which Scotland’s option would be to declare UDI and categorise itself as a secessionist province without a valid identity
- Submerging the obvious truth that in any negotiations on the separation treaty the representatives of the people of rUK would be duty bound to strike a favourable deal for their constituencies, taking little regard for the contents of the SNP Prospectus and still less for the opinion of the Scottish people since they would cease to be voters in rUK

In that respect the SNP grossly exaggerated, and to the Scottish people, the powers that a victory in the referendum would put into the SNP’s hands.

The SNP also neglected to mention to their own people that the SNP’s bargaining stance and inflated Prospectus claims – plus confrontational campaigning style – would inevitably poison the separation negotiations and likely backfire, resulting in a treaty on terms not only very different from the contents of the Prospectus but possibly worse than could have been achieved under a calmer approach.

They secondly misled the voters about Scotland’s economic prospects, leading with the currency union and building on that to infer that things could only get better.

There was never any chance that rUK would sign a separation treaty allowing Scotland to continue to use the pound within a currency union and the wider settlement described in the SNP Prospectus.

The SNP made many misrepresentations in its Prospectus and in its campaign, and indeed flouted the Edinburgh Agreement from the moment it was signed and right up to the present. They are not solely to blame for the current imbroglio, but they must carry the principal blame.

The Edinburgh Agreement, signed by Alex Salmond and Nicola Sturgeon as First Minister and Deputy First Minister, committed the UK and Scottish Governments to a referendum that should:

- “be conducted so as to command the confidence of parliaments, government and people”
- “deliver a fair test and a decisive expression of the views of the people in Scotland and a result everyone will respect”

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Furthermore it stated that “the governments are agreed that the referendum should meet the highest standards of fairness, transparency and propriety, informed by consultation and independent expert advice”.

The agreement concludes with para 30 on Cooperation, by upholding the “principles of good communication and mutual respect. The two governments have reached this agreement in that spirit. They look forward to a referendum that is legal and fair producing a decisive and respected outcome. The two governments are committed to work together constructively in the light of the outcome, whatever it is, in the best interests of the people of Scotland and of the rest of the United Kingdom”.

Cameron, Miliband and Clegg – via the vows – have broken the Edinburgh Agreement by undermining confidence in the referendum and allowing the SNP to disrespect the result, meaning they have been able to cavil with the “decisive expression of the views of the people in Scotland”.

The “Better Together” campaign, though not a signatory to the Edinburgh Agreement, ran a campaign that was very short on independent expert advice. This allowed the SNP to persist with many aspects of its prospectus and even build on them, when expert analysis was available that could have decisively unpicked the SNP’s arguments. There has to be a suspicion that the leaders of “Better Together” found themselves conflicted: had they told the truth about an independent Scottish economy, it would have revealed their own role, as leading Labour politicians, in building up the total economic dependency on England as well as in the Scottish banking disaster.

Surely, however, a value judgement is allowable here, to weigh this breach by Cameron, Miliband and Clegg and the inadequacies and conflicts in the “Better Together” campaign against the multiple and persistent breaches of the Edinburgh Agreement by the SNP:

- A Prospectus that was a wishlist on the economic side, based on a supposition of the oil price rising to $140-a-barrel
- Did not conduct their campaign “so as to command the confidence of parliaments, government and people”
- Encouraged an atmosphere of threat against “No” voters and accusations of lack of patriotism against prominent figures who supported “No”
- Lied about the threat to the NHS in Scotland
- Used advice from “experts” appointed and paid for by themselves who would not appear and be interviewed in person (on the currency issue the main SNP expert was based in Hong Kong and was unavailable)
- Issued interpretations of advice received and denied the public access to the raw research
- Refused to reveal their legal opinion on EU entry and the “continuity of effect” argument, leading to doubt as to whether the opinion even existed
- Have not respected the result
- Are not committed to work together [with the UK government] constructively in the light of the outcome
- Have no interest at all in the best interests of the people of the rest of the United Kingdom

One can conclude this section by asking a simple question: how can the Smith Commission be valid when this is the platform it is built on?

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Context of the Smith Commission report in the Barnett Formula and the UK's deficit and national debt

- The Smith Commission allows a fixing of Scotland's already generous financial settlement in the context of austerity in the UK as a whole
- Scotland cannot remain immune from the results of excessive spending to which it is a disproportionate contributor
- The Barnett Formula is well past its sell-by date, and it has ensured that the UK's oil wealth was all spent in Scotland
- This undermines a key position taken by the SNP on the UK national debt

Section 2 of "Scotland in the UK: An enduring settlement" on the future Fiscal Framework between Scotland and rUK represents as laudable and schoolmasterly tour d'horizon of how to establish such a framework for taxation, borrowing and spending in a unitary nation state with devolved government as well. It makes lovely reading.

The trouble is that the UK's fiscal framework is broken, with far too many devolved government entities that spend central government money, and can also create borrowings themselves, like PFI. The UK's fiscal framework is detrimental to every UK citizen, and in particular the arrangements between Scotland and rUK right now are detrimental to the citizens of rUK. Citizens of rUK suffer a double disadvantage.

The UK is running a deficit of public expenditure against tax revenues of 5% of GDP. This is magnified in Scotland – it is 7%.

Public expenditure per head is much higher in Scotland than in the rest of the UK, and tax revenues per head are lower. Scotland already enjoys a financial settlement more generous than the rest of the UK.

Meanwhile the UK's situation is parlous and requires the deficit to be eliminated; this is rendered all the more difficult when certain parts of the country are running a magnified version of the UK's problem.

It is rendered still more difficult if there is a process – like the Smith Commission – where the beneficiaries of the distortion are permitted unilaterally to crystallise it in perpetuity. All this means is that the cuts, when they come, must fall disproportionately on the rest of the UK.

This is unfair when the Smith Commission is the result of a process in which rUK voters had no say. The Smith Commission seems to have deliberated in a bubble, where the deficit and the increasing public debt do not exist, and nor does the fall in the price of oil.

Now that Northern Ireland has received a settlement that increases funding there, the Smith-adjusted public expenditure cuts will be super-focussed on England and Wales. This is unfair on Wales from an English perspective: Wales should be rewarded, not punished, for causing less aggravation…

So, if Wales enjoys a pari passu status with the guarantees given to Northern Ireland and Scotland, all the cuts fall on England.

The Smith Commission have taken, as a given, the mechanism whereby public expenditure per head is higher in Scotland than in the rest of the UK: the Barnett Formula. Furthermore this is a mechanism that takes no account of where the tax revenues arise that enable public expenditure to be expended.

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The Barnett Formula can be regarded as a form of Danegeld, paid since the 1970s and one of the mechanisms whereby the oil wealth of the UK has been recycled into Scotland:

- Above the Plimsoll line – via Barnett Formula payments
- Below water the line – the portion of the block grant the represents the difference between average UK public spending per head and Scottish tax revenues per head
- As the ballast - by locating work related to rUK into Scotland

There is no reason why public expenditure per head in Scotland must remain higher than in the rest of the UK as of right. The oil wealth has been spent in Scotland via the Barnett formula payments since the 1970s, and there is no outstanding IOU from rUK to Scotland on this matter.

Instead P70 of the SNP Full Prospectus misleadingly seeks to quantify the size of national debt and Sovereign Wealth Fund that Scotland would have had, if the UK had not supposedly taken all the oil money and spent it in rUK:

- "our relatively stronger fiscal position since 1980/81 would have allowed us not only to eliminate a per head share of UK net debt but actually accumulate assets worth between GBP82 billion and GBP116 billion by 2011/12. This would have equated to an asset worth between GBP15,500 and GBP22,000 per head. In contrast, by the end of 2011/12, the UK had accumulated net debt of over GBP1.1 trillion, equivalent to a liability of GBP17,500 per head"

This is a distortion, written as if none of the proceeds of the oil had been spent in Scotland:

- Instead, if one takes a midpoint between GBP15,500 and GBP22,000 and adds it to the GBP17,500, one reaches a figure of GBP36,250 per head as an amount by which Scotland would have been better off had the rest of the UK not taken all the oil&gas money and spent it outside Scotland in the intervening 31 years
- GBP36,250 divided by 31 years = GBP1,169 per annum, more or less the result of the Barnett formula, and exactly the amount of additional public spending made in Scotland compared to the rest of the UK over the same period
- So Scotland's missing Sovereign Wealth Fund is the result of the UK taking all the oil&gas money and spending it in Scotland in the intervening 31 years, not outside

The SNP project future oil wealth as linear and certain. We now see that, with oil at $50-a-barrel, drilling has stopped: North Sea oil&gas producers are now clamouring for tax breaks. The North Sea is an expensive location from which to extract oil at $28-a-barrel: it will be one of the first production areas to be shut down when the price falls. Without UK and American money there would have been no North Sea oil industry in the first place.

The working assumption is that there will be no oil&gas tax revenues of note until the oil price returns to a range of $75-80-a-barrel.

Against this background there is no reason to persist with Barnett Formula payments as the recycling of oil&gas wealth into Scotland. Scottish public expenditure per head should return to the UK average.

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Continuing threat of a Unilateral Declaration of Independence and a walk-away from the UK national debt, or of Scotland not leaving and making extra borrowings, or both

- The SNP Prospectus set up the missing Sovereign Wealth Fund as the reason they should not take on any national debt
- The walk-away is an ongoing threat either from UDI or from the process whereby the SNP puts independence into a Holyrood election manifesto and votes it through without the agreement of rUK
- Walking away from a share of national debt is an SNP objective, or else racking up more debt on the joint UK credit card, or both: first creating more debt and then walking away
- The incurrence of that extra debt through spending in Scotland must of necessity cause an equal-and-opposite reduction in public spending in rUK if the UK's overall deficit is to be eliminated
- The Smith Commission does not remove the gun from rUK's head: it loads it, locks it and put it right into the SNP's holster

The section on P70 of the SNP Prospectus about the missing Sovereign Wealth Fund is disingenuous but important: it is the legitimization for leaving all of the national debt with rUK if rUK should be so unreasonable as to refuse to allow Scotland to keep the pound or to have a share of the UK's "national assets". The SNP would then continue to use the pound as an independent country without rUK's permission, would not take on any national debt, and would then be launched, without a Separation Treaty signed with rUK.

Is that not a pathway open to the SNP?

There is an easy answer to that: no, because Scotland would not be regarded as a validly constituted independent nation by the rest of the world. It would not be granted diplomatic recognition. Scottish people would not be allowed entry into other countries – even England - with their Scottish passport. Their currency would not be convertible. Is that enough for starters? It should be.

Scotland's usage of the pound outside a currency union could then only have come about as a result of failed, confrontational negotiations, leading to UDI, and Scotland trying to use the pound as a secessionist province and contrary to rUK's interests.

The threat to walk away from the national debt is laughable in one respect – that the debt is composed in part of direct obligations of Scottish entities such as the Scottish banks and Scottish schools and hospitals under PFI.

What the Smith Commission does is two things:

1. Use the word "sovereign" in connection with Scotland when it isn't. This, if allowed to stand, will be a chink in the UK's constitutional armour and will be enough to lend much greater legitimacy to the SNP including a unilateral independence clause into a future Holyrood manifesto, without requiring a referendum or an agreement with the UK government: in effect the result would be to allow the SNP to decide the timing of independence and to write its own Separation Treaty
2. Envisage Scotland having borrowing powers

Taken together, these are a gun held to rUK's head.

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Turning to the borrowing powers, there is a serious constitutional issue about the continued contracting of such debts which have a Scottish entity as the direct obligor but where the ultimate debtor is the UK. Whatever safeguards may be designed to try and make Scottish debts Scotland's responsibility alone will necessarily fail – because Scotland is part of the UK.

Recent banking regulation has recognised such situations formally: Basel III (Liquidity Coverage Ratio – Stress Scenario) makes banks take account of "the potential need for a banking organization to buy back debt or to honor non-contractual obligations in order to mitigate reputational and other risks".

The principle holds equally true between Scotland and rUK, for the UK as a whole to honour Scotland's "autonomous" borrowings.

As a result Scotland's borrowing powers create risks for rUK: a disadvantage without either a compensating advantage or proper scrutiny and accountability. The entity incurring the debt would be answerable to the Scottish parliament, not the UK one. The Scottish finance minister is answerable to Holyrood and cannot be called to account in Westminster.

What this new borrowing power does is to enable financing that is off-balance-sheet for rUK but at rUK's risk: the type of construct that has played a major role in the financial crisis in cases like Northern Rock/Granite and mortgage-backed securities generally, and which is the structure of PFI.

Scotland's direct debts would be a non-contractual obligation of the UK, but rank in effect as a Ponzi scheme: yet another layer of debt not contracted by central government but where central government bears the ultimate risk, otherwise known as double-leveraging or borrowing twice on the same capital base:

- Scotland's borrowing powers should be defined by its tax-raising capacity, but this is too small to support the spending made and the debt incurred
- Instead the underlying constitutional linkages of Scotland to the UK mean that, in a stressed situation, Scottish debts have to be honoured as part of the UK national debt – meaning they bear on the taxpayer capacity of rUK
- Lenders to Scotland knew this all the time

The scheme double-leverages the taxpayer capacity of rUK by placing the debts at arm's-length initially and not being directly accounted as a liability of the UK as a whole, but where the overall context and other parallel agreements in place mean that the whole debt will fall back on the UK.

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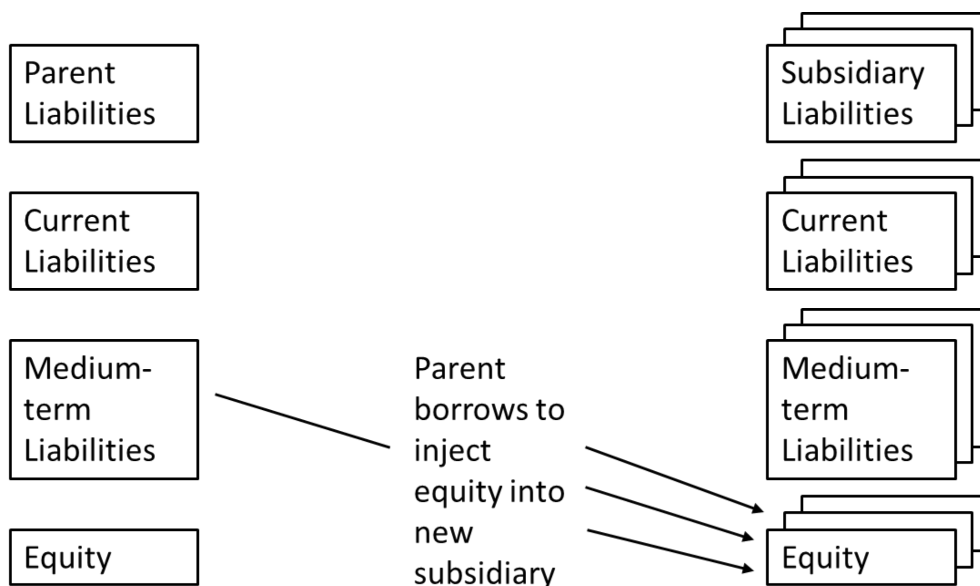
Scotland's debts – Ponzi scheme on risk of rUK tax payer

It is not so different from Enron, where Enron parent incurred debt and used it to inject capital into subsidiaries, who then borrowed again – but Enron only had one block of capital, just like the UK only has one block of taxpayers:

Enron



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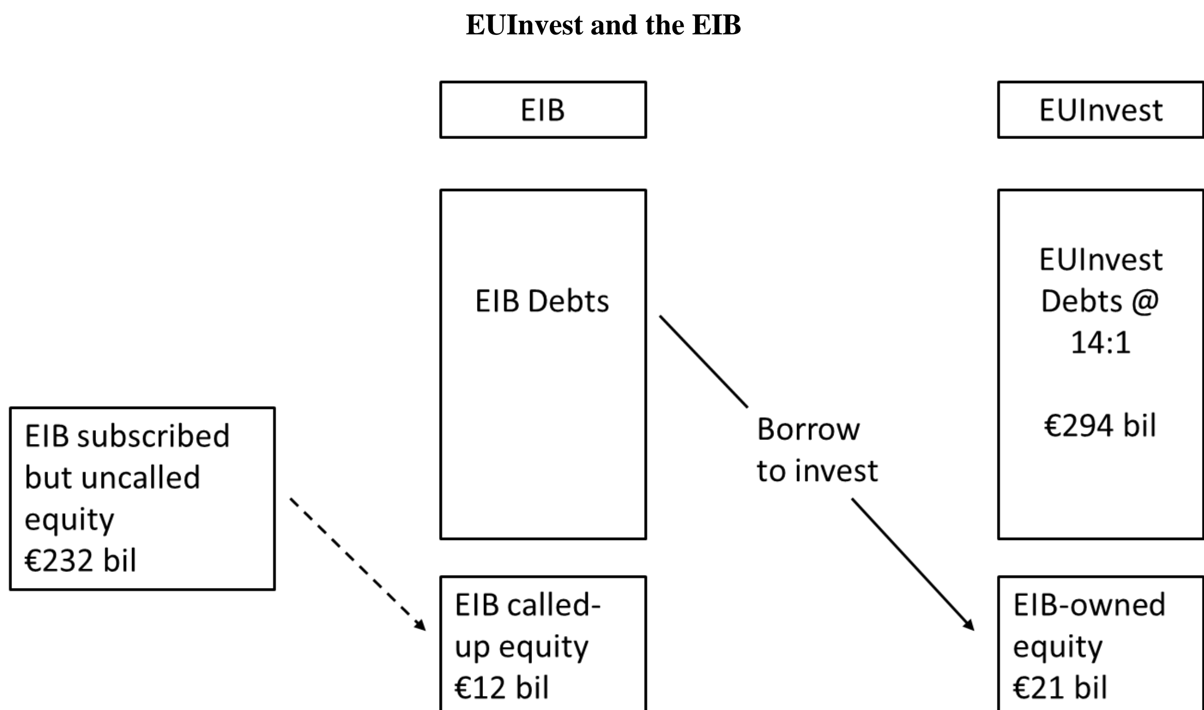
The construct of PFI is not so different:

- An NHS Trust rents a hospital on a watertight contract for 30 years
- The owner has a certain payment stream from the NHS Trust, whose money is in turn underwritten from the national NHS budget, which draws on the UK taxpayer
- The owner can then take on a loan to finance the building of the hospital
- The contract with the NHS is written like an operating lease not a finance lease, such that the NHS is not shown as the owner of the hospital, taking the hospital and the finance onto its own balance sheet
- This accounting treatment is legal but obscures the fact that the risk of the financing is for the hospital and in turn for the NHS and the taxpayer, and not solely for the owner

This is how PFI debts are kept off-balance-sheet and how the single base of capital – the taxpaying capacity of the UK – can be leveraged many times over.

The new proposal of the EU to use the European Investment Bank as an investor in their EUInvest vehicle is another way of contracting debt in an arm's-length entity but where the ultimate debtor is the EU taxpayer. The EIB has borrowed heavily itself – and then it would inject some of that debt as equity into EU Invest:

EUInvest and the EIB



At present the UK is exposed to a capital call of EUR36 billion if the EIB went down. EUInvest would greatly increase the chance of a call on the shareholders such as the UK and one would have to question whether EUR36bil is the absolute limit of the UK's exposure?

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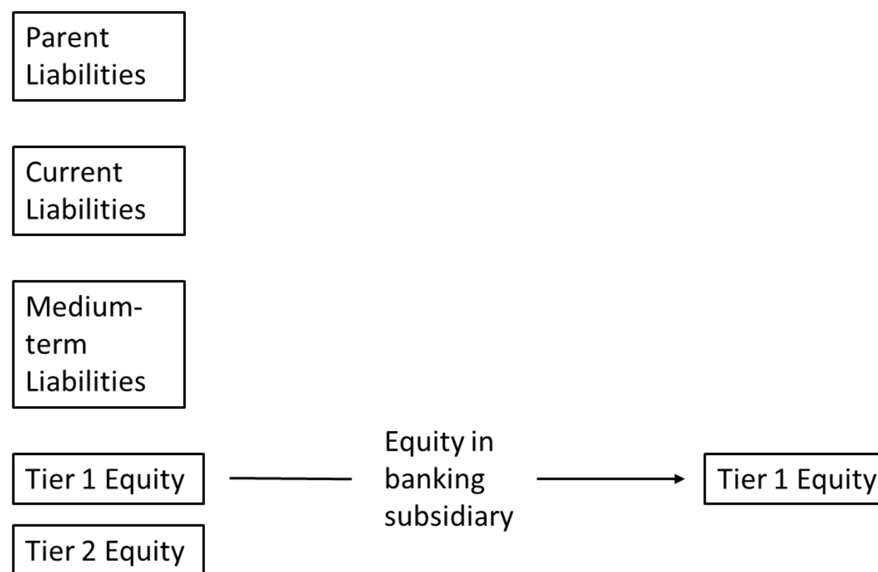
The EU Member States could not allow EIB to go down so, if the financial need was greater, the same mantra applies to countries as to banks: "the potential need for a banking organization to buy back debt or to honor non-contractual obligations in order to mitigate reputational and other risks". The EU Member States would have to bail out EIB and EUInvest and everyone knows it, particularly the EIB bondholders: that is why EIB's bonds have a AAA-rating.

Basel III rules on bank equity preclude the kind of construct used by Enron, proposed by EUInvest, and implied by Scotland's independent borrowing. Capital injected by a bank into a banking subsidiary is deducted 1:1 from the amount of capital in the first bank for the determination of the adequacy of its capital buffer:

Basel III rules on bank equity



Even if Scotland can be precluded from borrowing in its own name, we have the basic problem already in big size around Scotland's PFI debts – an example of double-leveraging of the single tax base. A need to pay out on a PFI debt in England would be met, currently, by the UK itself borrowing more.

This is the same with Scottish PFI debts, even if initially they might be met through the Holyrood budget. Any protection for the whole-of-UK NHS budget is fictional, because if a Scottish hospital went under financially:

- Scottish patients could get treatment at other Scottish NHS hospitals
- If all Scottish hospitals went under, patients could get treatment at rUK hospitals (as long as Scotland was part of the UK or the EU)
- In that scenario it would make more sense for rUK to honour the PFI payments and to keep the Scottish hospitals open than to overload rUK hospitals to provide the same treatment for the same money – and to cause the Scottish patients and their relatives to travel, incur accommodation and car parking costs and so on

- So the same money will be spent anyway by the UK either at the national or devolved level, regardless of any compartmentalisation on the surface
- The idea that PFI costs for such services as hospitals can be compartmentalised onto a subdivision of the UK is thus flawed and indeed undesirable: the rest of us don't want to see Scottish people denied treatment
- Conclusion: all PFI debts in the UK will fall back on the UK taxpayer, regardless of any fiscal framework between Scotland and rUK

For the same reason any Scottish borrowing on Scotland's own name – and any direct borrowing by any regions or cities in rUK – will fall back on the UK taxpayer in a stressed situation.

Organisations go under, debts default and guarantees are called in stressed situations by definition.

The UK taxpayer is the backstop for all of the UK's direct obligations, all of the indirect ones (PFI, student loans, future Scottish debt), all the contingent ones (guarantees of funding for banks, EU budget, European Investment Bank, World Bank…), as well as the inferred ones: "The potential need … to buy back debt or to honor non-contractual obligations in order to mitigate reputational and other risks", as recognised by banking regulators in Basel III.

A walkway by Scotland from its share of national debt under all these categories would be a very serious issue for rUK and is a threat that must be taken off the table in the wording through which any Smith Commission recommendations go into law.

The SNP is a "spend" party, not a "tax and spend" party, because someone else is picking up the tab at the moment. The independence prospectus made out that Scotland would be far better off if they picked up their own tab. This was fallacious. The Smith Commission allows them to continue to spend, within the UK, and spend even more because they can borrow as well.

One factor must be borne in mind above all when considering the Smith Commission: if borrowing powers exist and are at the discretion of the Scottish government, the SNP will spend and borrow up to the hilt, knowing that the whole of the UK will be on the hook for the liabilities. It has operated like this on PFI. Expediency, shared currency, international markets, interconnectivity – all would force rUK to bail Scotland out.

Therefore all that the creation of borrowing powers for Scotland constitutes is raising the SNP spending limit on the joint UK credit card, where there is only one overall limit. Autonomous Scottish borrowing reduces the UK's borrowing headroom, and requires an equal reduction in the spending in rUK which would have caused a borrowing in rUK, now to be replaced by spending and borrowing in Scotland.

This means that Scotland cannot be permitted to borrow autonomously: each borrowing has to be agreed in Westminster and be subject to the scrutiny and accountability of the House of Commons. Imposing that restriction would, however, breach the Smith Commission principle of greater devolved powers.

Without control from Westminster, though, the Smith Commission proposals on borrowing will have a detrimental effect on rUK: there is no wiggle room here either.

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In other words there is no room for the Smith Commission recommendations in the context of the UK's current financial state, the SNP's attitude and the current financial deal between Scotland and rUK, and the concept of no further detriment to rUK.

