The Economic Case for an Independent Scotland

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1 Introduction

Scotland is a successful and productive country, with a wealth of talent and an abundance of natural resources. We have a proud history and a bright future. On 18th September 2014, the Scottish electorate will have the opportunity to determine our nation's future and with that to choose the right economic path for Scotland. The choice is between the status quo with key decisions continuing to be made by Westminster, or becoming an independent nation with all the responsibilities and opportunities of comparable nations.

How we best equip ourselves to meet the challenges and seize the opportunities of the future for people living in Scotland now and in years to come is central to the independence debate.

The Scottish Government has I believe set out a compelling positive economic case for independence.[1] At its core is a set of economic assets - from our people, our innovation, our culture and our natural resources. Economic success is ultimately about competitiveness, economic resilience and equality, and we believe that this can be best achieved by having control over the key levers of economic growth.

When assessing choice, it is necessary to consider the counterfactual – what would happen in the absence of any change? To that extent, we have made a positive case for change based on our ability to improve competitiveness but also to reshape our society and maintain the values the Scottish people hold. Applying criteria or tests to any economic change can only take one so far, as ultimately it is about how one responds to future opportunities and challenges.

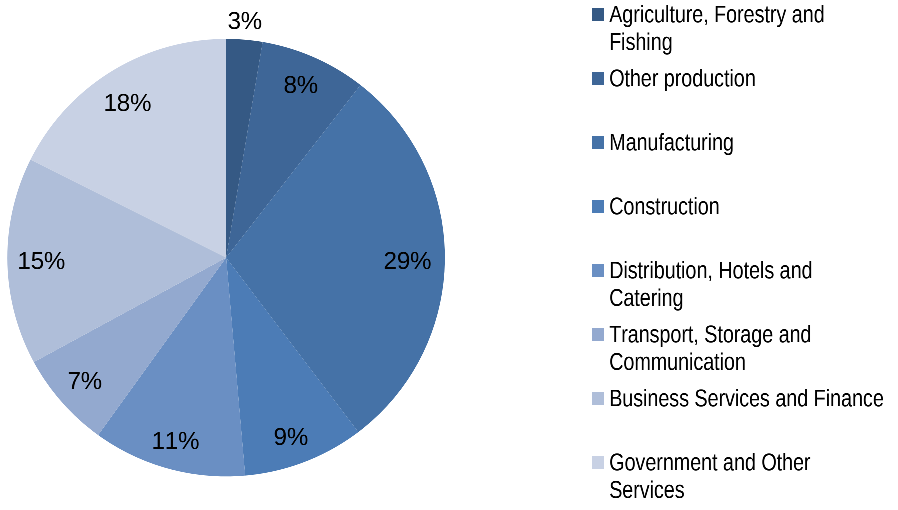
The Scottish economy has undergone a significant period of change over the last 40 years – see Figure 1. Industries and firms that were once the bedrock of the economy have been replaced, as have the skills and work patterns we deploy daily and the distribution of income within the workplace. Society has become more unequal and we must do more to ensure that everyone in Scotland has the opportunity to reach their full potential. This paper sets out Scotland's economic and financial potential, and how our economic prosperity and resilience is not well served by the current UK economic model or constitutional framework.

It shows how independence provides the greatest opportunity for boosting competitiveness and delivering greater resilience and equality. It also highlights priority areas to deliver these aims. It concludes that independence provides the opportunity to design a macroeconomic framework that delivers short-run responsiveness and long-term resilience – the platform for sustainable economic growth.