Instead, by pressing on regardless in the devolved powers direction, and locking-in the Barnett Formula, Smith Commission:

- Allows the current asymmetry of public spending per head to persist
- Causes the UK's deficit and debt to continue at higher levels than they would otherwise
- Permits Scotland to borrow as well, with rUK as ultimate backstop
- Fails to remove the threat that Scotland could then walk away and leave the entirety of debts in rUK's lap

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The Smith Commission – delivering the SNP independence prospectus

- The Smith Commission is the SNP's dreamland: all the benefits of that independence could have delivered…
- But none of the risks, now that oil has dropped to $50-a-barrel

Let us consider and compare the SNP's demands for devo-max, the Smith Commission Report recommendations, the SNP's Prospectus, and the heads of agreement that the author drew up in September 2014 for what rUK should put on the table as a Separation Treaty.

The SNP's set of demands for what they call devo-max read very like their Prospectus for independence: more freedoms and benefits for Scotland with no mention of any limit to the pooling of costs and risks. It would be de facto independence with a currency union, unfettered access to the joint UK credit card, support for Scotland's pensions, benefits, banks, PFI... This is a deal that would increase rUK's costs and risks and is a priori a non-starter: rUK had no vote in the Scottish referendum so it cannot be disadvantaged by being called upon to write a bigger cheque or take more risk.

The author summarised the SNP's Prospectus in his earlier paper as representing a stance of "what's ours is ours and what's yours is negotiable", and as an example of Scotland having its cake and eating it:

1. keep the pound
2. retain, through the mechanisms of a monetary union, a degree of backing for Scotland's public spending (pensions, benefits) in the same way as the Eurozone countries have backed one another
3. keep a "geographic" share of control of the oil&gas reserves
4. keep a "geographic" share of the oil&gas tax revenues, meaning 90%+
5. have a shareholding in the Bank of England and not have to establish its own central bank, deposit insurance scheme, payment schemes and currency reserves
6. link their national debt slice to the UK's historical oil&gas tax revenues but not to the extra GBP1,200 per annum capita extra public spending made in Scotland by the UK over the same period **OR** walk away from the national debt completely if they are not allowed to keep the pound (including, presumably, walking away from all of Scotland's own PFI debts and the debts of the Scottish banks to the Bank of England bailout schemes)
7. get a share of "UK national assets" as a reward for accepting a share of the national debt, rather than the release from joint&several liability for the entire debt being viewed as reward enough
8. Slide seamlessly into the EU without re-applying, on the basis of "continuity of effect"
9. Break the "continuity of effect" through their immigration and university tuition fees policies
10. Continue to discharge a large amount of government work for rUK
11. Continue to administer a large proportion of the pensions and investments of rUK
12. Host two large international banking groups and obtain their tax revenues, without backing their deposits, and to have a large proportion of the jobs and work related to those two banks in Scotland – the backing for those groups coming from the Bank of England via the mechanisms of currency union
13. To run the risk that the oil&gas tax revenues, plus revenues from all other Scottish sources, plus revenues spinning off government work of rUK, pensions & investments of rUK and the two major banks, did not equate to pre-independence revenues supplied through the block grant and including the Barnett formula premia
14. Remain outside the EUR even if Scotland is in the EU

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15. Retain the UK's opt-out from the EU Fiscal Stability Treaty
16. Not be compelled to put its currency into the ERM ("Exchange Rate Mechanism")
17. Not risk launching their own currency which, as a minor currency, would entice a narrow international investor base and whose attraction would have to be bolstered via higher interest rates and similar fiscal measures as are dictated by the EU Fiscal Stability Treaty

The key points are #4 and #13 – the SNP projected that a "geographic" share of the oil&gas tax revenues, when added to existing revenues, would ensure far higher ongoing public spending and the amassing of a Sovereign Wealth Fund to ensure high public spending could continue in perpetuity, even if other revenue sources dropped off and the oil&gas reserves became exhausted.

By contrast the author recommended the following Heads of Agreement in the financial area that rUK's negotiators should place on the table following a 'Yes' vote:

1. Scotland takes £105 billion of cash debt in exchange for release from responsibility for the rest
2. It must pay this effective amount on the day of separation into the rUK Treasury's account at the Bank of England in rUK central bank money (not in Scottish money or IOUs)
3. Scotland gets 85% of the future oil&gas tax revenues, and rUK 15%
4. Scotland uses another currency than pounds
5. Scotland establishes its own central bank and deposit insurance scheme up to EUR100,000 equivalent, prints its own banknotes and has its own payment schemes (it would join the SEPA schemes if it happened to be in the Euro, meaning it would also be in the EU)
6. The Scottish central bank can have an account in pounds at the Bank of England through which it must settle any and all obligations between rUK and Scotland (of the Scottish state, local authorities, banks, businesses and consumers) in rUK central bank money
7. Scotland carries its own PFI debts and their related costs, including cost escalations due to separation, and honors them in full towards investors as per the existing contract terms
8. Scotland carries the Student Loan portfolio (performing and non-performing; Scottish, rUK and foreign students) in respect of all higher education received at Scottish educational establishments
9. The Scottish government gets all the shares in Lloyds Bank Scotland and RBS Scotland
10. Scotland will carry the bad loan portfolios of the Scottish banks as at 1/10/2008 where those loans were originated by HBOS Group and RBS Group, and whether or not the borrowers are in Scotland, rUK or elsewhere; in particular Scotland carries the impaired assets acquired with ABN-Amro
11. In recognition of the acceptance of the above terms, rUK will support Scotland's request to be in the EU from Day 1 of independence but not with the UK's opt-out from the EU Fiscal Stability Treaty: Scotland would get the same terms as any other new entrant but would not have a 5-year wait before joining the EU

Now we have the situation under the Smith Commission, we should compare what Scotland will get against:

- The SNP wishlist
- The author's Heads of Agreement

Comparison of Smith Commission, SNP Wishlist and Author's Heads of Agreement

✓ means the SNP will get exactly what they wanted.

✗ means they will not.

Aspect	SNP Wishlist	BL Heads of Agreement	Smith Commission
Usage of the pound	✓	✗	✓
Underwriting by rUK of Scottish benefits/pensions	✓	✗	✓
Underwriting of Scottish debts incl PFI & banks	✓	✗	✓
Walk-way from 90-100% of national debt	**✓**	**✓**	**✗**
"Geographic" allocation of oil&gas tax revenues	**✓**	**✓**	**✗**
Not set up own central bank	✓	✗	✓
Not set up own deposit insurance scheme	✓	✗	✓
Not set up own financial markets	✓	✗	✓
Share of UK assets	✓	✗	✓
EU membership	✓	✗	✓
Non-adoption of the Euro	✓	✓	✓
Non-adoption of EU Fiscal Stability Treaty	✓	✗	✓
Retain rUK government work	✓	✗	✓
Retain rUK pensions&investment work	✓	✗	✓
Retain rUK banking work (Lloyds, RBS)	✓	✗	✓
Share the risk on Lloyds & RBS	✓	✗	✓
Spends only its own tax revenues	**✓**	**✓**	**✗**

The only differences between SNP and Smith Commission are:
1. Scotland is still jointly&severally liable for the whole national debt
2. It does not get a monopoly claim on the oil&gas tax revenues
3. It does not raise and spend only its own tax revenues

In turn it is alleviated from the risk that the geographic share of oil&gas tax revenues, added to other tax revenues, undershoot the cost of public services.

This was the risk that the SNP was prepared to take on. This is the risk that Scotland's public revenues, with a 85-90% share of oil&gas revenues, would have fallen short of the current level of public expenditure, as well as failing to support an increase in public expenditure and the establishment of the Sovereign Wealth Fund.

The SNP claimed this risk was minimal or entirely absent because:
- They valued Scotland's oil at $140-a-barrel
- They claimed Scotland would get a "geographic" share at the high end of possible values
- They assessed the quantity of reserves at the high end of available estimates
- They assumed that no rUK work and associated tax revenues would leave Scotland upon independence
- They projected that buyers of goods and services in rUK would continue to buy from Scotland at the same price and in the same quantities as if Scotland was in the UK when it wasn't

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With oil now at $50-a-barrel, the disastrous path that the SNP was offering is laid bare. However the Smith Commission rewards the SNP with a one-sided trade:

- Scotland has to give up on its “geographic” allocation of oil&gas tax revenues, which is now worthless
- Scotland is relieved of the risk of an undershoot of public revenues, which, given the parlous state of the UK’s public finances, is very valuable indeed
- Scotland remains jointly&severally liable for the whole UK debt but is contributing disproportionately to its increase

Otherwise the SNP got their whole independence manifesto.

The Smith Commission report fails on this point alone.

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The Smith Commission – fixing SNP distortions into law and failing on its own terms and by disadvantaging rUK through a Scottish referendum in which rUK had no vote

- The context, high-level statements and detailed content of the Smith Commission report are highly damaging to the UK
- They are highly unfair to rUK
- This undermines the Smith Commission's claims and its report's validity

The overarching commentary about Smith Commission report is that it suffers the "elephant in the room" syndrome:

- Scotland is not a sovereign country, it is a sub-division of the UK, and works off one overall financial budget, which includes one aggregate amount of borrowing, for which there is one ultimate debtor: the full faith and credit of all legal persons in the UK with joint&several liability

All matters regarding tax and spending in Scotland affect the whole of the UK because, whoever is acting at the front is backstopped by everyone else.

There was no representation for rUK in the Smith process – therefore it cannot be valid, whatever Cameron, Miliband and Clegg said.

Even more concerning is the detail, firstly on the ongoing constitutional position:

- The report allows SNP contentions about the status of Scotland within the UK to permeate in one very vital place
- In doing so it validates the SNP's misrepresentation of the referendum result
- That then definitively tears up the Edinburgh Agreement and dispenses with the need to acknowledge the 55% of the Scottish people who voted no – with no strings stated on the ballot paper
- The result is that there is no security for those voters or for rUK against the continuing threat of the SNP to declare a UDI and walk away from the national debt
- Indeed the Smith wording allows and legitimises a scenario where the SNP can put independence into a manifesto for an election to the Scottish Parliament at any time and then declare independence upon its own terms if it wins
- It would be complacent to imagine that the SNP would not fully exploit this fissure on the proven give-them-an-inch-and-they-will-take-a-mile SNP methodology

The outcome of Smith is grossly unfair to rUK in the tax & spending arena:

- The Smith process has allowed Scottish politicians to self-vote for the continuation of the highly beneficial Barnett formula arrangement, which was not specifically stated in the Vows: the Vows mentioned powers, not money
- Scotland will have been granted borrowing powers but its own public finances are not capable of supporting the resulting debt
- This increases the risk on England as ultimate debtor, as well as necessitating equal-and-opposite reductions in spending and borrowing in rUK

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The upshot of Smith is clear and distorted:

- The SNP garners rewards out of a process they lost
- The SNP will use Scotland's borrowing powers – as it did with its PFI powers up to the referendum – to spend up to the hilt, create new public facilities (far better than those on rUK) to demonstrate the SNP's good governance and Scotland's supposed wealth, and hold all of this out as the benefits of devo-max under the SNP, benefits which would be all the greater if England was not wasting Scotland's oil wealth
- These powers then act as an opportunity for the SNP to build up a case for an independence vote without the need for a new Edinburgh Agreement
- All the time what is really happening is that the SNP is using England's credit card to strengthen its platform, with each extra piece of Scottish expenditure running straight through onto the UK national debt
- The result is a gun held at the head of rUK around debt-walkaway

However, this is a big bluff and Smith has walked right into it:

- rUK would only find this deal acceptable if there really were substantial oil&gas tax revenues, which Scotland would keep for itself after independence, or if Scotland was otherwise making a large contribution to the UK's onshore tax revenues or reducing the deficit and the debt
- This is not the case: the Smith recommendations are not at all neutral for rUK – they lock in very high public expenditure for which Scotland brings insubstantial offshore tax revenue, and precious little onshore tax revenue that is not really English-created wealth reported on books of Scottish enterprises
- This can only lead to back-biting and claims from Northern Ireland, Wales, the North, the Midlands, for special treatment – a process that would fatally undermine the UK as an entity
- The Smith Commission recommendations therefore fail their own terms of reference

A detailed rebuttal of the Smith Commission report contents follows.

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Smith Commission Report Statements	Commentary
Foreword - Scotland voted 'No', but it did so with each of the main UK parties promising more powers for the Scottish parliament	• Smith omits to mention that the 'vows' have no constitutional validity, nor that there is no proof that this is what caused a 'No' • No mention of SNP misrepresentations
Foreword - I was asked to lead a Commission, working with the five parties represented in the Scottish Parliament, to agree what those new powers should be	• A process that excludes the voice of rUK cannot have constitutional validity
Foreword - I took on the job in the knowledge that the three leaders of the main UK parties had committed to take the recommendations set out in the agreement and turn them into law – fulfilling their commitment to strengthen the powers of the Scottish Parliament within the UK	• The three leaders of the main UK parties had no right to make these commitments • They were not discussed in Cabinet nor in the House of Commons
Foreword - This agreement is, in itself, an unprecedented achievement. It demanded compromise from all of the parties	• It cannot be praised in this manner when it is a process that has no validity • Compromises amongst a group composed entirely of beneficiaries of an agreement have no bearing • The loser was not in the room
Foreword - A stronger Parliament within the UK The recommendations set out in the agreement will result in the biggest transfer of power to the Scottish Parliament since its establishment.	• This must naturally weaken the UK parliament • It is nonsense to suggest that such a transfer – a benefit to Scotland – does not have a price to be paid by someone else
Foreword - The composition of the Parliament's income will change markedly. Significantly more devolved spending in Scotland will now come from tax raised in Scotland with the remainder coming from the block grant provided by the UK Government. To balance this increased financial responsibility, the parliament will be given increased borrowing powers, to be agreed with the UK Government, to support capital investment and ensure budgetary stability	• The last thing that the UK needs is yet another public authority separate from the Treasury to have the right to borrow, and to create risks for others without those others having a direct forum to oppose or to demand accountability • All debts created by public authorities in the UK are ultimately backstopped by all UK legal persons • The forum for accountability is the House of Commons

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Smith Commission Report Statements	Commentary
Foreword - The Barnett Formula will continue to be used to determine the remaining block grant. New rules to define how it will be adjusted at the point when powers are transferred and thereafter will be agreed by the Scottish and UK Governments and put in place prior to the powers coming into force. These rules will ensure that neither the Scottish nor UK Governments will lose or gain financially from the act of transferring a power.	• The Barnett Formula decrees that public spending in Scotland remain well above the UK average • It is highly convenient for a group of Scottish-only politicians to be allowed to agree that it remain in force • The Barnett Formula was created when the oil started flowing; in effect it has recycled the oil wealth back into Scotland in order to head off demands for independence • It has failed to do this: in fact it has strengthened the demand • The oil wealth is now drying up • Why should the Barnett Formula be continued?
Foreword - Both Governments need to work together to create a more productive, robust, visible and transparent relationship. There also needs to be greater respect between them. I recommend that the Prime Minister of the UK and the First Minister of Scotland meet shortly after 25 January to agree details of how this will be achieved. I would encourage them to find solutions which will carry the confidence of the public and our civic institutions.	• This paragraph acknowledges the degree to which the Edinburgh Agreement was broken • One has to make a value judgment as to which side was more to blame for this • The author has made a judgment – it is the SNP
Foreword - My role in this Commission has been to broker the best possible agreement based on strong, clear principles.	• But defective principles
7.2 - strengthen the Scottish devolution settlement and the Scottish Parliament within the UK (including the Parliament's levels of financial accountability).	• Who is the Scottish Parliament accountable to for its PFI and its borrowing? Not the whole people of rUK • This is an asymmetric arrangement: the Scottish government can create risk for rUK taxpayers, but rUK taxpayers are denied scrutiny
7.3 - aim to bring about a durable but responsive democratic constitutional settlement, which maintains Scotland's place in the UK and enhances mutual cooperation and partnership working	• This will not occur • The asymmetric arrangements that will ensue, including the continuation of the Barnett Formula as of right (a right asserted only by Scottish politicians) will damage consensus and cooperation, undermine partnership and strengthen the separatists

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Smith Commission Report Statements	Commentary
7.5 - not cause detriment to the UK as a whole nor to any of its constituent parts	• The Smith recommendations fail completely in this area
7.6 - cause neither the UK Government nor the Scottish Government to gain or lose financially simply as a consequence of devolving a specific power	• Fail – risk has to be a component of the financial deal, and Scotland will be allowed to create extra borrowings on the UK joint credit card
8 - Lord Smith was determined that the voices of civic institutions, organisations and groups and of the public would be heard and given the opportunity to influence the thinking of the political parties and their representatives	• But not any voices outside Scotland
17 - As a result, it may be appropriate to devolve further powers beyond those set out in the heads of agreement where doing so would aid the implementation of the consensus reached by the parties in this report	• But there is no need apparently to obtain any consensus in rUK that: • The current level of devolved powers is appropriate • That the Smith recommendations are acceptable • Let alone that even more powers could be devolved on top of Smith's current proposals
18 - It is agreed that nothing in this report prevents Scotland becoming an independent country in the future should the people of Scotland so choose	• This is the first really damaging statement and cannot be included in this form • At the very least it should have qualifications that: • Any such process must require a repeat of the Edinburgh Agreement and not simply be a clause in a manifesto for a Holyrood election • A draft Separation Treaty must be put on the table as the basis of the vote, with the assurance that both sides would sign it • That independent legal opinions must be obtained regarding such matters as EU entry, the currency, Scotland's share of the national debt, the EU Fiscal Stability Treaty.. and made publicly visible

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Smith Commission Report Statements	Commentary
20 - Reflecting the sovereign right of the people of Scotland to determine the form of government best suited to their needs, as expressed in the referendum on 18 September 2014, and in the context of Scotland remaining within the UK, an enhanced devolution settlement for Scotland will be durable, responsive and democratic	• This is the second really damaging statement and cannot be included in this form • Scotland is not a sovereign country so its people do not have sovereign rights • This statement, taken with the one before, allows that the Scottish people could change their mind, and, in granting them sovereign rights, allows them (or those supposedly acting for them constitutionally) to determine the basis on which those rights will be exercised • In short it would allow Holyrood to write the Separation Treaty on the SNP's terms • Those terms would be to either keep the currency or walk away from the national debt • This clause and clause 18 put a gun to the head of the rest of the UK
29.1 - ensuring that Scottish Ministers are fully involved in agreeing the UK position in EU negotiations relating to devolved policy matters. For example, it may be appropriate as part of this process for a UK Government Minister to chair a meeting of devolved administration Ministers where another UK Government Minister represents the position of England (or England and Wales in certain policy areas) while devolved administration Ministers represent their respective interests.	• This really cannot be constitutionally acceptable • The UK Parliament is the forum, not just for making the decision, but for the accountability and scrutiny thereafter • Should a Scottish Minister make a decision that MPs for England, Wales and Northern Ireland disagree with, they have no right to call that Scottish Minister to account
29.2 - ensuring that Scottish Ministers are consulted and their views taken into account before final UK negotiating positions relating to devolved policy matters are agreed	• As above
29.3 - presuming that a devolved administration Minister can speak on behalf of the UK at a meeting of the Council of Ministers according to an agreed UK negotiating line where the devolved administration Minister holds the predominant policy interest across the UK and where the relevant lead UK Government Minister is unable to attend all or part of a meeting	• As above

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Smith Commission Report Statements	Commentary
52 - In line with the funding principles set out in paragraph 95, the initial devolution of these powers should be accompanied set out by an increase in the block grant equivalent to the existing level of Scottish expenditure by the UK Government on the benefit being devolved. In addition, any savings arising to the UK Government from no longer administering these benefits in Scotland will be transferred to the Scottish Government.	• The current block grant should first be right-sized so as to eliminate the Barnett Formula and equalise Scottish public expenditure to the UK average • After that there can be consideration of a variation of the status quo for properly and independently verified causes • Lastly the block grant should be reduced to take account of some Scottish powers in future being paid for with directly-levied Scottish taxes • The transfer of powers should in future mean simply that Scotland pays for the services the powers relate to itself, and from its own means • Means = taxes, not borrowing
54 - The Scottish Parliament will have new powers to create new benefits in areas of devolved responsibility, in line with the funding principles set out in paragraph 95. The Scottish Parliament will also have new powers to make discretionary payments in any area of welfare without the need to obtain prior permission from DWP	• Only if Scotland raises the extra taxes to do this and without borrowing • Borrowing would mean rUK paying for it at the second level by being the backstop for the debts
75 - Income Tax will remain a shared tax and both the UK and Scottish Parliaments will share control of Income Tax. MPs representing constituencies across the whole of the UK will continue to decide the UK's Budget, including Income Tax… But (from 79) income tax will have "different rates and thresholds in Scotland"	• Income Tax is not a shared tax in a meaningful sense if it is applied at different rates in different parts of the country • Paras 75-79 are a non-sequitur • What rate will be paid by a person living in Berwick but working in Morpeth and vice versa? • Will employers have to run two PAYE schemes? Yes, for sure, if they operate UK-wide, and, even where they operate in one location, they are likely to have workers from both countries: the Morpeth-based employer will for sure have English employees as well as Scottish ones

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Smith Commission Report Statements	Commentary
78 - The Scottish Government will receive all Income Tax paid by Scottish taxpayers on their non-savings and non-dividend income with a corresponding adjustment in the block grant received from the UK Government, in line with the funding principles set out in paragraph 95	• If rates are different, there will be workaround and anomalies • If rates are higher in Scotland and the tax is based on who you work for, you will see agencies established in England to employ staff who live and work in Scotland • If rates are higher in Scotland and the tax is based on who you work for, you will see agencies established in England to offer "first homes" to staff who work in Scotland, who will then reclassify their current residence as a second home
79 - Given that Income Tax will still apply on a UK-wide basis, albeit with different rates and thresholds in Scotland, it will continue to be collected and administered by HMRC. In line with the approach taken for the Scottish rate of Income Tax, the Scottish Government will reimburse the UK Government for additional costs arising as a result of the implementation and administration of the Income Tax powers described above	• Who will determine the extra costs to HMRC that will derive from dealing with and challenging the workarounds? • Will not Scotland, if it sets higher rates, end up far worse off because the UK is porous, with freedom of place of work, place of residence, movement of goods, services, money…? • Or else rUK will be worse off if Scotland sets lower rates
93 - The UK and Scottish Governments will work together to avoid double taxation and make administration as simple as possible for taxpayers	• It is all very well to say this but the arrangement will cause a huge extra amount of administration and be opaque
95.1 - Barnett Formula: the block grant from the UK Government to Scotland will continue to be determined via the operation of the Barnett Formula	• Unacceptable – see comments against Foreword, paras 7.2 and 52
95.2 - Economic Responsibility: the revised funding framework should result in the devolved Scottish budget benefiting in full from policy decisions by the Scottish Government that increase revenues or reduce expenditure, and the devolved Scottish budget bearing the full costs of policy decisions that reduce revenues or increase expenditure.	• This will not occur because Scotland contributes disproportionately to the current UK deficit, and will in future also have the right to borrow itself at rUK's risk
95.3 - No detriment as a result of the decision to devolve further power: the Scottish and UK Governments' budgets should be no larger or smaller simply as a result of the initial transfer of tax and/or spending powers, before considering how these are used.	• See above for why there will be further detriment • That is on top of the already-detrimental Barnett Formula

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Smith Commission Report Statements	Commentary
95.3.a - This means that the initial devolution and assignment of tax receipts should be accompanied by a reduction in the block grant equivalent to the revenue forgone by the UK Government, and that future growth in the reduction to the block grant should be indexed appropriately	• No. See comments against para 52
95.3.b - Likewise, the initial devolution of further spending powers should be accompanied by an increase in the block grant equivalent to the existing level of Scottish expenditure by the UK Government, including any identified administrative savings arising to the UK Government from no longer delivering the devolved activity, and a share of the associated implementation and running costs in the policy area being devolved, sufficient to support the functions being transferred, at the point of transfer	• No. See comments against para 52
95.3.c - The future growth in the addition to the block grant should be indexed appropriately	• No. See comments against para 52
95.4.a - Where either the UK or the Scottish Governments makes policy decisions that affect the tax receipts or expenditure of the other, the decision-making government will either reimburse the other if there is an additional cost, or receive a transfer from the other if there is a saving. There should be a shared understanding of the evidence to support any adjustments	• The Income Tax mechanism means that this will be happening all the time
94.5 - Borrowing Powers: to reflect the additional economic risks, including volatility of tax revenues, that the Scottish Government will have to manage when further financial responsibilities are devolved, Scotland's fiscal framework should provide sufficient, additional borrowing powers to ensure budgetary stability and provide safeguards to smooth Scottish public spending in the event of economic shocks, consistent with a sustainable overall UK fiscal framework. The Scottish Government should also have sufficient borrowing powers to support capital investment, consistent with a sustainable overall UK fiscal framework. The Scottish and UK Governments should consider the merits of undertaking such capital borrowing via a prudential borrowing regime consistent with a sustainable overall UK framework	• No. The last thing that the UK needs is yet another public authority separate from the Treasury to have the right to borrow, and to create risks for others without those others having a direct forum to oppose or to demand accountability • All debts created by public authorities in the UK are ultimately backstopped by all UK legal persons • The forum for accountability is the House of Commons

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Smith Commission Report Statements	Commentary
94.5.a - The Scottish Government's borrowing powers should be agreed by the Scottish and UK Governments, and their operation should be kept under review in conjunction with agreement on the mechanism to adjust the block grant to accommodate the transfer of taxation and spending powers	• Yes they should be agreed at zero • Scotland's current PFI debts should be quantified and scrutinised by the House of Commons as rUK is the ultimate debtor • All future Scottish PFI deals should be authorised by the Treasury and a quarterly report made to the House of Commons
94.5.b - Borrowing powers should be set within an overall Scottish fiscal framework and subject to fiscal rules agreed by the Scottish and UK Governments based on clear economic principles, supporting evidence and thorough assessment of the relevant economic situation	• Yes the fiscal rules should be such as to centralise all decision-making on spending • The number of entities with a "cheque book" on the national account needs to be radically reduced in order to eliminate the creation of "off balance sheet" national debt sitting in commercial contracts like PFI, make all new national debt "on balance sheet" and visible as new issuance of gilts, cut overall spending, eliminate the deficit, and stabilise the national debt (on and off balance sheet) at its current level • The UK does not have the capacity to reduce national debt so that need not be an objective, but at least we can try to stop it growing, and to do so the credit cards need to be torn up, and no new ones issued, least of all to the SNP

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Sizing the UK and Scottish economies, the national debt and the deficit

- Smith Commission cannot go through in a bubble: it has to be legitimised against the UK economy, deficit and debt positions…
- And against Scotland's economy, deficit and debt positions
- The UK's state is parlous
- Scotland's state is a magnification of the UK's
- Both are over-spending, in deficit and building debt up towards unhealthy levels

As stated elsewhere, the UK economy is in a parlous state:

Key measures	2012	2013
GDP (total economic production)	£1,542 billion	£1,567 billion
Public spending	**£694 billion**	**£674 billion**
Public spending as percentage of GDP	45%	43%
Tax revenues	**£577 billion**	**£593 billion**
The Deficit (i.e. borrowing)	£117 billion	£81 billion
National debt on 1st Jan	£992 billion	£1,109 billion
National debt on 31st December	£1,109 billion	**£1,190 billion**
Deficit as % of GDP	7.5%	5.2%
Year-end national debt as % of GDP	72%	76%

Source: www.ukpublicspending.co.uk

It is very hard to find concrete, consistent and comparable figures: the figures in **bold** are actual stated figures on that website, the other figures are derived from them and are in some cases different from the ones the site states itself.

Nevertheless the overall picture is as good as one gets from any official sources.

This table also delivers a rule-of-thumb which will be used elsewhere: the loss of 1 unit of economic production causes a knock-on loss of tax revenues in the relationship 593:1567, or, if 1 unit is £1, the loss in taxes is 38p.

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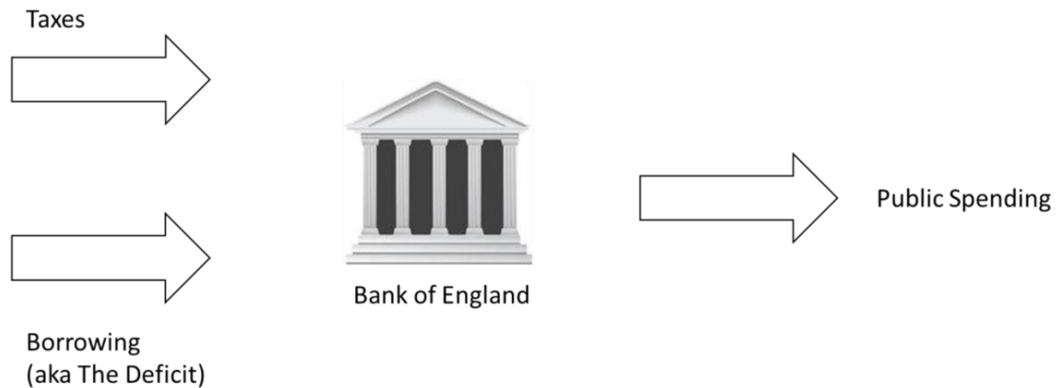
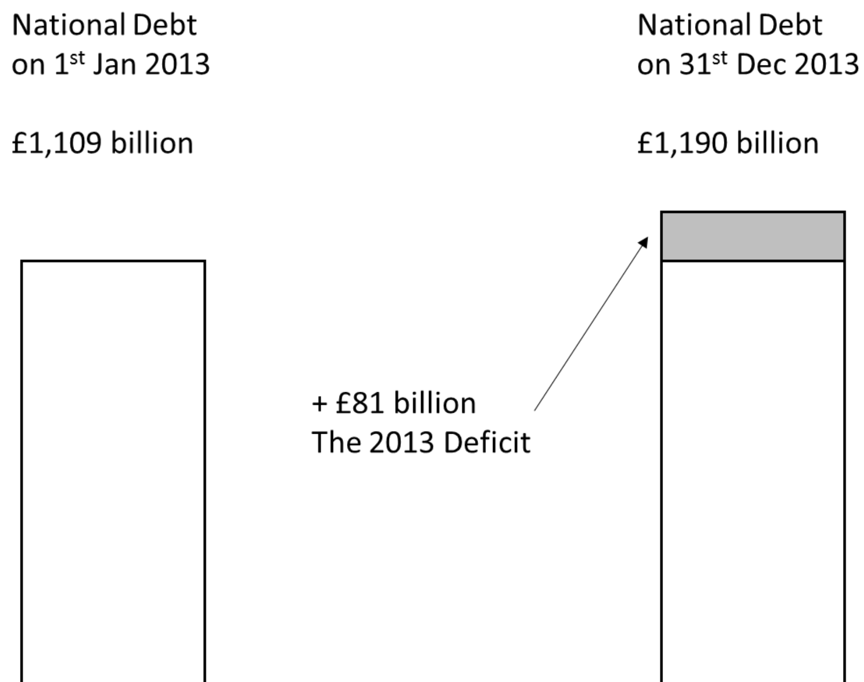
Just to get right back to basics, UK public expenditure is all paid for out of the Bank of England, and they get their money from tax revenues or borrowing:



The deficit for a year has to be borrowed, and gets added to the national debt:



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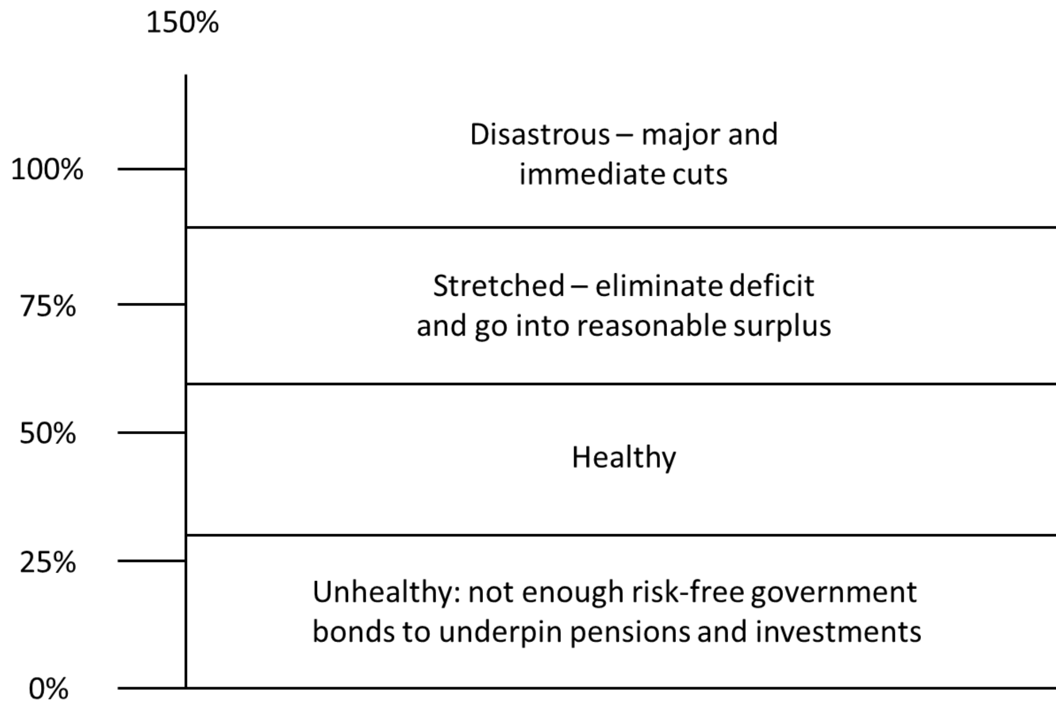
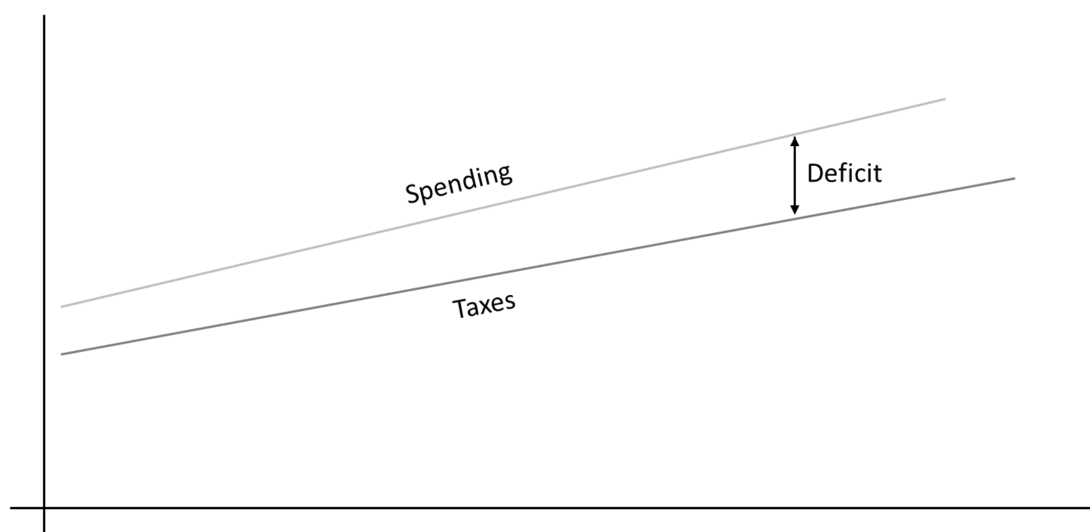
The relationship of national debt to GDP (or to total economic production) has knock-on effects on the health of the economy, which is why the Eurozone crisis has resulted in the EU Fiscal Stability Pact to try and keep the debt/GDP ratio of Eurozone economies within the Healthy zone.

Debt-to-GDP ratio

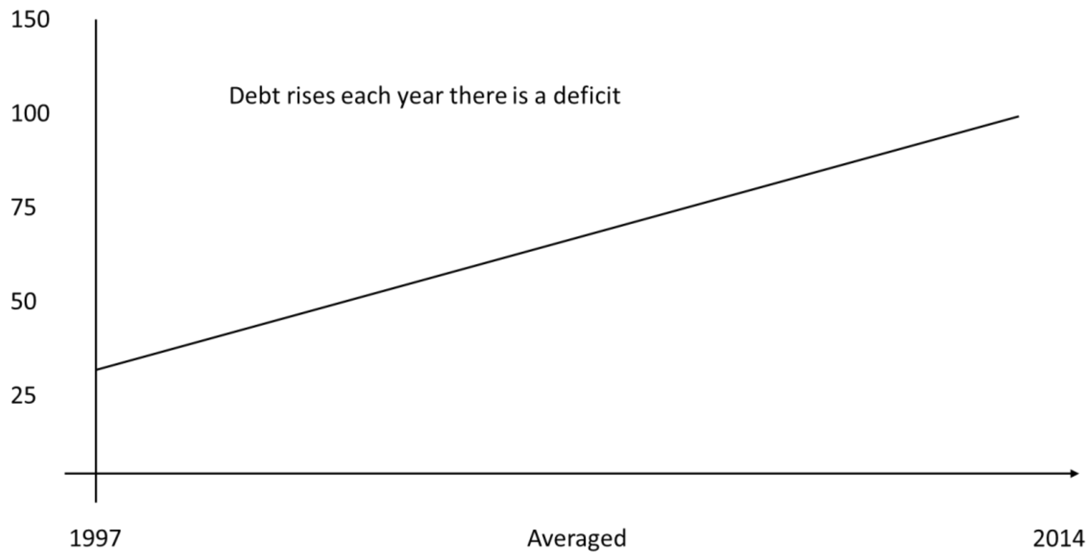


The trajectory of the UK's public finances since the early 2000s has been a consistent worsening, although starting from a very healthy position:

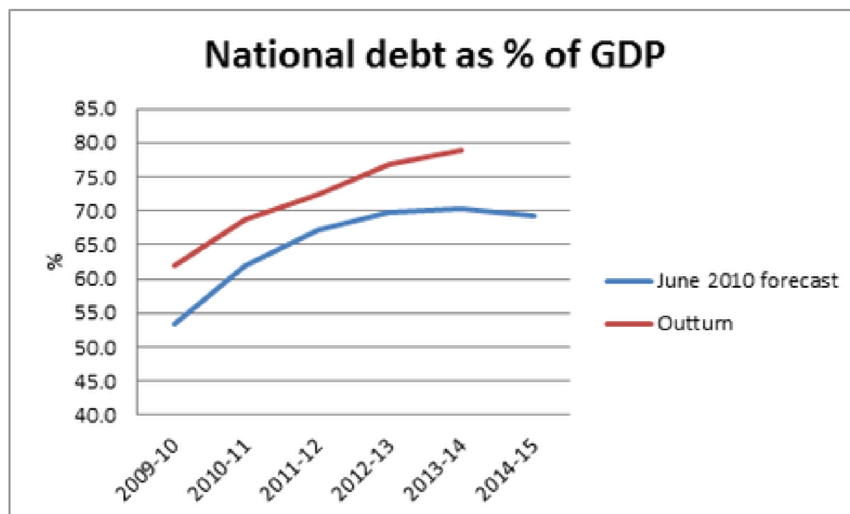
Trajectory of UK public spending / debt-to-GDP



Every year there is a deficit at all, the national debt goes up. The Conservative government claims to have halved the deficit, but all this means is that the debt is not increasing as fast as it was before:



The Conservative government had projected that national debt would be falling by now – meaning that the deficit would have been completely eliminated and that the UK would be running a surplus. But this has not happened. Austerity – in the current Parliament – has not been severe enough to eliminate the deficit; or one could also say that economic growth has not been strong enough. But economic growth has been strong – only it has been carried out within an illiterate national economic model:



Source: http://www.independent.co.uk/news/business/news/autumn-statement-4-charts-that-show-how-badly-george-osborne-has-got-it-wrong-9896391.html?origin=internalSearch

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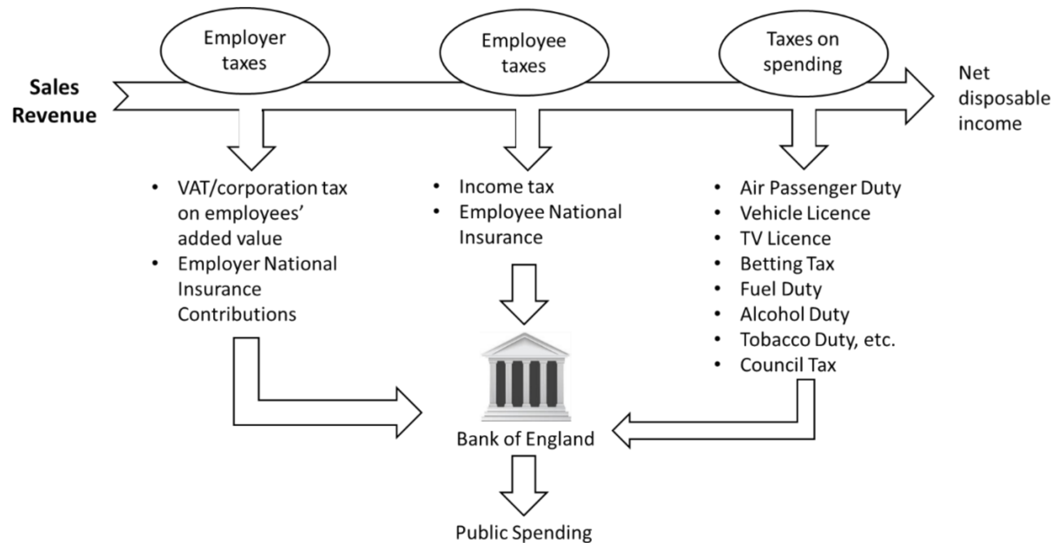
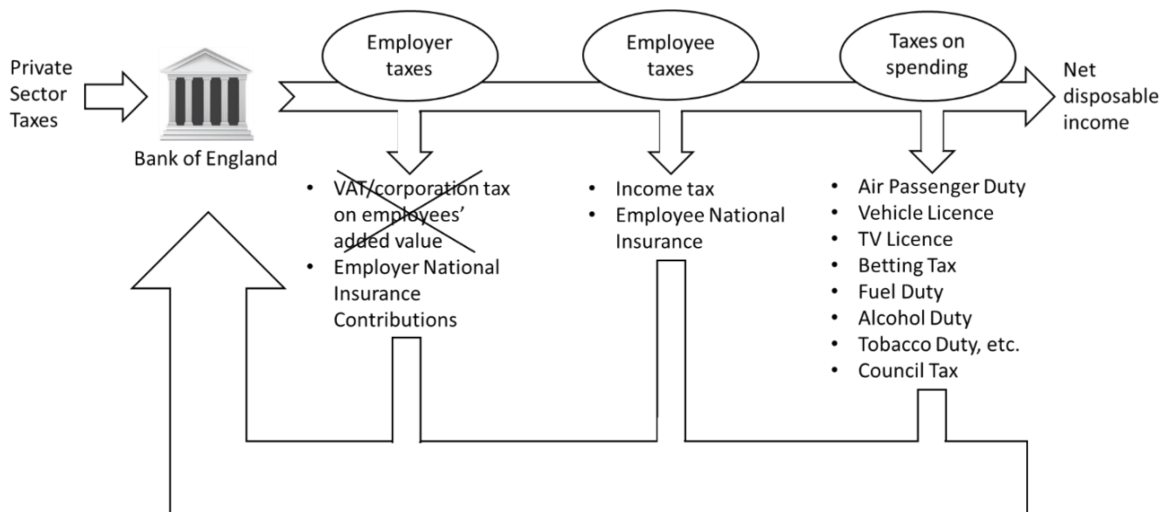
Where do tax revenues come from? Originally from the private economic sector. The private economic sector is the primary source of all the tax revenues that flow into the Bank of England and are used for public spending:

Contribution of private sector employee to taxes



The "revenues" of the public sector are the private sector taxes (plus borrowing if these fall short). Public expenditure does itself deliver taxes, e.g. Employer National Insurance on NHS wages, but this is a form of recycling (at a delay) of the original and primary private sector taxes and then of the taxes on last month's salaries for public sector employees:

Contribution of public sector employee to taxes: a round trip



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This is a statement of fact and of how money flows. It is not a value judgement on the relative value of private and public sector jobs. Using a simple formula of how to measure value…

Price + Performance = Value

- *The Public sector's services are free-to-use so the component "Price" is zero*
- *Public sector "Value" is concentrated in the "Performance" component*
- *Taxes on public sector employees are circular in the sense that the money to pay their salaries and wages is partially drawn from their own taxes*

To re-emphasize, the Value of the public sector is all in the Performance aspect: this is proven by the fact of having an NHS that is free-to-use at the point of use. People do not evaluate the NHS because of what they had to pay at A&E, but on the waiting time i.e. performance.

If this is the overall economic model for the whole of the UK, how does Scotland square up against it?

The basic questions are:

- What is the size of the Scottish economy?
- What is public expenditure?
- What are the private sector tax revenues?
- How much of these private sector tax revenues derive from oil & gas?

Then, when reviewing an independent Scotland, one would have to look at:

- How sustainable and reliable are the oil & gas tax revenues?
- How sustainable and reliable are the other private sector tax revenues, and how much are they really rUK work being done in Scotland because the user is agnostic to where in the UK the work is done, an agnosticism that would have ceased upon independence?
- Would Scotland have been running a deficit upon independence and how high as a proportion of GDP?
- Would Scotland have inherited a national debt upon independence and if so, how high as a proportion of GDP?
- Would Scotland have already been in the "Stretched" zone of debt-to-GDP?
- How much headroom would it have had to continue in deficit and add to the debt, before it started having to cut public spending:
    - Because international investors would not buy new debt at acceptable prices?
    - Because it had entered into agreements like the EU Fiscal Stability Pact as a condition of continued EU membership?

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Starting with the size of the Scottish economy now, the IFS report gives a range of per capita GDP figures, dependent upon the allocation of oil&gas revenues on a geographic or per-capita basis between Scotland and rUK: the figures range from a low of GBP23,311 without counting them to a high of GBP27,732 including them in full, based on 2012 figures.

The median is GBP25,521 and this, multiplied by 5.3 million people, gives a Scottish GDP of GBP135 billion as at 31.12.2012. That is the baseline figure used in this paper.

The upper end is £27,732 x 5.3 million = GBP147 billion and in the author's opinion would envisage higher oil&gas extraction than is occurring now and at a higher price.

The IFS is non-committal regarding the sources of tax revenue other than existing GDP (which it assumes will follow the UK average) and oil. It offers no answer as to where will be the engine for growth in an independent Scotland.

Nor has the IFS report anything to say about the possible sources of shrinkage of GDP and tax revenues.

In his previous paper the author assumed a year-on-year 2% real GDP increase for Scotland whether deriving from "onshore" or "offshore", using the IFS median as the baseline and GDP at the end of 2012 at GBP135 billion.

This would then have resulted in Scottish GDP in each of 2013, 2014 and 2015, with Scottish GDP on Day Zero (independence day) at the end of 2015 of GBP144 billion.

This is quite an assumption and there is very little in the SNP Prospectus or IFS to underpin it, nevertheless at least it is not particularly contentious:

Year	Scottish GDP at year end in GBP billions	Scottish onshore GDP at year end in GBP billions - 82.7%	Scottish offshore GDP at year end in GBP billions – 17.3%
2012	135	112	23
2013	138	114	24
2014	141	117	24
2015 = Day Zero	144	119	25

The SNP Prospectus states that the 'onshore' portion would be 82.7% of the total economy after independence, 17.3% being the oil&gas portion (p86).

The SNP Prospectus then states on p16 that "The Scottish economy has key strengths in growth industries such as food & drink, energy, creative industries, tourism and life sciences".

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On the other hand there is a pie chart on p87 of the structure of the 'onshore' Scottish economy:

Industry	Percentage of 'onshore' GDP	2012 value (GBP bil)	2013 value (GBP bil)	2014 value (GBP bil)	2015 value (GBP bil)
Agriculture, Forestry, Fishing	1%	1	1	1	1
Other production	7%	8	8	8	8
Manufacturing	12%	13	14	14	14
Construction	8%	9	9	10	10
Distribution, Food, Accommodation	13%	14	15	15	15
Transport, Information, Communication	8%	9	9	9	10
Financial and Business	25%	28	28	29	30
Government and other services	26%	29	29	30	31

Financial Services and Government thus total over half of the "onshore" economy, with the areas of "key strength" being far smaller. Indeed the IFS states that 30 years ago Scottish non-oil&gas tax revenues were 3.3% higher than the All UK average: now they are only 0.4% higher. This reflects the slower growth of non-oil&gas industries in Scotland compared to the rest of the UK.

The oil&gas economy, at 17.3% of the whole, starts at £23 billion and ends at £25 billion.

There we have the size of the Scottish economy, and now we have Scottish public spending. The IFS has done the maths: it is £11,800 per head per annum so, on a population of 5.3 million, it is £62.5 billion.

Next we need to know what are the tax revenues to meet this expenditure.

Firstly we have the putative direct share of oi&gas tax revenues that would supposedly accrue to Scotland on a geographic basis rather than a share-of-population basis after independence.

The IFS puts these at £1,523 per head for 2011, and that can be extrapolated into based on a population of 5.3 million into £8 billion per annum.

The IFS states Scotland's tax position in 2010-11 regarding the "onshore" economy as:

	Tax revenue	As a % of GDP	Per capita
Scotland	£45.2 billion	37.9%	£8,651
All UK	£542.9 billion	37.5%	£8,719

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With inflation low and such small differences between one year and another, it is then feasible to project a typical year in Scotland as follows:

Key measures	Stats
GDP onshore	£114 billion
GDP offshore	£24 billion
GDP total	£138 billion
Public spending	£63 billion
Public spending as percentage of GDP	46%
Tax revenues onshore	£45 billion
Tax revenues offshore	£8 billion
Tax revenues total	£53 billion
The Deficit (i.e. borrowing)	£10 billion
National debt on 1st Jan (£1.1tr x 5.3 / 63) *	£93 billion
National debt on 31st December	£103 billion
Deficit as % of GDP	7.2%
Year-end national debt as % of GDP	75%

(* the starting figure is the average of the values for the UK for 2012 and 2013: a per capita share based on a debt of £1.1 trillion and population in Scotland of 5.3 million and in the whole UK of 63 million.)

The following year, if things remain the same, the national debt as a percentage of GDP goes up another 7.2% to 82.2%, into the danger zone, and so on if the deficit remains the same.

This is the situation if:

1. Onshore tax revenues remain at £45 billion
2. Offshore tax revenues remain at £8 billion
3. The £10 billion deficit is financeable, on top of the existing debt

Key comparative figures for the UK as a whole would be:

- Public spending as percentage of GDP – 43% as against 46%
- Deficit as % of GDP – 5.2% as against 7.2%

This situation would not be infinitely sustainable for Scotland on its own. After three years of running a deficit of 7.2% of GDP, the debt-to-GDP ratio would have increased from its Day 1 level of 75% to 97% - well into the danger zone.