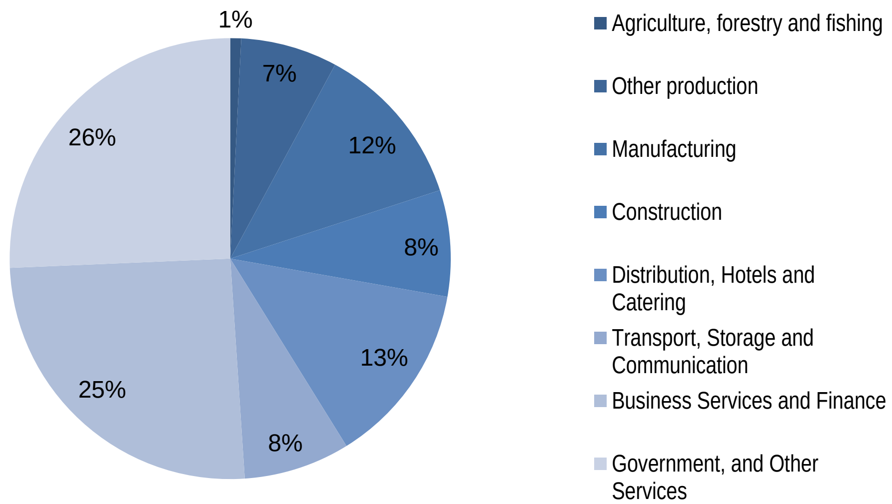
[1] *Scotland's Future, November 2013, Scottish Government, http://www.scotland.gov.uk/Publications/2013/11/9348; and Building Security and Creating Opportunity: Economic Policy Choices in an Independent Scotland, November 2013, Scottish Government, http://www.scotland.gov.uk/Publications/2013/11/2439*

Figure 1: Changing structure of the Scottish economy – output per sector, 1973 and 2009.

1973



2009



Source: Scottish Government Input-Output Tables[2], onshore output.

[2] http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Input-Output

2 Scotland's economic potential

The First Report of the Fiscal Commission Working Group[3] concluded that –

> *"By international standards Scotland is a wealthy and productive country. There is no doubt that Scotland has the potential to be a successful independent nation."* [4]

In 2012, even excluding North Sea oil and gas, output per head in Scotland was the third highest of any UK country or region – behind only London and the South East. When Scotland's oil and gas sector is included, Scotland is well above the UK average.

Across a range of indicators, Scotland's performance relative to the UK as a whole, and its countries and regions, is strong. See Table 1.

Table 1: Economic performance in Scotland

Indicator	Value in 1999	Performance Relative to UK in 1999	Rank (12 UK countries / regions) in 1999	Most Recent Value	Most Recent Performance Relative to the UK	Current Rank (12 UK countries / regions)
1. GVA per head[5]	£12,786	91.7%	5th	£20,013	94.0%	3rd
2. Productivity (output per hour worked)[6]	na	94.9%	4th	na	97.4%	3rd
3. Employment rate (16-64) [7]	69.3%	-2.6 p.p	8th	72.8%	+0.7 p.p.	4th
4. Unemployment rate (16+)	7.1%	+1.1 p.p	8th (lowest)	7.1%	-0.1 p.p.	Joint 5th (lowest)
5. Inactivity Rate (16-64)	25.3%	+1.9 p.p	8th (lowest)	21.5%	-0.7 p.p.	4th (lowest)
6. GDHI[8]	£9,771	92.7%	5th	£15,654	97.6%	5th
7.Full-time Gross Median Weekly Pay[9]	£329.00	95.2%	5th	£508.30	98.2%	3rd

In addition, while like all other countries, our fiscal position has fluctuated over time, overall Scotland has, on average, been in a stronger position than the UK over the last 30 years.

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[3] *The FCWG is a subset of the Council of Economic Advisers, established in March 2012 to advise on a robust macroeconomic framework for an independent Scotland. The group is chaired by Crawford Beveridge CBE and members include Professors Sir James Mirrlees, Joseph Stiglitz, Andrew Hughes Hallett and Frances Ruane. The FCWG has published five reports covering all aspects of a workable macroeconomic framework for Scotland -* http://www.scotland.gov.uk/Topics/Economy/Council-Economic-Advisers/FCWG

[4] *Page 23 – Fiscal Commission Working Group First Report (2013), February 2013.*

[5] *Latest Gross Value Added (GVA) per head figures are for 2012, and are in current basic prices on a workplace basis,* http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2013/index.html*. On a 'residence basis', GVA per head in Scotland is 96.7% of the equivalent UK figure.*

[6] *Productivity, output per hour worked, 2012 figures: ONS Labour Productivity, Q3 2013* http://www.ons.gov.uk/ons/rel/productivity/labour-productivity/q3-2013/index.html

[7] *Employment, Unemployment & Inactivity rates are for April-June 1999 (capturing the start of the first term of the Scottish Parliament in May 1999) and Oct-Dec 2013, Regional Labour Market Statistics, ONS.* http://www.ons.gov.uk/ons/rel/subnational-labour/regional-labour-market-statistics/february-2014/index.html

[8] *General Disposable Household Income: Regional GDHI,* http://www.ons.gov.uk/ons/rel/regional-accounts/regional-household-income/spring-2013/index.html

[9] *Full-time Gross Median Weekly Pay, Annual Survey of Hours and Earnings, 2013 Provisional Results, ONS,* http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2013-provisional-results/index.html

3 Constraints of the current economic model and constitutional framework

Devolution has provided the opportunity for successive administrations to tailor policies to meet Scotland's distinct priorities, often taking a different approach to the UK.

From our world leading climate change legislation through to recent initiatives such as retaining our Enterprise Bodies, setting competitive business rates and prioritising capital investment, devolution has enabled Scotland to take decisions that best match its own circumstances.

However, ultimately the vast majority of decisions that influence Scotland's economic structure, rate of growth and levels of equality are taken outwith Scotland.

Scotland's average growth rate has lagged behind both comparable European countries and the UK over the last 30 years. This constrains Scotland's potential. See Table 2.

Table 2: Average annual GDP growth rates

	Annual Average GDP Growth Rate			Gap (Scotland minus UK/ Comparable European)	
Time Period	Scotland	UK	Comparable European[10]	UK	Comparable European
1999-2007	2.9%	3.1%	3.2%	-0.3%	-0.3%
1963-2007	2.6%	2.9%	3.4%	-0.3%	-0.8%
30 year average (1977-2007)	2.4%	2.9%	3.0%	-0.4%	-0.6%

Source: SNAP[11], ONS, and OECD. Note that numbers may not sum due to rounding.

At the same time, many other comparable European countries perform better, not just economically, but also in terms of well-being and inclusiveness. One particular feature of Scotland's economic growth within the UK to date has been the failure to spread the rewards of growth more fairly across society.

For example –

- In 2010, the UK was ranked 28th (out of 34) OECD countries on income equality; [12]
- The UK is now one of the most regionally unbalanced economies in the world, which reflects the dominance of London. These imbalances have widened in recent years, with the gap between GVA per head in London and every other part of the UK increasing over the period 1999 to 2012.[13]
- The UK economy is also prone to instability. Despite recent quarters of growth, the UK has had the weakest economic performance, with the exception of Italy, of any G7 nation during the financial crisis. Debt is amongst the highest in the OECD.

[10] *The comparable European countries are: Austria, Denmark, Finland, Iceland, Ireland, Luxembourg, Norway (mainland GDP only), Portugal and Sweden.*
[11] *http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/snap*
[12] *Macroeconomic Framework – First Report (2013), Fiscal Commission Working Group*
[13] *Regional Gross Value Added (Income Approach), December 2013, ONS, http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2013/stb-regional-gva-2012.html*

- On key drivers of long-term growth, the UK often lags behind other countries. For example, the UK is currently ranked 30th out of 35 advanced countries in terms of levels of investment as a percentage of GDP in 2012; [14]

- The UK has witnessed a particularly pronounced decline in manufacturing, which explains, in part, why the UK has been in a current account deficit in 29 out of the previous 33 years. [15]

Overall, across a range of social justice and competitiveness indicators, comparable economies to Scotland often outperform the UK. See Table 3.