The deficit would need to be reduced at once to 6% of GDP, and then progressively to 4%, 3%, 2% and 1% in successive years, leading to the national debt getting capped off at a high point of 91% of GDP: the deficit should become a surplus of 1% per annum for the following 30 years to reduce it to a properly healthy level of 61%.

Sizing the amount of rUK's government and financial services work carried out in Scotland now

- Scotland discharges much government work and Financial Services work that is rUK work
- How much, and how much tax revenue is dependent upon it?
- How much of a drag could that be on Scotland's finances if it reduced?

Scotland has an economic life independent of rUK that is well below its non-oil&gas GDP now. Sectors it likes to present as part of its own GDP - which then throw off income tax and national insurance in Scotland, and VAT and duties when the net income is spent in Scotland – are just rUK work being discharged in Scotland, as unlikely to be purchased by rUK from Scotland after independence as the same goods and services are likely to be purchased from Belgium or Spain.

Government and Financial Services work represent 51% of Scotland's onshore economy, and would have been at significant risk of reduction after independence.

The loss of 1 unit of GDP is then taken to cut tax revenues by 0.38 of that unit (across all types of tax, and additional social costs).

UK government work carried out in Scotland could easily have fallen by 35%; financial services work likewise.

On a simple calculation the decline in tax revenue taking the 2013 value of the work would be:

Industry	Percentage of 'onshore' GDP	2013 value (GBP bil)	Decline in work	Decline in value (GBP bil)	Loss of tax revenues (GBP bil)
Financial and Business	25%	28	35%	9.8	3.7
Government and other services	26%	29	35%	10.1	3.8
Totals	51%	57		19.9	7.5

That is a give-up of the same size as the complete oil&gas tax revenues, with the oil&gas tax revenues defined by the IFS as £8 billion per annum.

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The UK economy – arithmetical illiteracy

- Smith Commission cannot proceed outside the context of the UK economy
- Scotland is an archetype for what is wrong at the UK level
- But the debriefing of the financial crisis has misfired - the UK population believes it has experienced austerity but there are more cuts looming
- We are overspending and overborrowing but demanding that the tax system be "fairer"
- That means those that are already paying for everything – less than 10% of people – should pay more and that as many people as possible "are brought out of tax"
- But they still consume public services at £10,500 per head per annum
- And we have more and more people
- No wonder we still have a large deficit and have made no progress in reducing the national debt to a healthy level

The UK population appears to be weary of the austerity inflicted on it and to be ready to vote in any party that says things can get better. The SNP is a perfect example of such a political party, and the 'vows' debate is a perfect example of arithmetical illiteracy in action.

This can be traced back to the contradiction that we are said to have the strongest economic growth amongst developed economies, but the deficit is not falling quickly and the national debt is still growing. Why?

The answer is that the growth is occurring within a leptic and distorted construction, where growth delivers more expenses and not more tax.

The questions behind the leading one are:

- What is the amount public expenditure?
- Why is it expanding so quickly?
- What are the private sector tax revenues?
- Why are they not expanding more quickly?

Just one aspect to recap about the debt and how complex a construction the national debt is: the UK taxpayer is the backstop for all of the UK's direct obligations, all of the indirect ones (PFI, student loans), all the contingent ones (backing for banks, EU budget, European Investment Bank, World Bank…), as well as the inferred ones: "The potential need … to buy back debt or to honor non-contractual obligations in order to mitigate reputational and other risks", as recognised by banking regulators in Basel III.

Behind that paragraph we have a very large number of public entities and contracts that are capable of producing spending. Spending, when not matched by revenue, creates borrowing.

In other words we have a proliferation of debt-creation mechanisms and organisations with a "Power of Attorney" to spend-and-borrow, but there is only one of what we really need: the net taxpayer, the person who puts more in than they take out in usage of public services.

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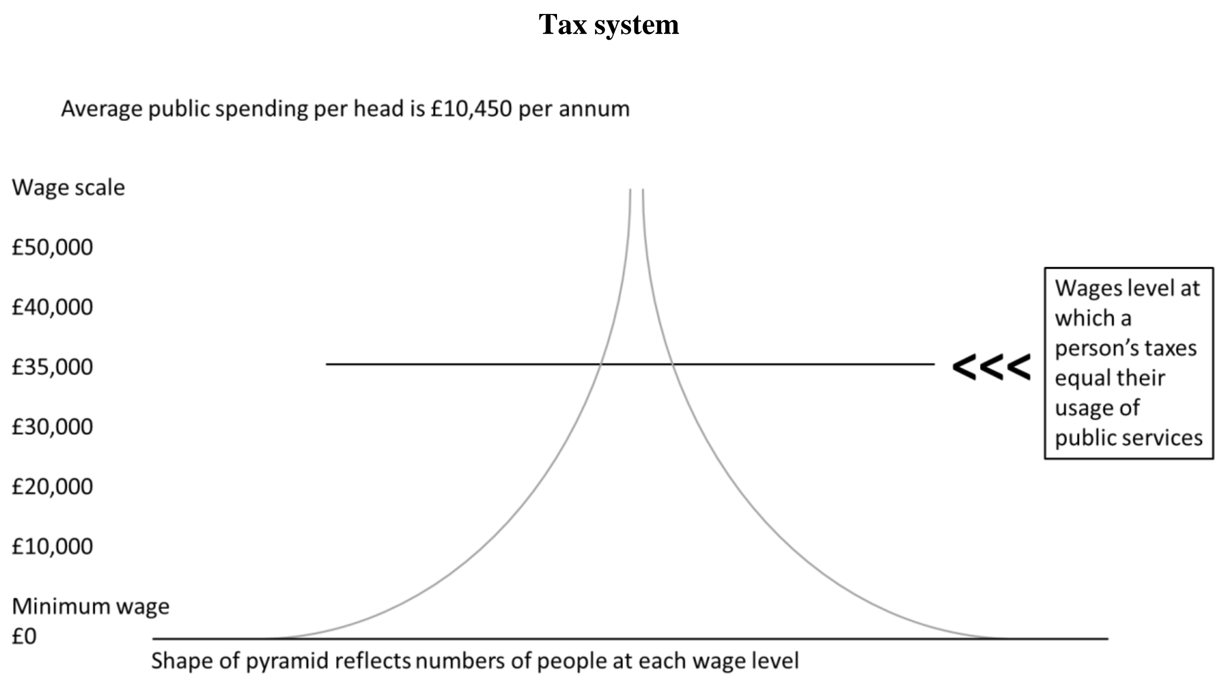
Net taxpayers only account for 10% of the UK population and it is even lower in Scotland.

The trend is rather to “take people out of tax” i.e. to increase the number of people who make no contribution in terms of direct taxation to their usage of public services and whose costs will increasingly be borne by the 10% who pay direct taxation.

The 10% should become 12%, or 15% to balance the books, but in fact the trend – as exemplified by the publicly-popular proposals for a “mansion tax” – is to reduce this to 9% or 8%.

This is the trend in taxation, taking people out of tax at the bottom end of the wage ladder:

Tax system



That is all very nice, but it has resulted in only those earning £35,000 or above paying out in taxes enough to cover the public services they use.

In other words a person earning £35,000 causes to be re-cycled back into the Bank of England £10,500 of direct taxes (income tax, employee National Insurance) and indirect taxes (VAT, fuel duty, council tax etc).

Less than 10% of people earn over £35,000: those earning below £35,000 are being subsidised by the others.

Furthermore:

- The UK is adding wage-earners below £35,000, and demonising those earning far more
- A Goldman Sachs banker receiving a £500,000 bonus and causing over £250,000 to come into the Bank of England ought to be made more welcome than they are
- We have to recognise the role of the internet and globalisation in eliminating many positions in managerial and experience-heavy/domain-knowledge-heavy roles
- This reduces the numbers earning above £35,000

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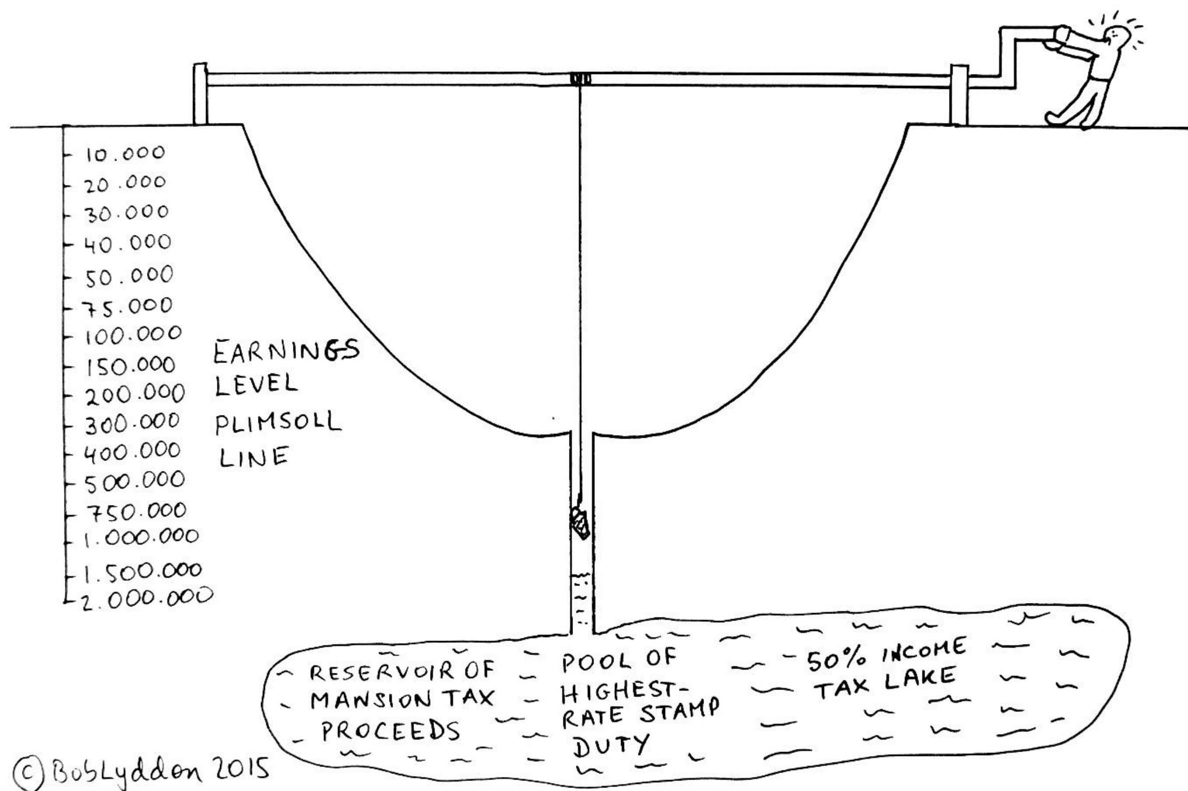
To conclude:

- The shape of the pyramid means that 90% are being subsidised by 10%
- This is not good for democracy because it separates society into two distinct and antagonistic constituencies: those that pay and those that take
- The essentially cooperative nature of public services is undermined
- The takers, who are in the numerical majority, will find it ever easier to vote for more subsidies for themselves as long as someone else pays for them

However, when it comes to collecting tax from these mythical rich people who must pay for everything, the well may appear deep with great reserves of wealth to be drawn upon, but the well is narrow and the bucket keeps getting stuck:



Recent Stamp Duty changes were advertised as being tax neutral overall, with 98% of people paying less and 2% paying more. What happens if the 2% decide to buy in Geneva?

It is a much stronger model in terms of sustainability to have everyone pay something: after all, 30% of something is better than 100% of nothing.

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In the case of both Stamp Duty and the proposed Mansion Tax there is the questionable validity of imposing a tax not related to manageable wealth, and where the Performance of the asset is static in the Price + Performance = Value equation: its Value has only risen because of its Price, and its Price has only risen because of persistent, disastrous and distorting government policies over many years:

- Excluding house price increases from the measure of inflation used by the Monetary Policy Committee of the Bank of England to set interest rates
- Inadequate house building compared to population growth (the political right would express this as mass immigration onto a fixed-sized infrastructure)
- Withdrawal of Mortgage Interest Tax Relief for private buyers whilst retaining it for Buy-to-Let investors, because the purchase is done through a company for whom the loan interest is deductible
- No barriers to or restrictions on the "overclass", domestic or foreign, investing in Buy-to-Let, and receiving tax relief on interest
- Foreign "overclass" being able to buy property without having the right of residence, and the right of residence being for sale to foreign "overclass" on the basis of owning property of sporting/business interests
- Allowing unfettered expansion of property lending leading to a classic inflation - too much money chasing too few goods:
  - Very low Basel II Credit Conversion Factors for bank lending secured on property, allowing a bank that lends on property to leverage its balance sheet ten times more than one lending to businesses
  - Simultaneously a bank engaging in such overtrading can show a very high Risk-Adjusted Return on Equity while making very little interest spread on each loan
  - Failing to control over-trading, liquidity mismatch and over-reliance on wholesale market funding amongst the lending community
  - Light-touch banking supervision with particular soft-touch for former Building Societies that acted as conduits for new building in UK rust belt (Northern Rock, Halifax, Bradford & Bingley, Alliance & Leicester)
  - "Help To Buy" – permitting those with almost no money of their own to obtain a 95% mortgage
  - Offering a "Funding for Lending" scheme to banks that encourages property-based lending as an asset class, and allows Buy-to-Let loans, as long as the borrower is a limited liability company, to be classed as 'business loans'
  - UK banks can thus fill their new lending quotas under "Funding for Lending" by making retail mortgages under the 'consumer loans' commitment and Buy-to-Let loans under the 'business loans' commitment
  - All "Funding for Lending" is doing is:
    - Inflating house prices
    - Putting UK banks in the same dangerously exposed position as in 2006 by having a concentration of their loan portfolios in UK property

The politicians' solution to that is to tax homeowners on paper profits.

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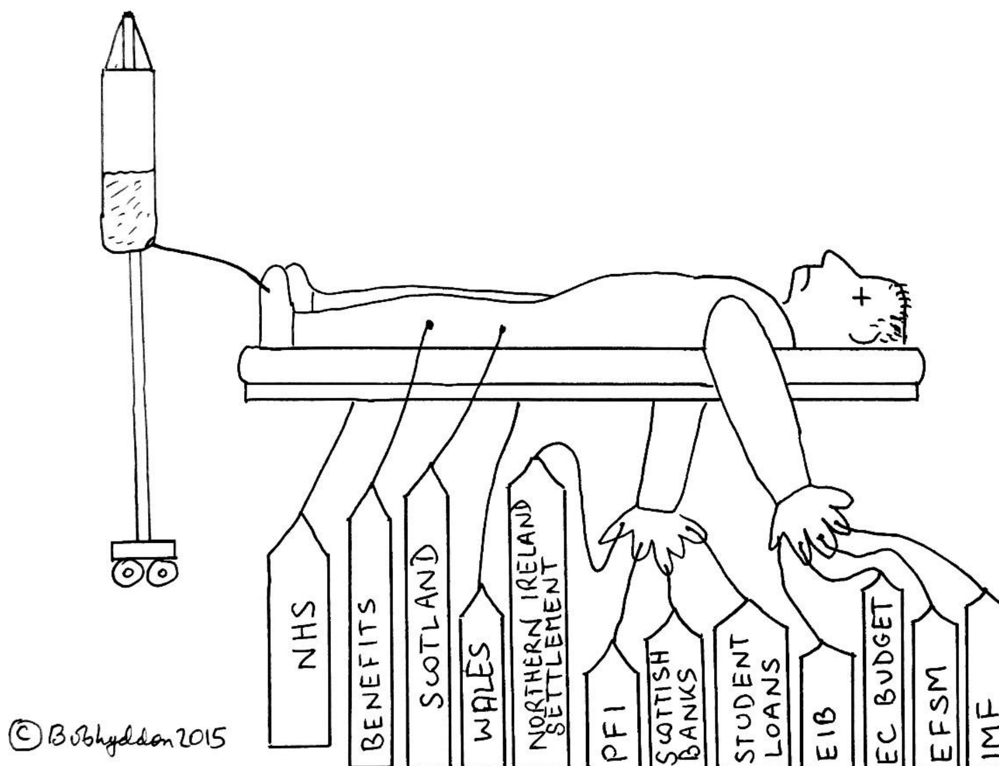
These panaceas from politicians serve to mask the parlous, weak and distorted financial situation in the UK as a whole. But the backstop position is occupied only by one part of the UK. The regional situation at the lower level is that Scotland has its Barnett Formula, Northern Ireland has its new settlement, Wales must be treated fairly, and so we just come back to England as the source and backstop:

The English Patient

An exercise in Financial Gravity



This exemplifies the regional imbalances within the UK as regards where money is sourced from and where it is spent, and also where the buck will stop if potential liabilities to within the UK and outside materialise: with the small group of net taxpayers.

It would be incomplete, however, to leave the story there. The context for the UK economy and thus for the Smith Commission report, includes two further substantial distorting influences:

1. The financial structure for creating cash to inflate the housing market between 1997 and 2008, in which Halifax-Bank of Scotland contributed disproportionately, even though it had also participated in other lines of business unlike Northern Rock
2. The business taxes structure of the EU, against which George Osborne's 'Google Tax' is a weak 'after-the-horse has bolted' response and of which the SNP's model for the independent Scottish economy was a blueprint

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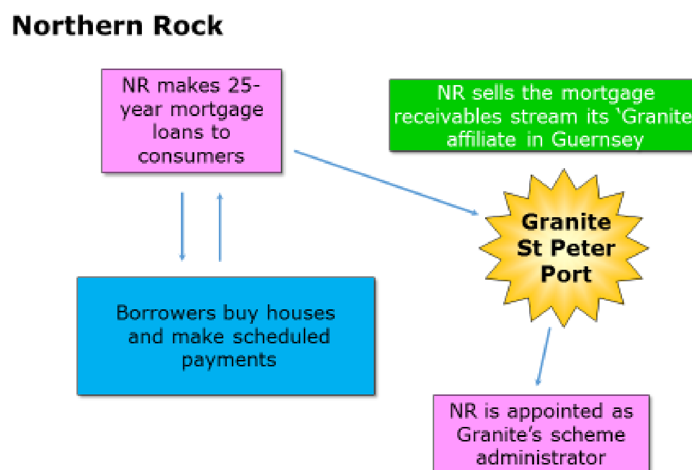
Northern Rock is used as the illustration of (1). Now in 2015 we have another lender stepping into Northern Rocks shoes – the Bank of England:

- "Help to Buy" enables mortgages with a very high loan-to-value – 95% - or in other words to borrowers with little money of their own, if not quite Ninjas (No income, no job)
- "Funding for Lending" pumps money only into the housing market, with the main banks as the Loan Production Office and the Bank of England is the buyer of the resulting mortgage-backed securities

Northern Rock's usage of its 'Granite' vehicle is the perfect example of the financial structure for creating cash to inflate the housing market. Northern Rock was able to corner a 25% market share of new mortgages on a small capital base and without having matching deposits. It did this by converting 'Northern Rock' into a Loan Production Company that sold on all the loans into a securitisation vehicle called 'Granite' in the Channel Islands, which issued mortgage-backed securities:



Northern Rock appeared to the borrower to be making the loan, but it transferred ownership of the loan to Granite, who then funded the loan by issuing bonds to investors. Northern Rock was appointed by Granite as the loan scheme administrator such that it was invisible to the borrower that the transfer had taken place.

The borrower would make their monthly payments into accounts that had a special title, because Northern Rock was acting in an agency capacity on behalf of Granite, and because the payments had to go to the Issuing & Paying Agent on the bonds: this would customarily be an agent such as State Street Bank, Northern Trust, Deutsche Bank who have a line of business in performing this role for international bonds.

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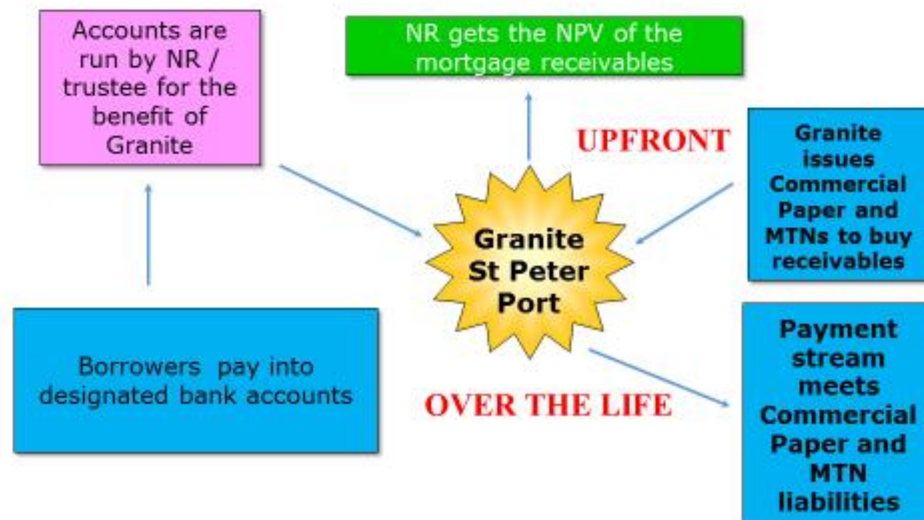


The Issuing & Paying Agent receives the payments through from the borrowers, holds them, and then makes the necessary payments to investors on the due dates of the bonds.

The bonds could be in the form of:

- Commercial Paper of maturity up to one year
- Medium-Term Notes – of any maturity beyond one year

Inevitably there would be some mismatches and Northern Rock would have been hoping that new bonds could be issued whenever a mismatch occurred. However, they did not regards this Liquidity Risk as significant, the risk of not having the financial resources available to meet their obligations when they fell due.

In the event and when the mortgage-backed securities market got into trouble in the USA, the mortgage-backed securities of Granite could not be sold, such that no new funding was available to either make new mortgages or to meet financial obligations when they fell due.

Northern Rock/Granite had the classic Liquidity Risk and in big size:

- 25-year loan book funded with liabilities concentrated in 3-month to 5 year maturities
- The stable, retail deposit base was only half of the loan book
- Northern Rock was a guarantor of Granite's debts so all the securitisation debts were leveraged up on Northern Rock's single, small capital base
- Bond funding dried up when investors got worried that:
    - Northern Rock was winning 25% share of new mortgage business
    - It was offering a very high loan-to-value ratio
    - UK house prices were wobbling

So that was the end of Northern Rock, a classic example of double-leveraging and of an organisation that tried to operate on a financial model of its own making, and then started to believe their own propaganda that they had written a new rulebook.

But the Bank of England has simply picked up where Northern Rock and others left off, and set up "Help To Buy" and "Funding for Lending" in the same way, and in the same way as PFI, EUInvest and many many more are set up.

Then, in an EU country, the question needs to be posed to where the wealth and tax revenues are going to come from the support all these liabilities and to keep public spending going?

In terms of the business tax structure of the EU, UK corporation taxes collected should be much higher given our GDP, but they cannot be when it is so easy for a company to exploit the EU freedoms of place of incorporation, labour and capital.

In the case of a service like Norton Anti-Virus software, it is advertised and sold on the internet, by Symantec. Symantec is allowed to do this from anywhere within the EU as long as they pay tax there and comply with VAT regulations.

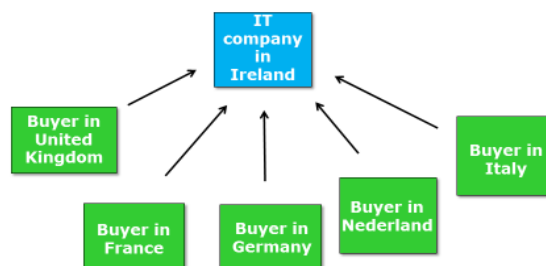
The simple business structure is to vest a licence for the product/service in the Republic of Ireland and to sub-licence it to consumers throughout the EU from there. The IT company would contract with a merchant acquirer to accept Visa and Mastercard, and have their bank account in Ireland.

All invoices would be headed "Symantec Ireland" and have Irish VAT added in the case of a buyer who could not quote a VAT registration number of a different EU Member State.

Symantec Ireland would add up all its sales and costs, calculate its profits and pay 12.5% of them to the Irish revenue authorities.

All the "added value" is being done in Ireland; there are no other legal entities in other EU Member States. Symantec are operating 100% legally in the context of the set-up of the EU.

While the UK is in the EU, there can be no 'Google tax' on such a structure.



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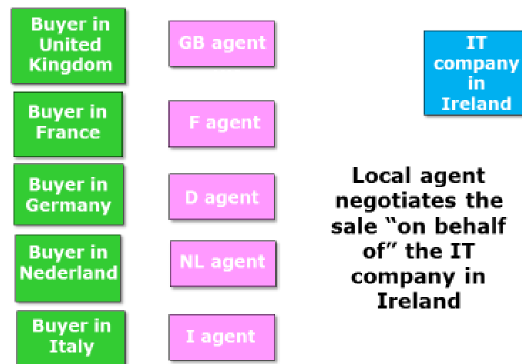
However, where the service requires a face-to-face sale or an implementation locally, the common structure is the so-called "Commissionaire Sales Model". In this case the IT company has a subsidiary in each Member State that acts to sell, install and support the product.



When a sale is made by the agent to a local buyer, the invoice for the sale is issued by the Irish company as the principal, the owner of the product.

The buyer pays the invoice with a payment into a bank account opened by the Irish company, not the local agent.

The trick is that the agent is working on commission, a sales commission just like a person selling door-to-door under the Avon Cosmetics model.

If the commission is 5% of the face value of the invoice, 95% of the value remains as gross profit on the books of Ireland, to be taxed at 12.5% after deduction of any other expenses Ireland has.

5% is the sales income of the UK agent, and this pattern is replicated across all the other EU Member States.

If 5% is the sales income of the agent, the expenses of the agent (office, salaries, cars, phones..) miraculously turn out to be 4.9%. This leaves only 0.1% of the aggregate value of invoices as taxable profit in the other EU Member States, where the corporation tax rates can be expected to range from 20-30%.

In consequence the UK is fully taxing the UK profits of this enterprise and could, while the UK is in the EU, only challenge the structure if the sales commission were considered to be far too low e.g. if there were comparable structures in place but where the agent was a genuine third-party, appointed on competitive and arm's-length terms, and the market-standard commission rate was 10%.

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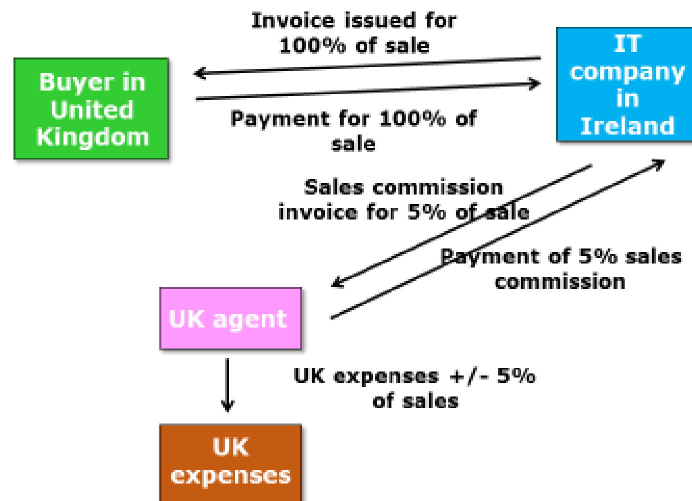
Then the Inland Revenue could send the agent a supplementary Corporation Tax demand and ask the company to challenge that if they wished to.



A challenge should be possible in the case of an industry such as online advertising. If the UK agent is selling banner advertising on behalf of a search engine company based in Ireland, there is a well-developed industry rate card for advertising costs and commissions.

If this rate card indicated a 15% commission rate and the Irish company was only paying its in-house agent 7.5%, the Inland Revenue could send the agent a supplementary Corporation Tax demand of 20% of 7.5% of UK invoices.

In both cases it is assumed that the UK agent's profits are taxed at the small company rate of 20%.

Where there should be considerable room for Inland Revenue challenge is where local sales offices make sales in their own name, but where there is a European management office that makes charges on them.

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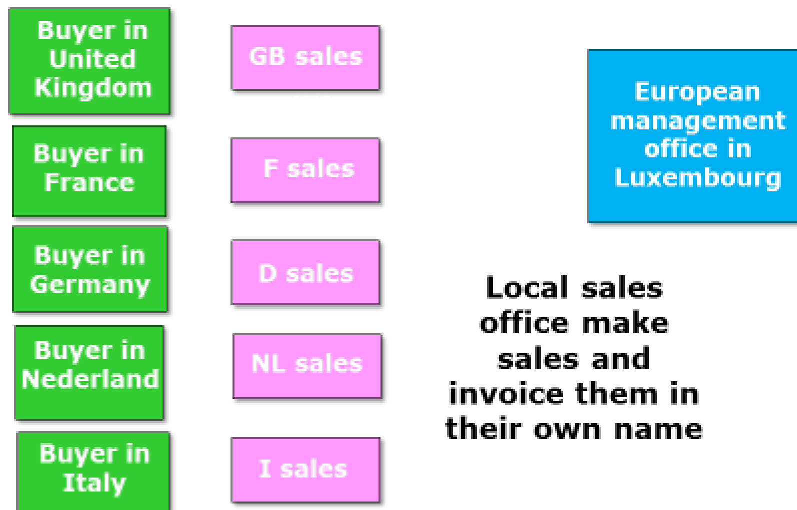
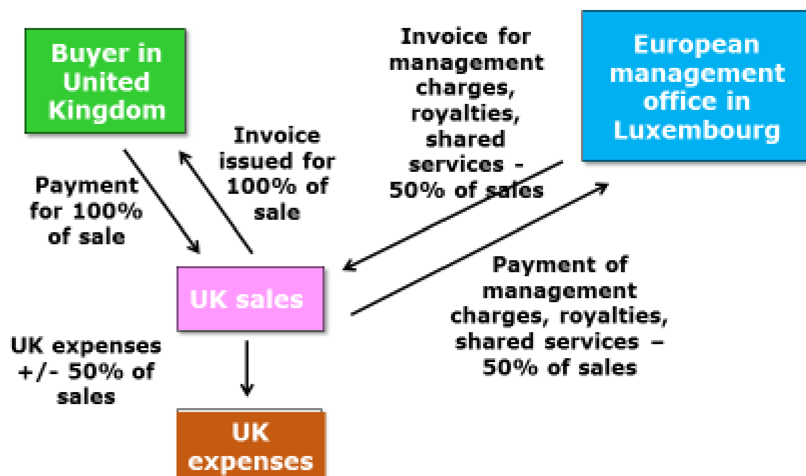
For example, eBay sales offices sell advertising space on eBay. eBay Europe owns the licence to its site:



eBay construes the right conferred on their sales subsidiaries to sell advertising space on eBay Europe's site as meriting a royalty payment, such that each sales invoice sent to a customer triggers a royalty invoice out of Luxembourg to the respective sales subsidiary.

In addition to the royalty payments, the European Management entity will send further invoices for:

- Management services
- Provision of shared services such as R&D, advertising and marketing



All these invoices will be tax-deductible in the P&L accounts of the local companies, and taxable in Luxembourg's.

These invoices, with the royalty ones, can be expected to add up to 50% of the UK company's sales.

Since, however, the UK company is much larger and has many more staff than the one that acts as an agent in the IT company model, its expenses can also be expected to add up to 50% of sales. Put another way, it is ensured that UK expenses + Luxembourg charges = 99% of UK sales.

Once again UK corporation tax = 20% of 1% of sales.

100% of sales are derived from UK wealth, but the contribution back into the costs of the infrastructure to create wealth and other social costs are:

- 12% Employer National Insurance, subject to thresholds on NI
- Employee income tax and national insurance
- Net VAT payments

That might sound substantial, but the question is what kind of jobs are being created in the UK? The answer is low-wage jobs, paying below £35,000. Each such job diminishes the public coffers because the person uses up more in public services than the taxes they are contributing. The high wage jobs are in Luxembourg. And they should be very high wage jobs if the P&L of Luxembourg is examined: revenues of hundreds of millions of Euro and only a few people.

The company is performing a perfectly legal form of tax arbitrage:

- The major substance in terms of people are in the other EU member states
- They are on low-wage jobs, delivering little income tax or national insurance
- All expenses, including inter-company invoices presented by Luxembourg, are tax-deductible
- No local profit to speak of is made so there is no local corporation tax payable in the countries where the rate is high
- Very high accumulation of taxable profits in Luxembourg, at a very low corporation tax rate
- A low net payment of VAT

Luxembourg, Netherlands and Ireland have competed against each other to offer a tax regime that, while not offering an opt-out from the mainstream corporation tax rate in their country, includes:

- Investment premia
- Accelerated depreciation schemes for certain asset classes, allowing lower taxable profits
- Special treatment for categories of revenue such as royalty

A headline, mainstream corporation tax rate can then result in a zero corporation tax liability. The European Commission are examining whether some of these extras amount to illegal state aid.

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That is very nice, but the real damage is in the fully legal side: the combination of Member State freedom to set rates of corporation tax, the EU freedom of movement of labour, capital, goods and place of incorporation, plus the Member State freedom to negotiate Double Taxation Treaties with non-EU countries to enable tax-free flows of goods and money across EU borders.

This combination is intrinsic to the structure of the EU and the loss of corporation tax receipts will not be impacted by the 'Google tax', since it will be collectible in so few cases.

The greater good would be served by challenging structures where:

- Services are performed between related companies such as selling advertising space, where there are industry rate-cards and the invoices sent and paid inter-company can be tested against the industry rate-card
- Management services are performed that are billed out to the local subsidiaries and are tax-deductible, but where a massive profit lands in Luxembourg:
    - In this case Luxembourg has no expense to show that equates to the value of the services it has billed for
    - Where they are services that could involve clerical work and state a quantity of work carried out, Luxembourg cannot show it employed X people for Y hours at Z Euros per hour to carry out the work
    - The Z Euros per hour for the people with the skills level needed to carry out the work is testable with employment agencies and temp agencies
    - If it is shown that Luxembourg is over-invoicing the subsidiaries, this is simply a criminal fraud

So we have colossal distortions in the arena of business taxes in the EU, and limited wiggle room to act against it. What can be stated with confidence is that this benefits smaller EU countries and disadvantages larger ones.

Scotland aimed to split off from a large EU country and become a small one of its own. In doing that the SNP vision for Scotland was largely to replicate Luxembourg and Ireland and drain wealth off rUK and the other EU Member States.

Then – a problem all of our own which exacerbates the business taxes problem – we have our own taxation policies: too few people contributing net direct taxes, people expecting to be "taken out of tax", and expecting that there will be someone else paying for their usage of public services, in other words a collapse of collectivism.

Lastly, we not only spend too much, but we cannot control the overspend because of borrowing powers. We have a proliferation of debt-creation mechanisms and organisations with a "Power of Attorney" to spend-and-borrow, but there is only one of what we really need: the net taxpayer, the person who puts more in than they take out in usage of public services.

The net taxpayers are concentrated in England. The net taxpayer is the backstop for all of the UK's direct obligations, all of the indirect ones (PFI, student loans), all the contingent ones (bank funding, EU budget, European Investment Bank, World Bank…), as well as the inferred ones.

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The voting system – with the Midlothian question unresolved and with the unchanged constituency boundaries – has created a form of Proportional Representation: Scotland is over-represented in Westminster, and is then double-represented because it has Holyrood as well. Labour requires a much smaller share of a national vote in a general election to obtain an overall Westminster majority than does the Conservative party because if the boundaries issue. The net taxpayer is most likely to be a Conservative voter living in England. The net taxpayer thus experiences a net under-representation in the Parliament where taxes are set.

That is all within a tax system that has the following characteristics and outcome:

- The earnings of 90% of people sit at or below the level at which their taxes pay for the public services they use
- The other 10% of people pay for 100% of their own usage of public services, they subsidise the usage of the 90% up to 100% of their cost, and they are the backstop for all the national debt, PFI loans, student loans, and all the contingent liabilities
- If more jobs are created paying below £35,000…
- If there are more people entering the country who use public services but earn below £35,000…
- If these jobs are not adding value such that they produce Corporation tax and VAT…
- Then the Deficit gets bigger and…
- The National Debt keeps growing

That is the prism through which we must look at Scotland – as a "sovereign country" within the UK and then as it would look if it had become independent.

The Scottish economy within the UK – on life-support

- The subsidy Scotland receives is £18 billion per annum on public spending of £63 billion
- It would come down to £10 billion if Scotland had a geographical share of the UK's oil&gas tax revenues and if those revenues were £8 billion per annum
- Except they aren't

We already concluded in a previous section that Scotland's situation is somewhat less favourable than for the whole of the UK, using IFS figures for 2010-11:

	Tax revenue
Onshore economy	£45.2 billion
Offshore economy	£8.0 billion
Total tax revenue	£53.2 billion
Public spending	£62.5 billion
Shortfall	£9.3 billion

The deficit is 7.2% of GDP based on those figures rather than 5.2% for the whole of the UK, with public spending at 46% of GDP rather than 43%. A national debt figure is allocated on a per-capita basis on a static figure, but the trajectory of debt would have been moving more sharply upwards in Scotland because of the larger deficit and, more important, there is neither a political plan nor the financial resources to reduce the deficit.

Continuing on this path within the UK depends entirely on the UK adding the Scottish deficit to the borrowing needs, borrowing on the name of the UK and feeding the money through to Scotland.

Even this picture may not be strictly accurate now, because its continuation depends on:

1. Onshore tax revenues remaining at £45 billion
2. Offshore tax revenues remaining at £8 billion

There is plenty of evidence that the offshore revenues have not remained there. Figures for 2012 from the Scottish government itself showed a different value for Scotland's offshore GDP than the IFS figures (£28 billion), but more importantly they showed a much lower tax take than £8.0 billion - £5.1 billion:

Measure and its value in £ billions or as a percentage	£ bil or %
Value of UK oil&gas production in the last year for which records exist	34.1
Share landed from Scotland's area of the North Sea	84%
Value of Scotland's share = Scotland's oil&gas GDP (34.1 x 84%)	28
Tax levied on UK oil&gas production in the last year for which records exist	6.1
Scotland's share (6.1 x 84%)	5.1

This was based on the percentage of the extraction that occurred in the waters which the Scottish government assumed would be Scottish after independence. There can be fluctuation of the percentage landed from non-Scottish and Scottish waters and in the year in question it was 16%/84%.

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Then for 2013 the Official for National Statistics shows North Sea net tax receipts at only £4.8 billion, of which Scotland's share would be £4.1 billion if the 16/84 split still pertained.

Now, with oil at $50-a-barrel, we have producers wanting tax breaks and the Scottish First Minister, on 8th January 2015, calling upon the UK government to do something about Scottish jobs and revenues.

Since the North Sea is one of the most expensive areas of the world from which to extract oil, there has to be a break-point at which the world oil price causes production to go onto a care-and-maintenance basis only, which means there are no oil&gas tax revenues at all. Let's suppose that point is $50-a-barrel.

Then we can look at four scenarios of Scotland within the UK: the base one, repeated from the earlier section, then three more in which the **red figures** are the ones that differ from the preceding scenario….

The base: a typical year in Scotland with oil&gas tax revenues at £8 billion as per the IFS

Key measures	Stats
GDP onshore	£114 billion
GDP offshore	£24 billion
GDP total	£138 billion
Public spending	£63 billion
Public spending as percentage of GDP	46%
Tax revenues onshore	£45 billion
Tax revenues offshore	£8 billion
Tax revenues total	£53 billion
The Deficit (i.e. borrowing)	£10 billion
National debt on 1st Jan (£1.1tr x 5.3 / 63) *	£93 billion
National debt on 31st December	£103 billion
Deficit as % of GDP	7.2%
Year-end national debt as % of GDP	75%

Offshore tax revenues are £5.1 billion (2012 Scottish government's figures)

Key measures	Stats
GDP onshore	£114 billion
GDP offshore	£24 billion
GDP total	£138 billion
Public spending	£63 billion
Public spending as percentage of GDP	46%
Tax revenues onshore	£45 billion
Tax revenues offshore	£5 billion
Tax revenues total	£50 billion
The Deficit (i.e. borrowing)	£13 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£106 billion
Deficit as % of GDP	9.4%
Year-end national debt as % of GDP	77%

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Offshore tax revenues are £4.1 billion (2013 ONS figures)

Key measures	Stats
GDP onshore	£114 billion
GDP offshore	£24 billion
GDP total	£138 billion
Public spending	£63 billion
Public spending as percentage of GDP	46%
Tax revenues onshore	£45 billion
Tax revenues offshore	£4 billion
Tax revenues total	£49 billion
The Deficit (i.e. borrowing)	£14 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£107 billion
Deficit as % of GDP	10.1%
Year-end national debt as % of GDP	78%

Offshore tax revenues are £0 billion (if $50-a-barrel is the breakpoint for care&maintenance)

Key measures	Stats
GDP onshore	£114 billion
GDP offshore	£0 billion
GDP total	£114 billion
Public spending	£63 billion
Public spending as percentage of GDP	55%
Tax revenues onshore	£45 billion
Tax revenues offshore	£0 billion
Tax revenues total	£45 billion
The Deficit (i.e. borrowing)	£18 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£111 billion
Deficit as % of GDP	15.7%
Year-end national debt as % of GDP	97%

That is all pretty disastrous and does not bode well for an independent Scotland.

Now we have to examine Scotland's onshore tax revenues. These seem to have held up between 2011 and 2013.

As a note, the study does not attempt any interlinkage between onshore and offshore, but it would seem plausible that the onshore economy would suffer if the offshore economy declined. Nevertheless we have treated the two sides as autonomous for the sake of simplicity and so as not to indulge in speculation.

Scotland's "income", that is its non-oil&gas GDP, contains a large block of UK government work, of which the defence procurement industry is a significant component, and a large block of Financial Services work for the whole of the UK.

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This "income" then threw off tax revenues as follows in 2012/13, totalling £47 billion compared to the IFS' figure of £45 billion for 2010/11:

Tax type	Scotland (£millions)	UK (£ millions)	Scottish share of UK total	Scottish share of UK population
All	**47,566**	**580,293**	**8.2%**	**8.4%**
Income tax	10,865	147,731	7.4%	
Corporation tax	2,872	34,384	8.4%	
Capital gains tax	292	3,926	7.4%	
Other taxes on income	271	3,122	8.7%	
National insurance	8,521	104,483	8.2%	
VAT	9,347	112,072	8.4%	
Fuel duty	2,258	26,571	8.5%	
Stamp duty	472	9,140	5.2%	
Tobacco duty	1,128	9,590	11.8%	
Alcohol duty	980	10,139	9.7%	
Betting duty	120	1,228	9.8%	
Air passenger duty	234	2,818	8.3%	
Insurance premium tax	207	3,033	6.8%	
Landfill tax	100	1,116	9.0%	
Climate change levy	62	654	0.5%	
Aggregates levy	45	261	17.2%	
Inheritance tax	243	3,150	7.7%	
Vehicle excise duty	481	6003	8.0%	
Non-domestic rates	1,981	25,072	7.9%	
Council tax	2,006	26,279	7.6%	
Other taxes, royalties	1,082	12,895	8.4%	
Interest and dividends	623	7,617	8.2%	
Gross operating surplus	3,247	27,591	11.8%	
Rent	128	1,418	9.0%	

(Source: ONS and Scottish Research Society)

Scotland underproduced taxes compared to its share of the UK population by 0.2%, and within that the categories where it overdelivered were tobacco, alcohol and betting, as well as Aggregates and Landfill.

This chart bears out the relative dependency on taxes on expenditure, rather than taxes on income. As a non-economist it is not the author's place to offer any great insight beyond that.

The top line figures suffice:

Spending	£63 billion
Onshore taxes	£45 billion
Difference	£18 billion

If the onshore taxes cannot be increased, oil&gas tax revenues need to be the source of balancing the books.

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Garnering oil&gas tax revenues has required a lot of UK and American investment. Attributing them all, or 86%, of them to Scotland is a questionable action, and even if one does, the difference does not disappear:

Gross difference	Version	Offshore taxes	Net difference
£18 billion	IFS	£8 billion	£10 billion
£18 billion	Scot Govt 2012	£5 billion	£13 billion
£18 billion	ONS 2013	£4 billion	£14 billion
£18 billion	$50-a-barrel	£0 billion	£18 billion

The trend between 2012 and now is clear enough: the oil&gas tax revenues are falling away, leaving a net difference closer to the gross difference.

To conclude, Scotland within the UK is on life support. It is an exaggerated version of the UK economy as a whole: too few people paying tax. It has a larger deficit than the rest of the UK and is therefore contributing disproportionately to the deficit and to the increase in the national debt, and this will be increasing in line with the decline in the price of oil.

With oil at $50-a-barrel it is to be assumed that the Scotland annual deficit is £18 billion or 15.7% of GDP, and that its stand-alone debt would be 97% of GDP, well into the danger zone.

It could be worse for Scotland – they could be independent.

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The independent Scottish economy – RIP (even with oil at $115-a-barrel)

- The independent Scottish economy would fall flat straight away
- If the debt had started at zero, Scotland might have had some years to balance the books
- With a per-capita share of debt and even assuming £5 billion of oil&gas tax revenues, the Year 1 deficit of 9.4% of GDP necessitates swift public spending cuts
- But that is a relatively benign scenario compared to the individual and cumulative effects of the walkaway of government and financial services work, the decline in oil revenues and compliance with the EU Fiscal Stability Treaty
- All scenarios are disastrous, with double-digit public spending cuts

As a baseline for projecting the Scottish economy after independence we are starting with the figures from the Scottish government itself where offshore tax revenues are £5.1 billion, but not £8 billion:

Key measures	Stats
GDP onshore	£114 billion
GDP offshore	£24 billion
GDP total	£138 billion
Public spending	£63 billion
Public spending as percentage of GDP	46%
Tax revenues onshore	£45 billion
Tax revenues offshore	£5 billion
Tax revenues total	£50 billion
The Deficit (i.e. borrowing)	£13 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£106 billion
Deficit as % of GDP	9.4%
Year-end national debt as % of GDP	77%

The Scottish government would have to get the deficit down very quickly so that the debt did not spiral, but they would be having to do that against several other negative developments:

- Walk-away of government and financial services work
- 38p-per-pound give up for every £1 of GDP lost due to that, in terms of loss of taxes or extra social costs
- Commitments regarding debt and spending that Scotland would have had to make as part of their membership of the EU
- Disappearance of oil&gas tax revenues with the falling oil price

This still leaves intact the 80% of export revenues that coke from England, holding on to the unlikely concept that these would be unaffected by Scottish independence.

UK government work carried out in Scotland could easily fall by 35%; financial services work likewise.

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On a simple calculation the decline in tax revenue, taking the 2013 value of the work, has been calculated as:

Industry	Percentage of 'onshore' GDP	2013 value (GBP bil)	Decline in work	Decline in value (GBP bil)	Loss of tax revenues (GBP bil)
Financial and Business	25%	28	35%	9.8	3.7
Government and other services	26%	29	35%	10.1	3.8
Totals	51%	57		19.9	7.5

That is a give-up of the same size as the complete oil&gas tax revenues, with the oil&gas tax revenues defined by the IFS as £8 billion per annum.

The result of that adjustment would be:

Key measures	Stats
GDP onshore	£94 billion
GDP offshore	£24 billion
GDP total	£118 billion
Public spending	£63 billion
Public spending as percentage of GDP	53%
Tax revenues onshore	£37 billion
Tax revenues offshore	£5 billion
Tax revenues total	£42 billion
The Deficit (i.e. borrowing)	£21 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£114 billion
Deficit as % of GDP	17.8%
Year-end national debt as % of GDP	97%

GDP and tax revenues from these sectors collapse, leaving a much higher deficit and pushing national debt well up into the danger zone.

Next we must layer on top of that the commitments regarding debt and spending that Scotland would have had to make as part of their membership of the EU deriving from the EU Fiscal Stability Treaty ("EFST"). These act as a trump card and mean that the Scottish government would not be able to allow the above situation to materialise, and debt to go up to 97% of GDP.

When Alex Salmond stated as possibilities that Scotland could adopt a currency like the Danish kroner or the Swedish krona, he possibly did not know that both countries are signatories to the EFST even though neither has the euro – or that Denmark is in the ERM.

The two key commitments in the EFST are:

- To reduce national debt as a percentage of GDP to 60% by 2030
- To come into a primary surplus (i.e. eliminate the deficit) in order to achieve that and thereafter only run a small deficit for a short period, and never so as to push debt above 60% of GDP

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Scotland might have 13 or 14 years (2016 to 2030) to come into line and it would be hoped that there would be some natural economic growth and increase in tax revenues over the period so as to make the achievement of a primary budget surplus easier.

In other words one does not have to come into a big surplus from a big deficit in year 1. The size of the ground to be made up and the period of time available denote the degree of the initial shock treatment, and how much the slack can be taken up progressively.

In this case Scotland would have to make cuts so that its deficit never reached 17.8%, and that debt did not reach 97% of GDP. Instead it should cut the deficit to around 3% of GDP very quickly, allowing the debt to only rise to 82% of GDP, and hoping that economic growth and tax revenues in following years brought the budget into surplus and allowed debt to be paid down from 82% to 60% of GDP.

However the Year 1 action would be a public expenditure cut of 14.8% of a GDP of £118 billion, or £17.4 billion. That is 28% of the public spending budget.

Even then there is risk involved that future economic growth and tax revenues do not:

1. Eliminate the remaining 3% deficit
2. Create an annual surplus so as to reduce debt by 22% of GDP over the remaining 12-13 years – which would require a consistent budget surplus of 1.8% of GDP

The result of the adjustment for even this partial move towards compliance with the EU Fiscal Stability Treaty would be:

Key measures	Stats
GDP onshore	£94 billion
GDP offshore	£24 billion
GDP total	£118 billion
Public spending	£46 billion
Public spending as percentage of GDP	39%
Tax revenues onshore	£37 billion
Tax revenues offshore	£5 billion
Tax revenues total	£42 billion
The Deficit (i.e. borrowing)	£4 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£97 billion
Deficit as % of GDP	3.3%
Year-end national debt as % of GDP	82%

Immediately the year-end national debt as a percentage of GDP ceases to increase so fast – that is the good news. The bad news is the £17.4 billion cut in public expenditure: 28%.