Table 3: Select comparison of international social justice and competitiveness measures

	Social Justice Measures		Measures of Competitiveness (Country Ranking)		
Country	UN HDI ranking (2012)[16]	Gini Coefficient – (2010)[17]. Higher value indicates greater inequality	World Bank Ease of Doing Business (2014)[18]	IMD competitiveness (2013)[19]	WEF competitiveness (2013-14)[20]
Denmark	15	0.252	5	12	15
Finland	21	0.26	12	20	3
Ireland	7	0.331	15	17	28
New Zealand	6	0.317	3	25	18
Norway	1	0.249	9	6	11
Sweden	7	0.269	14	4	6
Switzerland	9	0.298	29	2	1
UK	26	0.341	10	18	10

Independence would allow Scottish policies to be matched to the specific needs and circumstances of the Scottish economy – both in the short-term and long-term.

It would also mean that decisions were taken by the people living and working in Scotland and who have the greatest stake in the future success of the Scottish economy.

4 Independence as the key to boosting long-term competitiveness

In an increasingly integrated global economy, establishing and maintaining a competitive advantage is vital. The powers of independence themselves cannot bring about a guaranteed outcome – but instead it is how effectively they are used.

[14] *IMF (October 2013) World Economic Outlook Database, Comparisons based on 35 advanced economies as defined by IMF. http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx.*

[15] *Balance of Payments, Q3 2013, December 2013, ONS, http://www.ons.gov.uk/ons/rel/bop/balance-of-payments/q3-2013/index.html*

[16] *United Nations Human Development Index, 2012, https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k*

[17] *OECD Statistics, http://www.oecd.org/social/inequality.htm*

[18] *Doing Business 2014, World Bank, 29 October 2013*

[19] *IMD World Competitiveness Yearbook, May 2013*

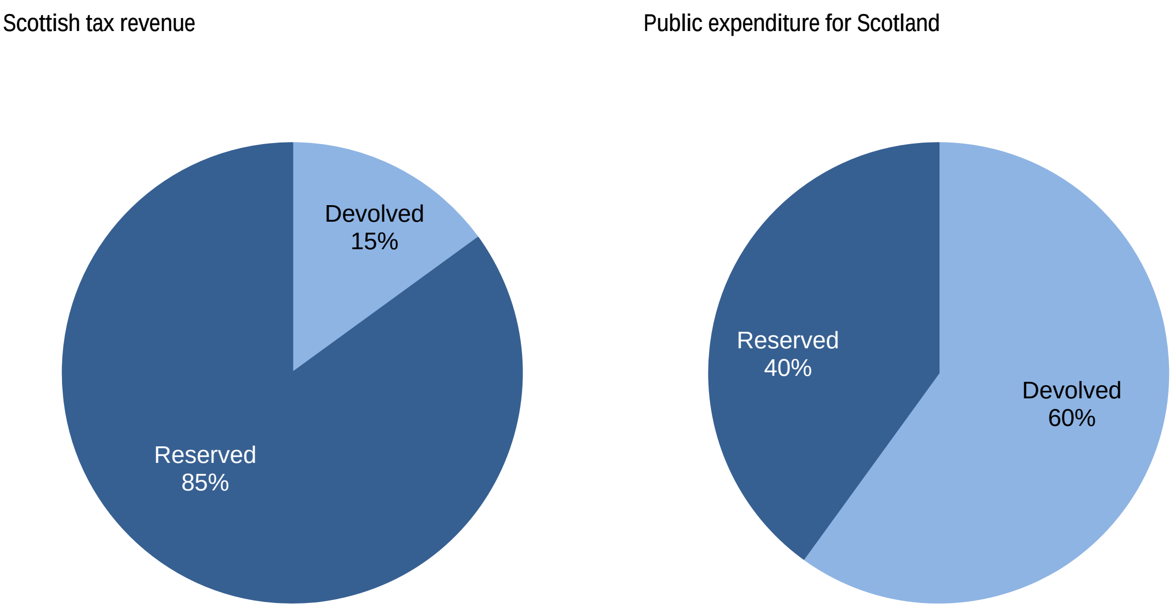
[20] *Global Competitiveness Report 2013-2014, World Economic Forum, September 2013*

4.1 The degree of autonomy to tailor policies to the distinct circumstances of the Scottish economy

Under independence future Scottish governments would have the maximum degree of autonomy to tailor policies to the distinct circumstances of Scotland's economy and take advantage of Scotland's unique strengths, size and situation.

Currently, responsibilities for key economic and social policies are reserved. Being 'one-size fits all', such decisions cannot always consider Scotland's distinct circumstances or needs.

Figure 2: Expenditure and taxation devolved to Scotland (including Scotland Act 2012)



Source: GERS 2011/2012, http://www.scotland.gov.uk/Publications/2013/03/1859

This puts Scotland at a relative disadvantage to independent nations with economic policies reflecting their own characteristics, and designed to exploit their competitive strengths.

Moreover, the nature of the funding settlement – the Barnett Formula – means that the Scottish budget is determined principally by changes set at the Westminster budget.

Such restrictions are particularly pertinent in the face of long-term challenges faced by all developed nations. For instance, the risk posed by changing demographic structures can only be properly addressed with control over immigration and labour force levers.

4.2 The breadth of opportunities to extend competitive advantages

Under the current constitutional framework, Scotland has some responsibilities for key supply-side economy policy, including education, skills and infrastructure. Successive administrations have used these to tackle key challenges. However, the powers outside these areas are limited.

With independence future Scottish governments would have the ability to draw on the full spectrum of tax, regulatory and public spending levers – as outlined in Table 4 – to establish an industrial strategy focused on diversifying Scotland's industrial base by promoting manufacturing, innovation and productivity.

For example, these include microeconomic policies which influence and shape incentives and behaviours at the sector, firm, household or individual level. They can also affect the performance of social policies and levels of well-being.

Table 4: Overview of microeconomic framework under independence

Taxation	Public Spending
• Corporation Tax • Income tax • National Insurance • Oil and Gas Taxation • Capital Gains Tax • Value Added Tax (VAT) • Tax Credits and Allowances • Excise Duty • Air Passenger Duty	• Welfare • Infrastructure • Borrowing • Procurement • Education and Skills • Economic Development • Transport • Health • Housing
Regulatory Levers	**Institutions and Representation**
• Competition • Consumer Protection • Industry Regulation • Employment Legislation and the Minimum Wage • Energy Markets and Regulation • Company Law and Insolvency • Intellectual Property • Environmental Regulation • Planning	• Governance and institutions • Social Capital • Administration • EU Representation • International Trade • Foreign Policy • Responsible capitalism

4.3 The efficiency of the delivery of public services and the degree of accountability and transparency

Efficient and effective policy making is best achieved when there are clear choices and trade-offs between both expenditure and revenue. This is clearly lacking in the status quo.

In addition, the current complex mix of responsibilities limits the scope for policy synergies and also presents an inherent inefficiency in the funding of policies.[21]

For example, currently the budgetary benefits from good policy making – such as in employability and childcare – in the form of higher tax receipts or lower welfare payments do not flow back to Scotland and cannot be used either to help fund further expansion in such policies or be reinvested elsewhere.

As an illustration, growing Scotland's four largest tax receipts by 1% and reducing core welfare spending by 1% through higher rates of employment would benefit the public finances by around £350 million. Even after the Scotland Act, Scotland would only receive £45 million of this directly. Under independence, the full £350 million would return.

Overall with independence, there will be the opportunity to utilise the full range of economic levers – taxation, investment, economic regulation and existing devolved responsibilities – in a more coherent and aligned manner and to better exploit synergies.

5 Priority areas for encouraging growth and innovation in Scotland

In "Building Security and Creating Opportunity: Economic Policy Choices in an Independent Scotland" we set out four priority areas for encouraging growth and innovation in an independent Scotland, and ensuring the gains are sustainable and shared across all the people of Scotland. [22]

5.1 Rebalancing the economy to promote innovation and productivity

The services sector in Scotland is currently estimated to account for around 70% of output and 80% of employment. A strengthened role for manufacturing is clearly a major part of rebalancing the Scottish economy.