Finally, though, we have to recognise that offshore tax revenues are not £5 billion: they could be zero.

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If they are zero, then the GDP figures all have to be adjusted downwards, and the tax revenues:

Key measures	Stats
GDP onshore	£94 billion
GDP offshore	£0 billion
GDP total	£94 billion
Public spending	£63 billion
Public spending as percentage of GDP	67%
Tax revenues onshore	£37 billion
Tax revenues offshore	£0 billion
Tax revenues total	£37 billion
The Deficit (i.e. borrowing)	£26 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£119 billion
Deficit as % of GDP	27.6%
Year-end national debt as % of GDP	126%

But the requirement to comply with the EU Fiscal Stability Treaty does not go away:

- In this case the deficit would have to be eliminated straight away for Scotland to stand any chance of reaching the 60% debt-to-GDP required by 2030
- The debt could not be allowed to reach 126% of GDP and would have to be held at £93 billion worst case: that is basically 100% of GDP
- This is 18% higher than in the previous example where the oil&gas tax revenues were still flowing, so it makes the climb towards a 60% debt-to-GDP ratio all the steeper
- For that reason it would not be prudent to place any greater reliance on future economic growth and extra tax revenues than in the previous example, so the deficit has to be completely eliminated in this case and straight away
- Tax revenue defines public expenditure – it must be £37 billion
- That is a cut of £26 billion or 41% in public expenditure

The situation caused by the need to comply with the EFST is truly apocalyptic:

Key measures	Stats
GDP onshore	£94 billion
GDP offshore	£0 billion
GDP total	£94 billion
Public spending	£37 billion
Public spending as percentage of GDP	36%
Tax revenues onshore	£37 billion
Tax revenues offshore	£0 billion
Tax revenues total	£37 billion
The Deficit (i.e. borrowing)	£0 billion
National debt on 1st Jan (£1.1tr * 5.3 / 63) *	£93 billion
National debt on 31st December	£93 billion
Deficit as % of GDP	0.0%
Year-end national debt as % of GDP	99%

This is the result of the accumulation, after independence, of:

- Declining oil&gas tax revenues
- Walk-away of rUK government and financial services work
- EU membership being bought at the price of compliance with the EU Fiscal Stability Treaty

This situation is built on top of a pre-independence existing Scottish economy which has six fundamental problems:

1. Oil&gas revenues and the tax rate are modest and the revenues are static/falling
2. The non-oil&gas economy is far too small and produces far too little in terms of taxes to make up the difference between oil&gas tax revenues and public spending
3. This gap is currently plugged by a huge annual wealth transfer occurring between rUK and Scotland, which the UK is borrowing and adding to UK national debt
4. After independence Scotland should do that borrowing itself but it will not be able to because its national debt will start out at the limit of sustainability
5. Instead Scotland would need to eliminate the need to borrow by cutting spending, and also reduce the debt itself, under all scenarios of choice of currency and membership of the EU
6. This wealth transfer from rUK is far higher than the Barnett Formula payments, which only show how much higher is Scottish annual public spending per head than it is in rUK and not where the money to finance that spending comes from

This all contrasts markedly with the SNP's delusional Prospectus and the invitation to imagine that the relationship with rUK could stay the same in all the respects where it benefits Scotland now, and change in every respect where it doesn't.

These very high figures are not as black as they could be:

- What if the drop-off in Government and Financial Services work was larger?
- What if exports to England from other sectors dropped off as well?

The basis of the issue is in Scotland's situation now: the oil&gas tax revenues are only an increment to the very large amount of the "average public spending per head" of £10,490 per annum that must be raised from elsewhere.

The SNP claimed in their Prospectus – and to some extent were backed by the IFS – that Scottish public spending could increase by £1,500 per head per annum on the back of a monopoly claim on oil&gas tax revenues, and that there would still be enough to build a Sovereign Wealth Fund. However they overlooked both the Barnett Formula payments – which would cease at independence – and how fragile are the non-oil&gas tax revenues.

Public spending could have increased, but only by £190 p.a. per head, if:

- oil & gas taxes had materialised at £8 billion and
- £10,490 of taxes could be raised elsewhere from non-oil&gas sources

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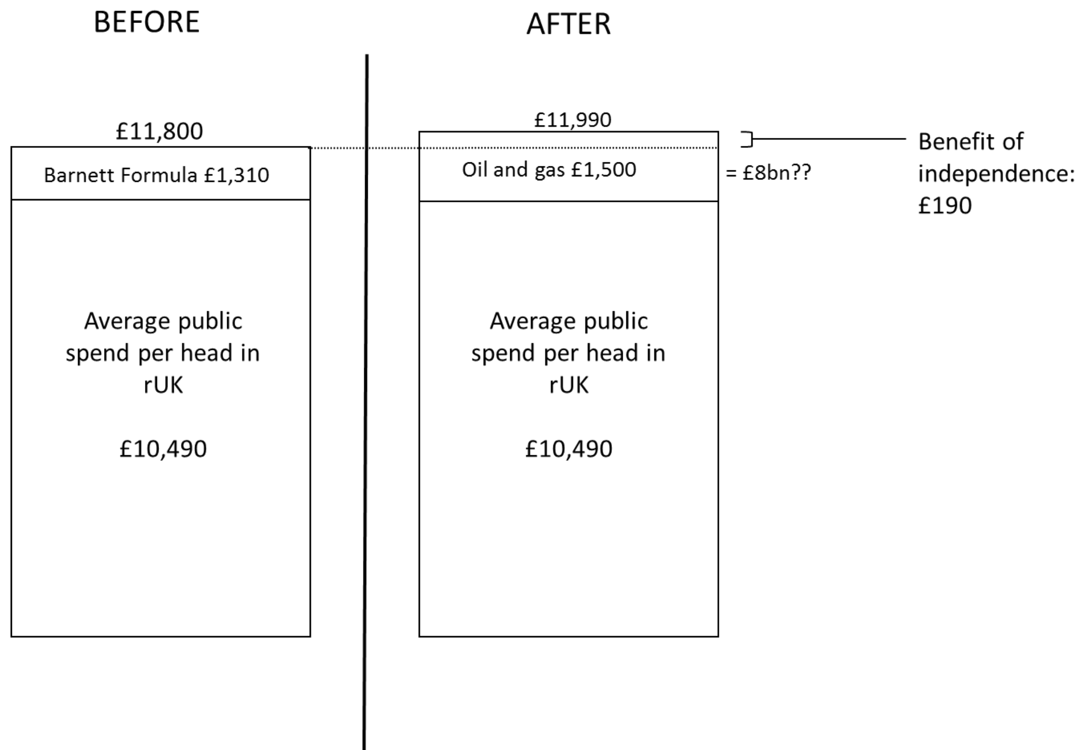
The £1,500-per-head from the monopoly claim on oil&gas tax revenues should have been offset against the loss of the Barnett Formula payments but the SNP did not do this. Diagrammatically it could be expressed as follows:

Scottish expenditure per head of population



There was a major gap in the presentation of the numbers during the referendum campaign, likewise the fact that oil&gas tax revenues (in the latest year for which records existed) had only been £5.1 billion.

The Barnett Formula payments - £1,310 per head per annum – represent only the amount by which public expenditure in Scotland exceeds the average in England, Wales and Northern Ireland (£10,490 + £1,310 = £11,800). None of that indicates where any of the money came from.

If Scotland was on its own and the oil&gas tax revenues were £5.1 billion (£943 per head), £10,857 per head would have to be found from elsewhere to keep the £11,800 per head intact.

In all likelihood the oil&gas tax revenues are already below £5.1 billion and falling, and the onshore tax receipts are about £8,500 per head – a gap of £2,357 per head. The gap goes up to £3,300 if the oil&gas tax revenues are zero.

Scotland would thus have been dead-in-the-water as an independent country and is on life support within the UK.

Is this a fair deal for rUK now? What are the grounds for it to be further improved as Smith Commission recommends?

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Measures required to re-balance and continue the current deal between Scotland and rUK, without reference to the Smith Commission

- Given all of the above and in the context of the UK's financial situation, the current deal between Scotland and rUK needs to be validated
- The validation markers are powers, benefits, costs and risks
- Only once the current deal has been baselined any adjustments made to render it fair to all sides can there be any discussion of further powers and benefits for Scotland
- If the current deal is found to be unbalanced, it must be brought into balance

The black cloud of independence has passed, and both Yes and No voters should feel jolly relieved about that and should really have been able to relax into a continuation of the status quo.

Cameron, Miliband, Clegg, the SNP and the Smith Commission have robbed them of that opportunity and necessitated that the amount of intra-UK wealth transfer, how long it has existed, what the UK national debt would be if it had not existed, the value of oil&gas tax revenues, the size of the private sector economy in Scotland, how much the bad loan books of the Scottish banks are a drag on the whole UK – all of this now has to come onto the table as part of the negotiations of what the realisation of the 'vows' means, and what the future financial relationship between Scotland and rUK will be.

If Scotland is to have more benefits and freedoms, it is only fair to the rest of rUK that these should be benchmarked against what the deal is for everyone else now. If the current deal is found to be unduly beneficial and to devolve too many powers, there must follow a status-quo reduction of Scotland's current risk-pooling and cost-pooling with rUK to balance off its current benefits and freedoms, if indeed such a reduction is possible.

As a next step and in order to legimitise greater benefits and freedoms for Scotland under devo-max, there would need to be a second ratcheting-down of risk-pooling and cost-pooling.

In other words, to determine what the future relationship should be, we first need to be completely clear about what the current relationship is and make sure it is in balance.

The first task (and a red line in that the rest of the process should not start off until we have this) is the production of a report on the current degree of pooling of freedoms, benefits, costs and risks between rUK and Scotland, so as to properly baseline the negotiations.

The report should be delivered by the troika of the European Commission, the European Central Bank and the International Monetary Fund, given their experience in the field.

The terms of reference for the report should include bringing clearly onto the table how big the current wealth transfer is, a proper legitimatisation of why public expenditure in Scotland needs to be so much higher (a) than it is in rUK (b) when Scotland's economy contributes so little, and what limitations on the costs and risks for rUK must be put in place for even the current deal to continue.

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Only then is there a baseline for opening negotiations on the 'vows', and a debate on increasing Scotland's freedoms and benefits, a process that must inevitably deliver further and concomitant reductions in rUK's exposure on cost-pooling and risk-pooling.

At any rate we will then see what the price will be for the rest of the UK if public expenditure on Scotland is to be maintained at £62 billion when the last firm figures on oil&gas tax revenues were that Scotland's share was only 84% and that amounted to £5.1 billion and falling. If the statistic in Section 14 is true that "the **average** Scottish household consumed £14,151 more in public services every year than it paid in tax", then the non-oil&gas tax revenues will not come anywhere near to supporting Scotland's public expenditure without substantial wealth transfers.

Should we embark upon this potentially damaging exercise?

It should be borne in mind that the Scottish people voted No and that there is no proof that the 55% who did so want the 'vows' to be realised. As they voted No to "Should Scotland be an independent country", and the UK remains one country, maybe it would be better if the lid was kept on this entire Pandora's Box. The 'vows' were a strategic mistake by Cameron, Clegg and Miliband because they play right into the SNP's hands and allowed No to mean either No, or a tick to the third option that the SNP wanted to have on the ballot paper – devo-max.

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Measures requiring to be altered in rUK's favour in order to legimitise the further rights and powers for Scotland contained in the Smith Commission report

- Having ratcheted the current deal on freedoms/benefits/costs/risks into balance, we can discuss further freedoms and benefits, as long as risks and costs for rUK are reduced
- This may not be feasible within a unitary sovereign nation
- In which case such a de facto independence must be abandoned because 55% of Scottish voters rejected it

Assuming it was decided to embark upon the path of balancing the current deal in an open and transparent manner so as to baseline Smith Commission, we then go on to the realisation of the 'vows' in a second phase.

This exercise must by nature have disadvantages for Scotland in order to balance off the advantages, since the advantages will be paid for by the other voters in rUK who had no vote in the referendum. "UK" is a zero-sum game – if one sub-section gets ahead, another must necessarily be made to fall behind.

New freedoms and benefits to be enjoyed by Scotland must be balanced by a compensating withdrawal of cost-pooling and risk-pooling measures with rUK contained in the baseline deal.

The red lines for rUK voters need now to be articulated. Many of these will be red lines for Scottish voters as well, since they may not wish to trade withdrawals of support for extra powers for the SNP: that is what they 55% voted to reject after all.

Specifically Scotland must in future pay exactly the same amount per head as every other part of the UK for those services which are shared, and this obligation must be hypothecated on a priority claim on the oil&gas tax revenue.

For those services where management is devolved into Scotland, Scotland can use its own taxes to pay for them, and engage in whatever schemes it likes to finance investment in them, as long as the recourse is to Scotland only – eat what you kill. There will not be any further Barnett Formula payments, or indeed any other internal wealth transfers.

Scotland cannot be allowed to remain in the UK and have its own, lower corporation tax rate or rate of VAT. There can be no incentive for companies to set up their brassplate in Scotland as opposed to anywhere else in rUK and then be able to practice tax-rate competition against rUK and against other EU member states whilst sheltering both within UK and the EU: the Ireland/Luxembourg/Netherlands model.

Scotland must pay for its own universities without access to funding from rUK, if it is to continue to discriminate against students from any part of rUK on the matter of payment of tuition fees. Scotland's Student Loan portfolio must be separated from the Student Loan scheme for rUK, with no intermingling of risk.

The bad loan books of Bank of Scotland and Royal Bank of Scotland need to be taken off the balance sheets of those banks at face value and put into a centralised National Asset Management Agency ("NAMA") on the Irish model, with the owner in this case being the Scottish government.

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The Scottish government can be granted borrowing powers such that it can raise the necessary funding to buy these assets from BoS and RBS (or from the Bank of England if that is where the loans are pledged now), via bonds issued by their NAMA under the guarantee of the Scottish government. Investors in the bonds will have a look-through only to the Scottish taxpayers, and not to the taxpayers of rUK.

These loans were “Made in Edinburgh” at the time when the banks operated under the strong encouragement and political patronage of Gordon Brown and New Labour, to fulfil their two designated tasks:

1. to establish Edinburgh as an equal of London in international banking, where RBS with its former ABN-Amro international network would rival HSBC. Fred Goodwin was cheered on from both Holyrood and Nos 10 & 11 Downing Street until it went wrong and ABN-Amro turned out to have maxed out on sub-prime lending
2. to act as a conduit for new building in the Scottish rust belt and give the impression of rising prosperity, whilst postponing the bill through a 25-year mortgage at artificially low interest rates.

This latter point was a UK wide problem as the English former building societies – poorly regulated, outside London, established in Labour areas, lending into Labour areas – were given a similarly easy ride and then went under: in England the casualties were Bradford&Bingley, Alliance&Leicester, Halifax, Britannia (from Stoke-on-Trent), and Northern Rock. The clue is in the name. Britannia took down Co-Op, and Halifax/Bank of Scotland took down Lloyds. But when things went wrong, who got the blame? The City of London.

The Scottish government will most likely not get a return of the face value of the loans over time, whilst the bonds will have to be repaid in full. The difference can come out of Scottish tax revenues and be diverted from Scottish public service provision. That is the price Holyrood and the Scottish people should pay for cheering on Fred Goodwin and Andy Crosby (an accountant and a grocer respectively, without a banking qualification to rub between them).

Scotland’s PFI contracts must be changed to read – and new ones written on the basis – that PFI investors only have a look-through to the Scottish taxpayers behind the Scottish NHS and the Scottish Education service, and not to the taxpayers of rUK. This might trigger the cost escalation clauses in existing contracts, or even early termination or default, but if this is the direction in which the SNP wishes to travel, Scottish voters should bear the negative consequences as well as the positive ones.

This list is the inevitable result of permitting a devo-max deal to come into place on the SNP’s terms or anything like them, in order to protect rUK from SNP mismanagement and over-borrowing.

However, as is stated elsewhere, the UK is a unitary country. Attempts at risk compartmentalisation and limitations on recourse to the UK taxpayer may appear to hold water in any contracts signed, but they will fall over in a stressed situation and in the face of the UK’s standing in international financial markets.

As a result, because the compartmentalisation is impossible, the concept – deeply embedded in Smith Commission – that arrangements about money and borrowing can be made for Scotland without their having any impact on rUK – is also false.

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It would be much better if Smith Commission did not proceed and the 'vows' were forgotten. Perhaps the Scottish people – the 55% who voted No – might wish to intervene here and state that they would rather not have extra powers if they come with such a heavy price tag. The deal cannot be the SNP Prospectus by another name, and deliver substantial new freedoms and upside to Scotland whilst continuing to wrap Scotland in the security blanket of the UK for management of risks and escalation of costs.

Whatever is written in the Smith Commission report and however much the SNP has managed to insinuate its divisive forms of words into it, we are only here because the SNP have broken the Edinburgh Agreement before and after the referendum, and because their prospectus was a gross bluff.

The giving of the 'vows' was unconstitutional; it follows that breaking them would not be unconstitutional – it might be termed a-constitutional because we are in uncharted territory.

The Edinburgh Agreement was supposed to act as a routemap for the outcome of the referendum but it was sketchy, and the SNP has attempted to superimpose its version. We must not forget how much the SNP flouted the Agreement during the referendum campaign and afterwards.

There is nothing dishonourable about acknowledging the incompleteness of the Edinburgh Agreement when faced with such conduct from one of its signatories. That is the truth after all. We would not be here were it not for the SNP's prospectus and conduct.

Let us now go on to recap the thirty largest aspects of that bluff in the economic and monetary sphere.

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Thirty aspects of the Great SNP Bluff

1

The SNP's Unilateral Independence model means Scotland would not exist

- The SNP still sees UDI – a Unilateral Declaration of Independence - as a viable option after the 2016 Holyrood elections, if the 'vows' are not fulfilled
- Or else another referendum, contrary to its prior agreement
- UDI means no Separation Treaty, which means 'Scotland' would not exist

Alex Salmond held UDI out as a serious possibility in his debrief on the referendum result. Nicola Sturgeon talks only of another referendum within a few years. Under either scenario the relationship with rUK would be confrontational and unresolved: there would be no renewal of the Edinburgh Agreement and no Separation Treaty. Holyrood would write the terms of separation itself and try to impose them.

Under UDI and just like the States of the US Confederacy, Scotland would be regarded – by rUK and globally - as a secessionist and rebellious province of a member state of the international community that was itself in good standing i.e. not oppressing that province.

rUK would not need to block a Scottish application to be part of the EU, the European Economic Area, NATO, the United Nations, the Commonwealth and so on. There is no need to speculate as to whether other countries would make a precedent for Scotland by entertaining an application. Scotland would not meet the application criteria because 'Scotland' would not exist.

UDI confers neither de facto nor de iure diplomatic recognition, the implications of which include:

- Scottish people could not travel on Scottish passports
- Scottish currency (which would not be the pound) would not be convertible
- There would be an automatic trade embargo
- Scotland's air, land and sea borders would be closed
- The oil&gas would continue to belong to rUK, who would be legally entitled to extract it and land it in rUK, or anywhere else e.g. build a link to the Norwegian pipeline network

As for the "sterlingization" concept of using the currency without rUK's permission, or shuffling off the national debt, these are irrelevant: Scotland would not have a valid separate identity and so would not cease to be joint&several obligor of the national debt. Scotland would have the currency rUK allowed it to have, or none.

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Thirty aspects of the Great SNP Bluff

2

The SNP's currency union required a Separation Treaty to be signed – rUK wouldn't sign

- The SNP foresaw a Scotland with a booming Financial Services sector, on top of a banking system already disproportionately large
- A currency union like the euro involves backing one another's financial systems (European Stabilisation Mechanism), and requires coordination of tax and spending policies (EU Fiscal Stability Pact)
- The SNP wanted rUK's backing for their debts, PFI, benefits, and pensions, whilst pursuing tax-rate competition against rUK, and offered nothing in return
- rUK was under no obligation to accept such terms

The SNP Prospectus put expansion of Financial Services as a priority growth area, in other words the Scottish banks would further extend their balance sheets. Corporation tax would be cut, establishing Scotland as an attractive destination compared to other EU countries like rUK, and resulting in the kind of tax-rate competition exploited by the likes of Amazon and eBay.

A currency union should have necessitated the sort of risk-limiting arrangements that the euro countries have agreed for backing each other's banking systems and public spending (the latest being the European Stabilisation Mechanism), going hand-in-hand with agreements to eliminate public spending deficits and reduce debt.

But these agreements were never offered by the SNP, only an arrangement whereby there would be a risk-sharing that, by dint of respective size, would have meant Scotland benefitting from the backing of rUK. As well they wanted a shareholding in the Bank of England and a say in how interest rates were set.

Where was the inducement to rUK to share the risks? It could only have been in the shape of the oil&gas tax revenues, but the plank of the SNP's case for independence was that these were all for Scotland and would not be shared.

It was not the concept of a currency union in itself, it was the SNP vision of a currency union combined with its tax positioning and the increase in risks for account of rUK that was unpalatable. The result would have been grotesquely tilted in Scotland's favour – all the benefits for Scotland, all the risk for rUK. Nej takk.

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Thirty aspects of the Great SNP Bluff

3

A currency union was possible - on terms negating the SNP's Prospectus

- The SNP's financial deal set out in its prospectus was a non-starter
- The starter deal would have negated the SNP Prospectus
- There was no middle ground

How is it possible that we found out in the week before the referendum that 63% of people in rUK were against a currency union with an independent Scotland, when a few weeks previously they had never heard of a currency union and (probably) did not really know what one was? The SNP's "currency union" became the totem for rUK voters rejecting the SNP Prospectus as against their interests.

But a balanced deal would have given Scotland far more debt, less taxes and less autonomy, and ended up with Scotland having its own currency – probably in the EU and possibly also in the ERM. In other words a package incompatible with the SNP Prospectus' promises to the Scottish people.

SNP Prospectus Deal

For me	For you
We build Scotland out into a major financial services hub	We unload the Bank of Scotland and RBS bad loan books onto you
We get backing for our (expanded) banks, debts, our PFI, benefits and pensions	You get increased risk due to our expanded financial services sector
We accept only 8% of the joint national debt	We unload 92% of the national debt that Scotland used to co-guarantee
We get 91% of the oil&gas and quite a lot of other assets	You get 9% of the oil&gas (gee thanks buddy)

The Real Deal

For me	For you
We accept 8% of the joint national debt and all of the PFI & Student Loans related to Scotland, and all the Bank of Scotland and RBS bad loan books that were 'Made in Scotland'	You take 92% of the national debt that Scotland used to co-guarantee, and all of rUK's PFI and Student Loans
We establish our own currency at independence and cut our own deal with the EU on the EFST, ERM and the euro	You back our EU membership application to join at independence
We get 84% of the oil&gas	You get 16% of the oil&gas

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Thirty aspects of the Great SNP Bluff

4

rUK can easily stop Scotland using the pound

- The SNP's "sterlingization" claim was as hollow as its "Just try and stop us"
- The Bank of England, as owner of the central bank money in the pound, could have excluded it from the pound payment systems
- Then Scotland would have been using a synthetic pound at best, not the real one

When Alex Salmond claimed Scotland could use the pound without rUK's permission and support ("Just try and stop us. What can they do? Invade?") this was bravado. There was no need for a physical invasion: the sovereign powers were already available to The Bank of England to do the job from Threadneedle Street.

These powers are well known and have been perfected for anti-money laundering, anti-terrorist financing and for isolating states that have stepped out of line like Iran and Syria. It is as simple as adding the SWIFT country identifier to the Bank of England's blacklist and no Scottish payments would go through CHAPS – the system for making international GBP payments over SWIFT, and for making large domestic payments. Large domestic payments includes those made by banks to settle their mutual obligations in the other GBP clearings, like for cheques, card payments and direct debits.

The immediate knock-on effects of Scotland's blacklisting would be:

1) Scotland could not raise debt in pounds, make debt payments in pounds, do foreign exchange with one leg in pounds, conduct foreign trade in pounds…
2) No access for Scotland, its banks, insurance companies or customers to BACS Credit Transfers, BACS Direct Debits, Faster Payments or the cheque clearing
3) ATM machines and Point-of-Sale terminals in rUK would not accept Scottish cards, likewise online purchases could not be made in either direction

In other words there would be no payment circuits between Scotland and rUK. Scotland – and Scottish banks, consumers and businesses – would be unable to make payments in GBP to rUK or receive them.

The Bank of England could also declare that Scottish banknotes were no longer legal tender in rUK, cancel the permission for Scottish banks to place deposits with it and issue their own banknotes against them, and make no arrangement to supply Scotland with rUK banknotes.

If the Bank of England decided to implement any or all of these powers, Scotland then would not be using the rUK pound, the GBP: it would be using a synthetic and less valuable version. More than that Scotland would be crippled economically, by losing 80% of its export markets.

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Thirty aspects of the Great SNP Bluff

5

Walking away from the national debt was the same as Unilateral Independence

- The SNP's proposal to use rUK's refusal to agree a currency union as an excuse to try and walk away from any share of the national debt was a non-starter
- "Sterlingization", meaning UDI, would not have reduced the debt: a Separation Treaty was needed for that

When confronted with the repeated line from the rUK politicians of "no currency union", the SNP's line was "if they won't let us keep the pound in a currency union we'll use the pound anyway but we won't be responsible for the national debt".

There was no pathway to "sterlingization" other than UDI, synonymous with there being no signed Separation Treaty with rUK. Scotland would not have established a separate identity, would still have been a part of the UK under international law and would therefore remain the joint&several obligor of the entire UK national debt, as it is now.

The SNP's contention that Scotland could walk away from the national debt was even more ludicrous when one considers that significant parts of it are directly owed by Scottish entities, who would immediately have been called in default:

- Private Finance Initiative scheme debts where the Scottish NHS trusts and education authorities rent hospitals and schools from venture capital companies
- The bad loan books of the Scottish banks

The SNP misrepresented the meaning of the UK Treasury's statement that all current UK debt would be honoured: the statement reassured investors that the debt would not be allowed to go into default, and that the other three constituent parts of the UK would honour it towards investors, while dealing appropriately with the defaulting subdivision - Scotland – behind the scenes.

The SNP frequently represented this statement as meaning that rUK had agreed to take Scotland off the hook, and this was not true.

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6

Scotland might not have been in the EU at once or – under UDI - ever

- The SNP stated that Scotland would simply be an EU member at the point of independence due to "continuity of effect"
- Opinions were divided: the SNP said that, everyone else disagreed
- The contrary position was that Scotland would have to reapply, if eligible

EU membership was critical to the SNP's economic model for Scotland. Alex Salmond said he had a legal opinion proving that Scotland would simply be an EU member at the point of independence due to "continuity of effect": the result of Scotland's already being a part of the UK, in the EU, and compliant with EU rules and regulations.

The SNP represented that rUK had given its agreement to support Scotland's **application** to join the EU in the form of a no-strings warranty. Using the word "**application**" at all contradicted their own line on "continuity of effect". Since no-one apart from Alex Salmond was allowed to confirm the existence of his legal opinion, let alone its contents, it is safer to assume that Scotland would have to apply. The key question is when.

rUK's might have supported a Scottish application to join at independence if the separation from rUK had been fair and equitable, under a signed treaty, with take-over of national debt, in other words the Real Deal as per Section 3 - but not the deal the SNP was offering.

Other EU Member States might just as easily have insisted that Scotland submit to the customary process for a new joiner, that Croatia has recently completed:

- Application only once Scotland had become a separate country, in 2016
- The normal 5-year process from there
- Membership terms to be negotiated with a unanimous vote needed
- Joining date 2021

Under UDI (with reneging on national debt, no Separation Treaty), Scotland would not even have been eligible to apply to join the EU.

Who can say whether Scotland would have been in the EU at independence in 2016? It was a misrepresentation by the SNP to say that Scotland definitely would be, and their line on this was undermined by their own usage of the term "application". For sure rUK did not give a no-strings warranty of support.

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Thirty aspects of the Great SNP Bluff

7

Government work would have moved to rUK – by law

- Scotland discharges a disproportionate amount of the UK's government work
- This would have been brought into alignment with work relating to Scotland being moved into Scotland from rUK
- But on balance this would have cost a lot of jobs in Scotland and the taxes that go with them
- And the SNP promised to reduce the current costs of running public services after they had started running on a reduced scale – costing more jobs
- The extent of the job losses was never officially quantified

The SNP Prospectus characterised the Scottish economy as being able to only go one way after independence – UP. In reality over half of the non-oil&gas economy was vulnerable to voting with its feet – DOWN.

According to the SNP Prospectus, government work amounts to 26% of the non-oil&gas economy. This is higher than the UK average.

Under Data Protection laws some of that work cannot be done in a "foreign" country, which Scotland would have been upon independence. It was revealed that the tax-related work done at HMRC Cumbernauld would have to stop with the loss of all the 6,500 jobs.

This was exaggerated in certain quarters: Scotland would have taken over its share of vehicle licensing (from Swansea), its VAT (from Southend) and its benefits payments (from Longbenton).

But because Scotland is 5/63rds of the UK and it discharges much more than 5/63rds of the UK's government business now, the balancing exercise would have cost jobs in Scotland.

And the SNP said they would run public services more efficiently and cut costs, but the initial situation would have meant running the same set of services on a smaller scale. Normally that means less efficiency and higher unit costs: converting that to a higher efficiency than in the whole UK now but on a smaller scale would have meant even more job losses.

The UK government did not quantify how many Scottish jobs would go under the balancing exercise.

The SNP did not quantify how many more Scottish jobs would go in order to run the services more efficiently and achieve unit cost savings compared pre-independence, after unit costs had risen due to the balancing exercise upon independence.

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8

Government/financial services work would have moved to the EU – by law

- A hiatus in EU membership would have been very damaging
- Data Protection laws do not allow certain work relating to an EU member state to be carried out in a non-EU member state
- Work would have to move away from Scotland, costing jobs and taxes
- The number of jobs was not quantified

Data Protection laws restrict the processing of data outside the EU that relates to EU member state persons. This restricts the degree of offshoring and outsourcing from the UK that can be done to India and China, but promotes it to Poland and Slovakia.

According to the SNP Prospectus, government and financial services work amounts to 51% of the Scottish non-oil&gas economy. This is higher than the UK average. Scotland might not have been in the EU for five years and a given number of jobs would have moved out of Scotland to elsewhere in the EU.

There would not necessarily be a balancing exercise unless Scotland decreed that all data relating to itself had to be held only in Scotland.

When Lloyds Bank, for example, stated that they would move their registered office from The Mount in Edinburgh to rUK upon independence, but that this would be the extent of the transition, how can one react? Did Lloyds have a proper Impact Analysis made? Was it so short-sighted as not to cater for this eventuality?

No major employers seem to have done a proper quantification in this area, nor the UK government, nor the SNP.

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Thirty aspects of the Great SNP Bluff

9

Scottish banks would have moved their substance to rUK – with the jobs – by regulation

- Scottish bank balance sheets are too large for any Scottish central bank to act as safety net
- The international banks (Lloyds and RBS) would have been compelled to right-size their Scottish banks to the relative size of Scotland, and move their substance into rUK under the wing of the Bank of England
- This would inevitably mean jobs moving out of Scotland and hole the SNP's vision of Scotland as a Financial Services hub below the waterline

Lloyds and RBS are international banking groups. Internationally co-ordinated action and national-level responses to the financial crisis have included measures and policies to ensure that banks do not grow too large compared to the country of their prime financial regulator/underwriter.

A Scotland in the EU would have to have its own prime financial regulator/underwriter and become part of the European Monetary System: these are conditions of EU membership. The capacity of that central bank is perforce limited by the size of the country it is in. The EU would not allow Scotland in if the size of its banks represented a threat to the European Monetary System.

Scotland with a population of 5 million would likewise not want to take the risk of having to bail out two major international banking groups. Nor would those international banking groups be able to get sufficient capital and credit themselves to function properly if it were known that their lender-of-last-resort was in so small a country.

The Scottish Research Society quantified the level of UK government support for Lloyds and RBS at £334 billion: that is nearly 300% of Scottish GDP. Scotland's central bank could not take over a commitment of that magnitude.

Not only would registered offices have had to change, the Scottish and rUK banks within Lloyds and RBS would have had to become separately capitalised from one another and have their own Operations and IT, possibly with completely separate stock market quotations (assuming there even was a Scottish stock market).

After independence Lloyds and RBS would have been 5/63rds in Scotland and 58/63rds in rUK, with all the jobs and taxes accruing in the same proportions.

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Thirty aspects of the Great SNP Bluff

10

rUK customers would have forced financial services work back to rUK – by demand

- Would rUK consumers whose banking, investments and pensions are currently supported by Scottish institutions, vote with their feet?
- If they did, Scottish institutions would either have to set up new operations in rUK, or lose market share and make redundancies
- Either way Scottish jobs would be lost

Standard Life stated they would move business out of Scotland for regulatory reasons i.e. because pension plans of rUK persons would have to be constituted in rUK companies – but the impact was rather downplayed and the inference was that major functions could still be carried out in Scotland.

This overlooked the potential response of the rUK consumer to an independent Scotland run by the SNP: a confrontational regime that had expressed hostility to rUK inhabitants and the English in particular.

One way or another the consumer was aware of Country Risk - the risk that a financial asset held in a country or a claim on a cashflow due from within a country could be expropriated completely, become subject to a tax that cannot be reclaimed or offset, or where the asset can no longer be sold.

Country Risk is a key risk of doing business abroad, such as an rUK pensioner after Scottish independence having their private pension fund with a Scottish insurance company.

What would be the overall impact if rUK consumers demanded that their business be completely insulated from Scottish Country Risk?

- Scottish providers would have to start up a completely rUK business, in rUK, with rUK professionally qualified staff, and Operations and IT in rUK
- Scottish providers would lose market share to rUK providers

Either way Scottish jobs would go and in large numbers.

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Thirty aspects of the Great SNP Bluff

11

There is not much oil left for Scotland - or for any of us

- The SNP claimed reserves of 40 billion barrels and 91% ownership thereof
- Sir Ian Wood claimed 25 billion barrels
- The SNP inferred an increasing price-per-barrel and did not mention the exchange rate
- Brent Crude has dropped from $115 to $50-a-barrel between January 2014 and now

The SNP used as the basis for their economic case for independence that Scotland would have a "monopoly" (91%) of oil&gas tax revenues and these would be worth an extra amount per head of the population of Scotland of a sufficient magnitude to increase public spending and build a Sovereign Wealth Fund. The IFS numbers inferred the "monopoly" would give Scotland £1,500 per person per annum at current rates of extraction, world oil prices and USD/GBP exchange rate. That is £7,950,000,000 per annum in tax revenues, more or less £8 billion then.

In 2012/3 1.4 million barrels-a-day were produced, with value of about $110 a barrel (source: page 4 of http://www.scotland.gov.uk/resource/0045/00451335.pdf). At an FX rate of 1.65, the value of production was £93 million per day or £34.1 billion a year. Tax revenues were £6.1 billion and only about 84% of the production came from Scottish waters, supplying £5.1 billion of the tax (page 6). In 2013, according to the ONS, North Sea tax revenues were £4.7 billion.

To back its claims of much higher receipts – and inexhaustible ones - the SNP used an estimate of remaining reserves at the high end of all available estimates, and projected the price-per-barrel to stay stable or increase: the result would be increases in public spending and the building up of a Sovereign Wealth Fund.

The Scottish Research Society has shown extraction levels falling steadily from 2000 to 2014, and the extraction cost at $28-a-barrel. Now the price has fallen to $50-a-barrel. The maximum price has been $140-a-barrel, the lowest $38-a-barrel.

The SNP's figures disconnect with current reality and with the opinions of other experts. Oil&gas tax revenues attributable to Scotland may still be running at £4 billion (2103 level) but they are unlikely to be £8 billion (IFS figures), let alone the £18 billion needed to cover the current gap between Scottish public spending and Scottish non-oil&gas tax revenues.

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Thirty aspects of the Great SNP Bluff

12

Barnett Formula Payments of £1,310 per head to Scotland would have stopped

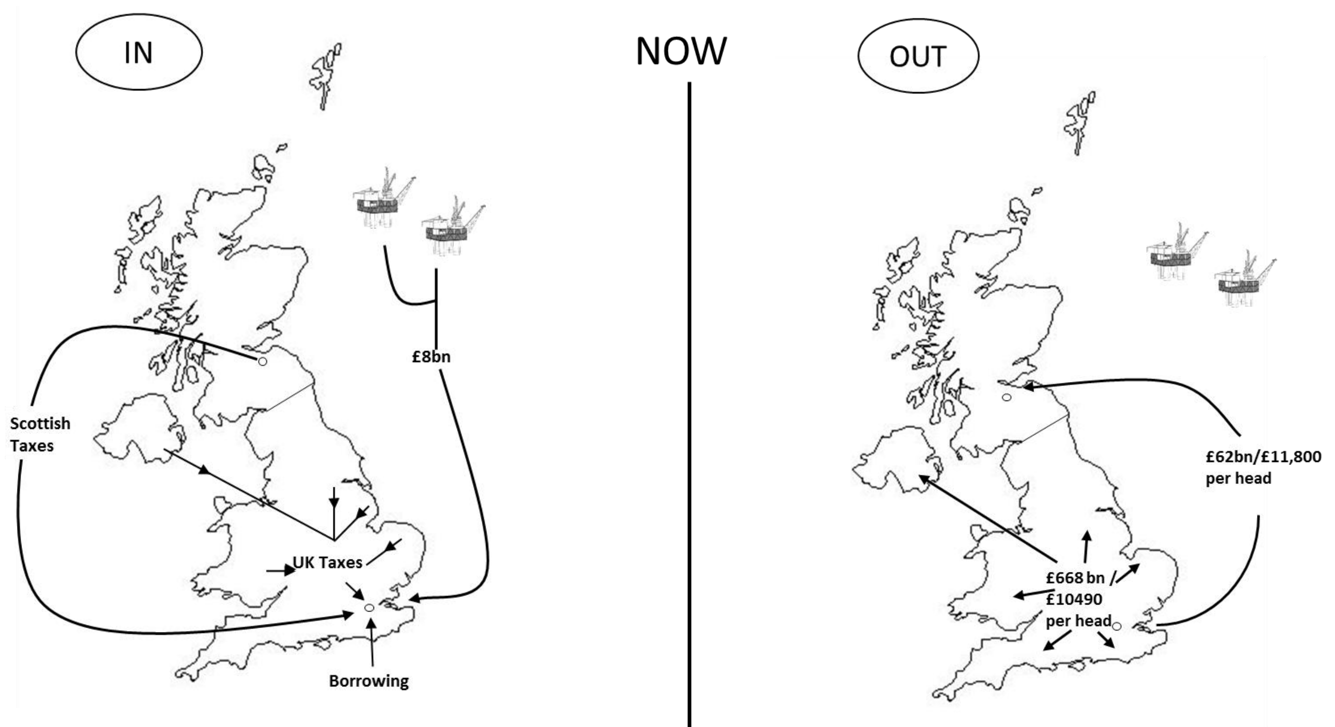
- £1,310 per person Barnett Formula payments stop
- Barnett Formula payments are stable/oil&gas revenues are volatile
- Scotland would be £190 per person better off but only if oil&gas tax revenues really were £1,500 per person, and
- If other Scottish taxes deliver £10,490 per person – they deliver about £8,500 now

According to IFS figures, average UK public spending on the whole UK population of 63 million is £10,600 p.a. per person including in Scotland, but spending just in Scotland is £11,800 per person. The per person spend in England/Wales/Northern Ireland is thus £10,490 against Scotland's £11,800, so Scotland receives an extra £1,310 per person per annum: the Barnett Formula payments.

Oil&gas tax revenues would start to flow directly into Holyrood's coffers upon independence - £1,500 per person according to the SNP – but the Barnett Formula payments would stop. The benefit of independence would then at best be £190 per person p.a. and not the full £1,500.

Even this formulation is dubious as it assumes that the £10,490 – on top of which the Barnett Formula payments sit – are a guaranteed certainty.

Scotland's public revenues within UK: money **In** and money **Out**



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Thirty aspects of the Great SNP Bluff

13

Independence would make tax money flow in a different circle but not increase it

- Oil&gas tax revenues would flow direct to Holyrood after independence, with Scottish taxes
- Scotland would have borrowing powers, but that does not mean it can borrow more - its opening debt-to-GDP ratio would be high
- None of this increases the money available to continue to spend £62.5 billion on public services

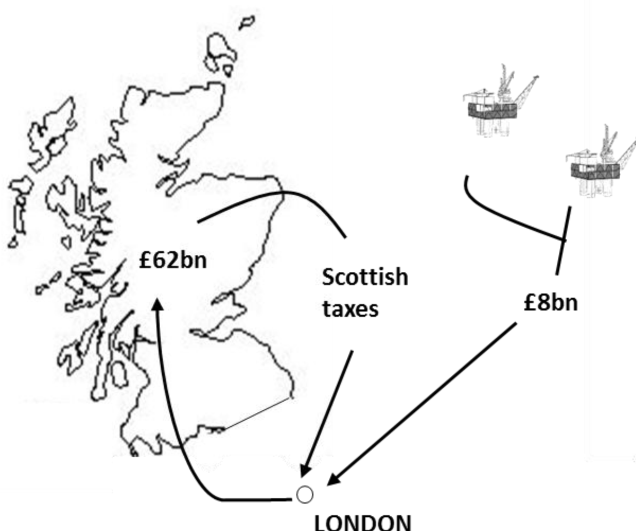
Independence would primarily re-direct all Scottish taxes and its share of oi&gas tax revenues to Holyrood, and cause Barnett Formula payments from Westminster to stop. That would add £190 per person to the coffers and allow the current £11,800 per person to be maintained if:

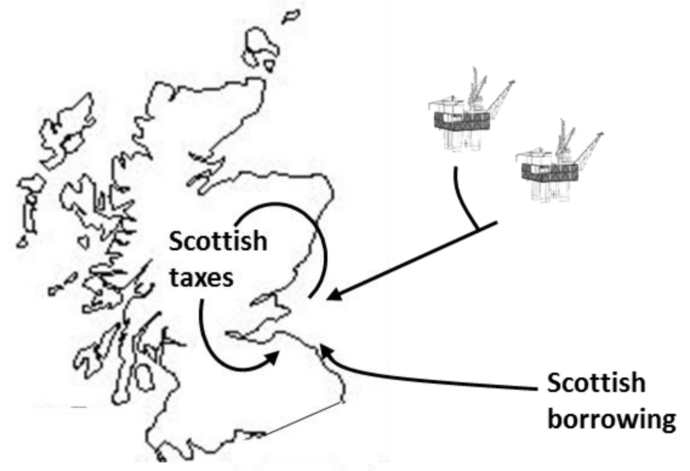
1. £8 billion of oil&gas tax revenues come in, a toppish figure
2. £55 billion come in from taxes on the non-oil&gas economy, or from borrowing, rising to £58 billion if oil&gas tax revenues are only £5 billion

Extra borrowing is not an option when Scotland would be maxed out on borrowing if it started with the same ratios as the UK but with no credit rating or borrowing track record: a 90% debt-to-GDP ratio is too high for such a country. The £55-58 billion has to come from taxes.

The redirection of flows does not of itself change their amount. The UK is only sustaining the current level of spending in Scotland by borrowing 5% of GDP. Could Scotland find £62.5 billion on its own?

BEFORE **AFTER**





Thirty aspects of the Great SNP Bluff

14

No certainty that pre-independence public spending could be sustained

- It was never questioned the current £10,490 average public spending per head in the UK could be sustained from Scotland-only non-oil&gas tax revenues
- Why not? The £1,500 oil&gas tax revenues were assumed to sit on top of an unquestioned, certain and incontrovertible base

The IFS Report stated that taxes in Scotland per head were about the same as in the rest of the UK, although more taken from taxes on spending than taxes on income. This is an important distinction: taxes on spending materialise only when you have the income to carry out the spending in the first place.

The Scottish Research Society and the ONS quantify Scotland's non-oil&gas tax income at £45-47 billion p.a., or about £8,500-£8,900. In 2012 a study backed up with figures from the Office for National Statistics showed that only 283,080 Scottish households – 12 per cent of the total – pay more in taxes than they get back in public services. If that is not bad enough, the **average** Scottish household consumed £14,151 more in public services every year than it paid in tax.

Scotland would have £8 billion to find to keep public spending at current levels, even if one assumed that oil&gas tax revenues would deliver £8 billion. Extra borrowing is a source that is not available as Scotland starts off life maxed out, and must eliminate its deficit and reduce its debt.

It was assumed by the SNP as a matter of complete certainty that £10,490 per annum per person could be raised from sources other than oil&gas tax revenues, such that the £1,500 oil&gas tax revenues could be looked upon as sitting on a firm and certain base, allowing Scotland to spend £11,990 per person – a £190 increase compared to pre-independence.

Rather it looks like there is an £8 billion p.a. gap, and a larger one than that if oil&gas tax revenues do not turn out to be £8 billion.

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Thirty aspects of the Great SNP Bluff

15

Scotland would face at least £10 billion of public spending cuts if it was in the EU

- Under a balanced Separation Treaty, Scotland national-debt-to-GDP and deficit-as-a-proportion of GDP would be the same as the UK's – stretched
- The other EU countries have agreed a plan to reduce these to manageable levels by 2030
- But UK and Czech Republic have an opt-out, and Croatia has only just joined the EU
- If Scotland joined the EU independently, it would not for sure maintain the opt-out…
- And the impact on public spending would then be catastrophic

Scotland would split from the UK with an unfavourable debt-to-GDP ratio and a maginified version of the annual public-spending-deficit-as-a-proportion-of-GDP:

- national-debt-to-GDP of 75%, the UK's own level
- annual public-spending-deficit-as-a-proportion of GDP of 7.2% when the UK's is 5%

In order to avoid a repeat of the Euro sovereign debt crisis the EU member states have signed the EU Fiscal Stability Treaty, ensuring member states do not overspend and rack up large debts, which other member states have to backstop in order to protect the currency – the euro.

All EU member states have signed, not just the ones using the euro, and just two seasoned member states have an opt-out – UK and the Czech Republic.

The Fiscal Stability Treaty commits its adherents to:

1. cut their debt-to-GDP ratio to below 60%, by 2030
2. eliminate their primary fiscal deficits to achieve that

A Scotland – in the EU in 2016 and without the UK's opt-out – would be compelled to find at least £10 billion of spending cuts even if GDP were to remain at pre-independence levels:

1. eliminate the fiscal deficit of 7% of GDP
2. thereby ensure that debt did not escalate into the danger zone
3. cut debt to 60% of GDP by 2030

These cuts expand as GDP falls in line with the walk-aways described in Sections 7-10.

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16

Scotland would also have been in the ERM if it had adopted a currency like the Danish krone

- In the TV debate on 25th August Alex Salmond said there were many options for the Scottish currency, for example a currency like the Danish krone pegged to the euro
- The Danish krone is lashed to the euro – it is in the ERM that the UK fell out of on Black Wednesday in 1992
- Denmark is an adherent to the EU Fiscal Stability Treaty
- Salmond did not know what he was talking about

Alex Salmond put forward the Danish krone as an option for Scotland's currency, without appearing to realise that:

- Denmark adheres to the EU Fiscal Stability Treaty
- The Danish krone is in the Exchange Rate Mechanism (ERM) as well
- Its banding to the euro in the ERM is particularly tight at +/-2.25%

This option foresees Scotland in the EU independently and adhering to the EU Fiscal Stability Treaty: rUK would not intervene to help Scotland retain the UK's opt-out from it. Then Scotland must have its own currency: it would be farcical for an adherent of EFST to try to achieve its targets when using a currency that it neither had sole control over nor had joint control over with other EFST adherents i.e. the euro.

ERM membership is one step further than EFST. A country enters the ERM with its own currency over which it has sole control. It releases a degree of that control by joining the ERM but without necessarily agreeing to eventually release almost all control by joining the euro. Nevertheless, the ERM forces convergence of tax, spending and debt policies, because otherwise a currency will constantly fall outside its bandings and result in its central bank having to spend its currency reserves.

It is a particularly inappropriate system for a country to join when it has high debt-to-GDP and a large fiscal deficit when other system members do not. Scotland would be joining with 75%/7.2% respectively, whereas Denmark is at 45%/1.2%. Denmark has a very tight band of 2.25% against the euro, tighter than the pound's band against the Deutschmark that the Bank of England was unable to defend on Black Wednesday.

Britain spectacularly crashed out of the ERM 12 years ago on Black Wednesday - 16th September 1992 - when the Bank of England wasted £27 billion of foreign exchange reserves and the base rate hit 15%, trying to keep the pound within the banding when our debt and fiscal policies were misaligned with Germany's. That is the penalty of misalignment where Salmond's plan would have landed Scotland.

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Thirty aspects of the Great SNP Bluff

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Salmond should learn about the "free-floating" Swedish krona, a dead letter

- In the 25th August debate Alex Salmond said that a currency like the "free-floating" Swedish krona was a possibility
- Salmond should have consulted the SEK/EUR volatility charts – there is none
- Darling should have been able to nail this one there and then as well

Salmond demonstrated ignorance by throwing this one out as an option. The Swedish krona is not free-floating. The difference between the Danish krone and the Swedish krona is minimal.

The Swedish krona is in the EFST but not in the ERM. However the policy of the Riksbank and the Swedish Debt Office is to run a very small public deficit of 1.8% (which there is no obligation to eliminate), keep a low debt-to-GDP ratio (41%) in the same range as Denmark's, and thereby have virtually zero volatility between SEK and EUR.

Sweden maintains a fig-leaf of having a free-floating currency whilst in fact tracking the euro very closely. In other words Sweden adheres to the ERM principles without being legally committed to it.

The Swedish krona and the Danish krone can both be likened to the Norwegian blue parrot: they do not float, they are nailed to their perch - the euro.

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In the EU or outside: a deflationary monetary policy and wasting of foreign exchange reserves

- Scotland would be in the mode of deficit elimination and debt reduction and defending its currency with its foreign exchange reserves either way…
- By having its own currency independent of the EU, or
- By being in the ERM and/or the EU Fiscal Stability Treaty

The Governor of the Bank of England stated that Scotland would need up to £100 billion of reserves to have its own currency but he did not say that this would also be the case if Scotland was in the EU:

1. Own currency and not in the EU: introduce stricter monetary policy in order to support the currency – and use currency reserves to prop it up to start with
2. Own currency and in the EU: forced to adhere to the EU Fiscal Stability Treaty and possibly be in the ERM as well, meaning stricter monetary policy and usage of currency reserves as dictated by EU/ERM rules

Scotland, as stated above, would be starting off with the UK's loose fiscal policy. If it was in the EU it would have to converge with the tighter monetary policies of countries like Netherlands, Germany, Sweden and Finland from its first day of membership.

If Scotland followed Salmond's option of a currency like Danish krone as well and had to defend a band of +/- 2.25%, it would be selling its reserves to keep the currency within that band, unless it fell so far as to go beyond 12½% down: at that point the European Central Bank would intervene to keep it within the 12½% band. That's an easy way for Scotland to run out of currency reserves.

If Scotland was outside the EU and was trying to fund a debt of 75% of GDP at a sustainable cost, then it would have to pursue broadly similar monetary policies to its neighbours (deflationary) and act in a similar way in foreign exchange markets to ensure investors had enough confidence in the currency to buy and hold assets in it.

There would no formal banding to defend – 2.25% or 12.5% - but equally there would be no European Central Bank to step in with assistance if the Scottish currency started to rock and roll.

That is an even easier way for Scotland to run out of currency reserves.

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Salmond had to avoid being a 'Wally Without A Brolly'

- Scotland's economic data upon independence would have been poor, and Scotland would have to manage its existing debt on international markets
- In order to avoid much higher interest rates, Scotland would need the umbrella of either the pound or the euro, rather than trying to defend its own independent currency while also outside the EU

It was noticeable that Salmond, in the 25th August debate, was willing to embrace options that were the euro by any other name, and then returned strongly to the idea of a currency union afterwards. There was much more to this than was admitted to.

Scotland is too small to make its own economic weather. In Europe only London and Frankfurt do that. Smaller European countries, inside or outside the EU, fall under the magnetic pull of one or the other.

That means – formally or informally - being part of the interest rate system of one or the other, and sheltering from higher interest rates under its umbrella. The problem for the SNP was that London had said that Scotland would not be allowed to share its umbrella.

Salmond gyrated between the London and Frankfurt umbrellas because there was no other option. He managed never to name the euro but instead floated euro surrogates – the Danish krone and Swedish krona – which would both have resulted in either de iure or de facto adherence to the Fiscal Stability Treaty and necessitated the public spending cuts of at least £10 billion per annum mentioned in Section 15.

Why the need for an umbrella at all? Because the alternative was being outside the EU and having no formal or informal alignment with Frankfurt or London – meaning no umbrella and far higher interest rates: Salmond did not want to end up as a "wally without a brolly".

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Scotland may have a black hole in its NHS budget anyway

- The SNP obtained its big bounce in the polls after the 25th August debate in which it claimed to be the guardian of the NHS against Westminster/Tory threat
- The management of the Scottish NHS is completely devolved so all decisions are the SNP's decisions...
- .. and it appears there is a £450 million budget gap in 2015

Of all the spurious claims by the SNP, the one that tops it is that they claimed to be the guardian of the Scottish NHS against Westminster/Tory threats of privatisation.

The management of the Scottish NHS is completely devolved to the Scottish Parliament so there can only be one source of threat – the SNP itself.

The SNP have resisted politically unpopular organisational changes and ways of deploying resources in order to win or retain votes. Presumably this was to persist with an illusion of competence and prosperity until a Yes vote had been obtained, and to release the bad news afterwards.

The ageing Scottish population requires greater provision, whilst health spending appears to have fallen behind that in England as a percentage of GDP.

The SNP now faces (or rather the Scottish people do) the challenge of having a finite budget and rising needs, but an organisation that is mismatched to both and which will now need quick and radical change to make ends meet.

A £450 million shortfall has been predicted for 2015 if this is not done. This is not so problematical if there is still recourse to the whole-of-UK financial budget, but this is an area where devolution can cut both ways. If powers are devolved with a fixed amount of money, there is less protection for the Scottish citizen against local mismanagement, when the path through which further money and resources can be supplied from the centre (Westminster) has been traded away.

The 'vows' can cut both ways and in this area the Scottish people would be better off if they were broken.

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The SNP has maxed out on Private Finance Initiative funding for schools and hospitals

- The SNP made large use of Private Finance Initiative funding for Scottish schools and hospitals
- That means its claim to be a bulwark against the privatisation of the NHS was false

The hollowness of Alex Salmond's claim that the SNP is the safe-pair-of-hands on NHS privatisation was not fully brought out, because Private Finance Initiative ("PFI") was not mentioned. Independence, and especially the SNP's currency plans, represented a threat to health and education provision.

Health service and education provision in Scotland had been privatised to a great extent already, and under Alex Salmond's watch as First Minister, through the SNP's widespread usage of PFI.

The Royal Infirmary Edinburgh, Midlothian Community Hospital and MidArgyll Community Hospital and many other hospitals, as well as schools, have been built using this Enron-like scheme where the hospital belongs to private investors through a special-purpose company ("SPC") and is rented to the respective NHS Trust or education authority. They then have long-term contracts in pounds sterling, under which their rental payments are guaranteed from the UK NHS or Education budget – which is in turn the obligation of the UK government. The contracts are UK government risk but are not priced like that:

- The rentals are calculated on a 25-30 year annuity basis using a much higher interest rate than the credit risk of the UK government ought to attract: 5% per annum more
- inflated costs of repairs and servicing: that side of a PFI contract is known to be very poor value

The capital value of the 30 or so hospitals and 40 schools "schemes" (meaning far more than 40 schools) is £6.2 billion. Scottish NHS Trusts education authorities have used the credit card of the whole of the UK to obtain public services for the direct benefit of the Scottish, but at high cost and without covering risks.

Contracts contain a Material Adverse Change clause entitling the SPC to raise the interest rate and rentals should the link back to the UK NHS or Education budget be broken, and replaced with a worse credit risk – Scotland.

There will be no Change of Circumstances/Force Majeure clause allowing the NHS Trust or education authority to alter the currency of the rentals if the base currency of Scotland had changed. The NHS Trusts/education authorities – and Scotland – would have been left with higher rentals in pounds sterling, and static income in a different currency: a potential disaster.

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Sterlingization, UDI and even independence itself could have put PFI into default

- The SNP's options for the currency could have sent the PFI loans into early termination – resulting in a huge and immediate payment to investors…
- Or a default, causing the schools and hospitals to shut
- The SNP did not appear to be aware of these risks, and the No campaign did not draw attention to them

Scottish independence would have been a Material Adverse Change in PFI documents causing either:

- Rental increase, reflecting Scotland's lower credit rating compared to the UK's AAA; or
- Early termination payment by the NHS Trust involved

There is a standard formula for determining the "early termination" amount in a financing contract. The owner is paid a lump sum that can be invested **risk-free in the rental currency** in order to deliver exactly the same amounts as the contract would have produced had it run its normal course.

The formula does not use the original interest rate that was employed, on an annuity basis, to calculate the rentals, and which reflects the credit risk in the deal. Typically the original rate would be 4% over the interbank rates, with interbank rates being 1% higher than government bond rates ("gilts"). The risk-free rate in pounds is simply the government bond rate, flat, with no margin added.

In other words the rentals were calculated at gilts + 5%, and they are discounted back – over 25-30 years– at gilts + 0%. The result is that a capital value of £6.2 billion becomes an early termination amount of £10 billion. The long term magnifies the difference been the capital value and the early termination amount.

A £10 billion "early termination" payment on PFI is 16% of Scotland's total annual public spending.

If the change invoked the Material Adverse Change provisions, at least Scotland would have had a choice as to whether to pay higher rentals or the early termination.

Under Alex Salmond's options of "sterlingization" and a walk-away from the national debt, the PFI loans would have gone into default, meaning one of two outcomes:

1. Compulsory termination payments of £10 billion
2. Closure of the schools and hospitals

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Disastrous impact of SNP policies on foreign investors – supposed bedrock of the new Scotland

- The normal way of foiling foreign investors (as per Jim Sillars) is nationalisation
- That is incompatible with EU membership
- It would also torpedo the Prospectus claim that Scotland would be an attractive destination for Foreign Direct Investment

Scottish independence, "sterlingisation" or UDI would have triggered increased cost of PFI assets, early termination or forfeiture of use. The SNP would no doubt have tried to wriggle out by nationalising the hospitals and schools without compensation, a line consistent with the Salmond "just try and stop us"/Sillars "day of reckoning" business models.

This stance is incompatible with being a reliable partner in a multilateral organisation like the EU.

Within the EU, even if the SNP had the backing of the Scottish courts, the owners could take the case to the European courts who would uphold the terms of the original contract as a matter of certainty.

A Scottish legal system that was seen to ignore the terms of a contract and back government expropriation of the assets of foreign investors without compensation – even if such a judgment had been overturned at a European level – would be seen as hostile and deter Foreign Direct Investment.

Scotland would not have had protection if outside the EU. Venezuela has been ordered to pay $1.6 billion of compensation to Exxon Mobil, for assets expropriated in 2007, by the World Bank's International Settlement Centre for Settlement of Investment Disputes.

Needless to say, if foreign (i.e. English) PFI investors - or any other investors - saw the SNP and/or the Scottish courts behaving like this, they would fold their tents and leave, and tell their buddies not to bother with Scotland – putting paid to many of the contentions in the SNP Prospectus about Scotland as an attractive destination for Foreign Direct Investment.

In other words a Scotland under the SNP – the 'just try and stop us' party - would of necessity be unattractive to foreign investors, putting a torpedo through a main bulwark in the SNP's economic model for an independent Scotland.

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Removing Trident is not a money saver for Scotland

- The SNP projected the removal of Trident as releasing funds for public expenditure in Scotland
- The opposite is true
- How could the SNP make that claim and how could the No campaign not demolish it?

The SNP has always had a strong constituencies that are anti-NATO +/- CND +/- pacifist +/- communist +/- pro-Russia (aka pining for the relaunch of the Soviet Union).

The SNP promised to remove Trident from Scotland thus appealing to all of these constituencies, and they made an economic case for doing so.

Trident is expensive and it costs the whole of the UK a large amount. On a per capita basis 5/63rds of the costs are borne by Scotland, if one believes that Scotland's taxes receipts cover 5/63rds of UK public spending. If the whole cost of Trident were to fall on rUK, Scotland would be relieved of its portion of that financial burden, whatever that is, and of course of its deterrent value.

However the cost of Trident is spent somewhere. The Official Secrets Act precludes exact figures but:

- Scotland has a large Defence Procurement industry, more than 5/63rds of the extent of that industry in the whole UK: surely a portion of Trident's components were produced in Scotland and the sub-assembly carried out in Scotland, even if the final assembly is done in Barrow-in-Furness
- The submarines are based in Faslane, so all the money that spins off that goes to Scotland
- How about maintenance work?
- What about the crew?

The working hypothesis is that Scotland is the only part of the UK that makes a profit out of Trident because it contributes hardly any tax revenues to it but a large part of the Trident budget is spent there: a profit that would be lost to Scotland under the SNP's version of independence.

The SNP managed to turn that argument on its head and plant it as a certainty in the minds of Scottish voters that removing Trident from Scotland would save Scotland money.

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Scotland saw itself as a Dubai without the weather

- The SNP's stress on Scotland as an aviation hub, with its oil&gas and low corporate taxes, and attractive to tourists with its successful drinks industry, inferred Scotland could emulate Dubai
- There are almost no valid parallels

"Prioritise tax powers, regulation and Scotland's new global status to develop growth sectors and growth companies, widen the export base, attract investment" (p94) , "reducing Air Passenger Duty to boost international connectivity" (p95), "key strengths" of the Scottish economy being sectors like food & drink, tourism, and creative industries (p88), and the North Sea output – it is Dubai, Abu Dhabi or Qatar evoked via the broad brushstrokes of SNP Impressionism.

"Scotland's new global status" – what is that? Is it any more than SNP rhetoric?

Dubai, Abu Dhabi and Qatar have clear connections to oil&gas, and have established themselves as a tourist destination and a hub for regional company headquarters, based on three enormous airlines (Etihad, Qatar Air, Emirates), and excellent air links to 2 billion people within 4 hours from huge airports that are only 20 minutes from the business districts. The company hubs can operate from tax-free zones of which there are several, a set-up that mimics Dublin Docks or Belgian Coordination Centres in Europe.

The basis is Sovereign Wealth controlled by a small number of families in an oligarchical society. There is no manufacturing industry: goods are air-freighted in. Local value-add is construction, tourism, aviation, financial services and corporate hubs. Only 25% of the population is indigenous; the remaining 75% are guest workers, with a portion on very high wages but the majority on low wages in service and construction, in some cases de facto slave labour. Taxes rates are extremely low because public services can be financed from Sovereign Wealth and only need to be provided for 25% of the population.

But is this Scotland? The SNP Prospectus infers such an open, dynamic, low-tax, low-debt future, whereas there is no such Sovereign Wealth Fund nor will there ever be one of a sufficient size as to cater for all of Scotland's population.

Scotland needs tax revenues on ongoing economic activity, it needs to cater for its entire population and not 25% of it, and it wishes to be a fairer society not an oligarchical one. At the same time Scotland is highly vulnerable to the withdrawal of economic activity by rUK after independence due to the current dependency on UK finance and government work – 51% of the "onshore" economy now. Scotland has high visible debt and invisible PFI debt, and an ageing population.

Scotland is nothing like Dubai now, nor could it ever be. This was an SNP mirage.

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Or an Ireland without the Double Taxation Treaties

- The related comparison and chimera of Scotland's economic future is the Republic of Ireland
- Low-tax and in the EU
- But it is thirty years too late getting into that space

The SNP foresaw a tax regime in an independent Scotland that would attract Foreign Direct Investment both in facilities and in establishing Scotland as a First-Point-of-Landing in the EU for non-EU businesses.

This is a replication of the strategy of the Republic of Ireland, whereby it initially established tax-free zones in Shannon and Dublin, and now has a uniform corporation tax rate of 12½%, and a wide network of Double Taxation Treaties, thus enabling business to benefit from:

- A corporation tax rate that is approximately half that of the majority of the EU
- Freedom of movement of goods, services, capital within the EU
- Corridors for preferential movement of goods, services, capital across the border of EU to non-EU, via the Double Taxation Treaties with non-EU countries, reducing taxation and customs duties that would otherwise have been collected by countries like UK, France and Germany

Ireland also has a strong position in aviation due to leasing: the legal owners of a high proportion of the world's commercial aviation fleet are Irish-registered companies. Ireland has a 50-year track record here thanks to trailblazer Guinness Peat Aviation out of the tax-free Shannon Airport Zone. Ryanair is the inheritor of the intellectual capital built up in GPA. Scotland would start with a blank slate.

Ireland's positioning sits within the 'tax inversion' issue to which the Obama administration is addressing itself: how companies like Amazon and eBay manage legally to pay little or no tax in the major EU countries, create their EU tax base in a country like Ireland, and then move the profits on to Netherlands Antilles, Cayman – but never into the country of the ultimate parent.

The workability of this positioning is based on access to the EU Single Market, but also on having negotiated a large network of Double Taxation Treaties with non-EU countries – a freedom still open to individual EU Member States and not within the remit of Brussels.

Unfortunately it takes thirty years to build up a sufficient network of Double Taxation Treaties. In the thirty years that it would take Scotland to reach where Ireland is now, Ireland would have correspondingly moved on itself, or else the EU would have taken over the negotiation of Double Taxation Treaties from the Member States and eliminated the anomalies upon which this positioning depends. So this is another illusory positioning for an independent Scotland, manufactured by the SNP, and quickly disappearing into the Irish mists.

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As a socialist nation, it was willing to use all the tools of neo-liberalism

- The SNP made a great play of Scotland as a more equal society and as rejecting the capitalist model
- But it was prepared to use all the tools in the neo-liberal box to window-dress the Scottish economy and get a Yes vote, and to make it prosperous afterwards
- Regardless of the impact on other countries

Enron-style PFI was used extensively to make hospitals and schools pop up, giving the appearance of prosperity and good governance under SNP rule. However this was just an example of the SNP maxing out on the UK's joint credit card for window-dressing purposes.

Then it would set Scotland up as a tax-favoured location and play to the full extent – and for Silicon Valley's finest – the draining of revenues from other EU countries onto the Scottish tax base, enabling those companies to make sales thanks to the investment in public infrastructure and education by the peoples of rUK, France, Germany, Italy, Spain… but to make no tax contribution to that investment.

Scotland and the Scottish people would be the beneficiaries; the people of other EU countries the losers.

If Scotland were to go the whole hog in emulating Ireland, Luxembourg and Netherlands it would:

- Offer 'sweetheart' tax deals where a company pays even less than the already low corporation tax rate, or gets special allowances: Apple is currently under investigation by the EU for such a deal which, in the EU's eyes, may amount to illegal state aid
- Strike a deal with Switzerland so as to allow a replica of the Dutch/Swiss sandwich, where a branch in Switzerland of a Dutch company avoids virtually any taxation and can move goods and services across the border of the EU, by first buying them into the books of its Swiss branch, having the branch conduit them to the Dutch company that it is a branch of, and then the goods/services can be sold on in the EU without customs duties

Were Scotland to attract Starbucks, coffee would move onto the books of the Scottish company from the plantations and roasting facilities of its branch in Zug or Neuchatel at £27/lb, and be on-sold to its other EU operations at £28/lb – depressing their taxable profits and contribution to public services. Scotland and Zug/Neuchatel would share the difference between £28/lb and the real price of £3/lb.

So much for the fairer Scottish society – achieved via the usage of the full neo-liberal inventory to deprive citizens of other EU states of adequate public services while living high on the hog itself.

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Why would Ireland not have vetoed Scotland's application for EU membership?

- Ireland would not have wanted a rival for its status in the EU
- Still less one with low public debt and evading austerity
- Celtic solidarity would not have run very far

Ireland's prime positioning in the EU is to obtain Foreign Direct Investment and to act as First-Point-of-Landing in the EU for non-EU businesses.

Why would it welcome a new rival in that space?

Why would it, in the case where Scotland had left the UK in the manner of UDI, have supported a Scottish application for EU membership with Scotland being free of its share of national debt – when Ireland is heavily indebted itself?

Even without a Scottish UDI, why would Ireland not insist on Scotland immediately establishing its own currency and central bank and adhering to the EU Fiscal Stability Treaty (which are the minimum buy-in for EU membership), and possibly also joining the ERM and committing itself on a pathway to the euro?

Why would Ireland agree that Scotland should be found a pathway that avoids the austerity meted out to itself and others, or one that exempts Scotland from the EU's mutual support mechanisms?

The SNP Prospectus made no mention of the costs and risks associated with subscribing to the shares of the European Central Bank and the European Investment Bank and accepting the financial liabilities behind them. Nor that Scotland would become a joint&several guarantor of the debts of the European Community, including the debts taken on to fund the European Financial Stabilisation Mechanism and enable bailout loans to Ireland of EUR22.5 billion. Why should Scotland have any form of opt-out there? The UK does not. But again the SNP Prospectus obscured these matters and underplayed Scotland's future obligations.

Would Scotland assume a portion of the GBP3.2 billion bilateral loan granted to Ireland by the United Kingdom in its time of greatest need? Or is that one of the UK's assets that the SNP are not so keen on taking over?

The SNP's Prospectus and its debt-lite pathway into the EU, with no mention of the Fiscal Stability Treaty, looks even more far-fetched when viewed through the prism of one of the nations that has had austerity meted out to it by the EU authorities.

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Why would France, Germany, Italy and Spain have welcomed Scotland to the EU?

- Why would the EU nations with greatest need of public services have welcomed Scotland into the EU when it had the same agenda as Ireland?
- Would they not have insisted that Scotland take on the same debt-to-GDP as UK?
- And then been subject to austerity to get in line with the Fiscal Stability Treaty?

Much of what was written about Ireland in Section 28 is equally true of the other EU member states. They would not want a precedent to be set for a subdivision of another member state to split itself off (a) by its own volition without a Separation Treaty or (b) under a treaty whose terms were heavily weighted in favour of that subdivision or (c) escaping a proper share of national debt.

None of the 28 EU member states wants to see another Ireland emerging, enjoying all the freedoms of the EU but drawing taxable revenues to itself:

- Ireland and co-practitioners Netherlands and Luxembourg do not want a new rival
- The other 25 EU member states – and the EU itself - want these practices shut down so that they can have more money to support public services and meet their own obligations under the EU Fiscal Stability Treaty.

Why would EU Member States allow Scotland into the EU with opt-outs that contradict the EU's main policy direction and of which they would dearly love to strip the UK, like the opt-out from the Euro and from the EU Fiscal Stability Treaty? Is it not clear that Scotland would lose the opt-outs the moment it left the UK and tried to join the EU in its own name?

Why would Scotland get opt-outs that no other EU Member State enjoys at all, such as not having its own central bank?

Again, the SNP's contention that it could select a pathway all of its own – enabling it to reap all benefits but avoid all costs and risks - shatters on the rock of the views of others. But without such contentions the SNP's Prospectus shatters on the rocks anyway.

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Thanks to the USA, the market for Scotland's positioning is shrinking anyway

- Obama wants to tax Silicon Valley's foreign earnings and bring an end to the anomalies that spare them from US tax
- This challenges the Ireland positioning from above, while the EU is challenging it from below, as are UK, France, Germany individually…
- There is no big future in that and no market space for Scotland to move into

The SNP's primary positioning of an independent Scottish economy will not exist for much longer. The Republic of Ireland model is under scrutiny from above and below, likewise Luxembourg and Netherlands.

Low corporation tax, in the EU, 'sweetheart' deals, lots of Double Taxation Treaties: it is all so passé and transparent.

Obama is determined to bring into the US tax net the estimated $40 billion of accumulated foreign revenues of Silicon Valley companies that have escaped meaningful taxation at source (in UK, Germany, France, Italy etc) or in their tax base (Ireland, Netherlands, Luxembourg), and which have been remitted into a tax-free intermediate holding pattern (using Double Taxation Treaties), but never repatriated to the USA to be taxed there.

The prevailing view is that the owners are US-domiciled, very rich, now posturing as major philanthropists, and the USA has poor public services and a large budget deficit: pay up.

At the same time the bottom of the pyramid is being examined by the governments and tax authorities of the large nations that are the sources of the revenue, and by the EU itself. George Osborne proposes a 'Google tax' for this precise reason.

Where eBay Luxembourg charges its subsidiaries in UK, Germany, France etc an annual 'management services' charge of tens of millions of euro but only has 20 staff, there is a difficult question to be answered. Why should the 'management services' charge be tax-deductible in UK, France, Germany etc.. and scarcely taxed in Luxembourg when all the countries are part of the EU Single Market?

These structures cannot survive given the need for public revenues and the anomalies upon which these structures depend. The party is over – yet this is where the SNP was planning to position Scotland. It is a shrinking market where the best revenues were available 15-20 years ago, and nothing to build on for the future.

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Summary and Conclusions

- The realisation of the ‘vows’ risks becoming a version of the SNP Prospectus
- That is unacceptable to the people of rUK without elimination of pooling of costs and risks
- The No voters voted against such an elimination
- Is anybody listening to them or to the people of rUK?

The SNP prospectus was a myth. The ‘vows’ and the Smith Commission accept it as a viable alternative for Scotland that the Scots could opt for validly, using their ‘sovereign’ will at some later stage.

This puts rUK under duress and accepts battle with the SNP on the SNP’s terms, while locking and loading the SNP’s weapons for them.

The Smith Commission delivers the SNP Prospectus except in the one way that the SNP projected would greatly benefit Scotland but which would in fact have sunk it: the oil&gas tax revenues are far too small to enable Scotland to sustain the current level of public spending.

That being the truth, it is inappropriate to continue the Barnett Formula payments as there is no reason that Scottish public spending per head should be any higher than in the rest of the UK. Smith Commission foresees embedding this right in perpetuity, a measure that cannot but disadvantage rUK when spending cuts are made.

In addition Smith Commission would allow Scotland to borrow and spend – and they will, on the UK’s joint credit card. This is unacceptable when there is a possible pathway for Scotland to declare independence but without taking on a share of national debt proportionate at least to their per capita share if not proportionate to the spending levels that caused the debt to reach the level it has.

Scotland’s current deficit level is 7.2% of its GDP whereas the UK’s is 5%, so Scotland’s Barnett Formula payments are simply causing the UK’s deficit to remain higher than it need to, and the debt to continue to rise.

This subject area is a Pandora’s Box for the UK. The Smith Commission report blithely projects that the ‘vows’ can be implemented without disadvantages for rUK but this is a preposterous notion. The outcome will be discord, and discord playing into the SNP’s hands. It will be de facto independence but with rUK backstopping it financially. In some ways this is worse for rUK than de iure independence.

Mainly, though, it disconnects with the facts. The SNP wanted their referendum, they got it on their terms and with a reasonable agreement with the UK government as to how to conduct it. The SNP made up a fictitious prospectus and conducted their campaign in a manner at odds with their agreement. That alone shows that they are not to be dealt with as a reliable partner. Then the SNP lost and decisively. The ‘vows’ made no difference. How would the Scottish population vote now with oil at $50-a-barrel and rigs being laid up?

We should stop this. It makes no sense for the Smith Commission to progress. We are the UK. The Scottish people decided that.

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