With a tradition of scientific expertise, a highly-skilled workforce and world renowned universities Scotland has a strong base from which to build on, but there remains significant room for improvement. For instance, as a proportion of GDP, Denmark and Finland spend nearly twice as much on R&D as Scotland.

Manufacturing has an important role to closing this innovation gap. While manufacturing firms account for only 12% of Scottish onshore output, they account for 66% of business R&D spending. Manufacturing also brings with it high-value jobs and greater employment opportunities, and manufacturing firms have a higher propensity to export, thereby boosting net-trade.

Scotland's size would be an advantage in helping to close the innovation gap as collaboration and cooperation across business, academia, government and trade unions is arguably easier in Scotland than in larger countries.

This would tie in with the use of tax and allowances to break-down barriers to R&D and bridge the gap between our acclaimed higher education establishments and a burgeoning innovative economy.

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[21] *Macroeconomic Framework – First Report (2013), Fiscal Commission Working Group*

[22] *Building Security and Creating Opportunity: Economic Policy Choices in an Independent Scotland, November 2013, Scottish Government,* *http://www.scotland.gov.uk/Publications/2013/11/2439*

5.2 Putting in place an effective tax system

Scotland will have a unique opportunity to reform and re-design an archaic UK tax system which has been identified as costly and complex by a number of commentators, including the FCWG[23] and the Institute of Fiscal Studies[24].

Crucially, as all countries raise taxes to fund government expenditure, it offers a significant opportunity to establish an international advantage by increasing the efficiency and effectiveness of the tax system.

A more efficient tax system will help Scottish businesses and support investment, jobs and growth.

5.3 Building a labour market policy which meets the needs of the Scottish economy and creates opportunities

Devolution has shown what can be achieved with greater access to the levers that support the labour market. Independence would allow future Scottish governments to establish truly transformational policy initiatives to increase labour market participation.

While the Scottish Government currently has responsibility for education and skills policies, it lacks crucial powers over employment regulation, tax and welfare policies, all of which are vital in supporting people to enter and remain in employment.

With independence we would not suffer this disjoint, providing the potential to establish a more coherent framework linking education, employability and skills with tax and welfare levers that can motivate people out of inactivity and support people into work.

Carefully designed employment protections can help employees strike a balance between non-market activities, such as care of young children or older people, and paid work. Maternity and paternity leave and return-to-work rights, for example, have a direct impact on female labour force participation.

Employment protections, and the wider equality and human rights legal framework, can also support individuals faced with institutional power imbalances.

We have announced an independent review of workplace policies - *Working together: progressive workplace policies in Scotland*[25] – which aims to improve workplace policies through effective union and employer cooperation. The review will see trade unions, businesses and academics working together with the Scottish Government to create better working environments.

Whilst the UK Government requires firms to report the number of men and women on their boards,[26] and has a target to increase the number of women on FTSE 100 boards to 25% by 2015,[27] a number of European countries have adopted a more progressive attitude to worker and gender balance on

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[23] *Principles of a Modern and Effective Tax System, FCWG, November 2013,* http://www.scotland.gov.uk/Publications/2013/10/4839
[24] *Mirrlees Review, Institute for Fiscal Studies,* http://www.ifs.org.uk/mirrleesReview
[25] http://news.scotland.gov.uk/News/Workplace-policies-to-be-reviewed-937.aspx
[26] http://www.legislation.gov.uk/ukdsi/2013/9780111540169/regulation/3
[27] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/182602/bis-13-p135-women-on-boards-2013.pdf

company boards. For instance, Belgium, Italy, France, Iceland and Norway have already introduced legislation requiring a gender quota on boards.[28]

The Scottish Government is keen to learn from these approaches and will legislate if necessary to secure greater female representation.

Our approach to childcare, as set out in Scotland's Future, will enable more people, particularly woman, to participate in the workforce. [29]

5.4 Boosting internationalisation

Scotland is an open and globally integrated economy with an established network of international connections.

In 2012 Scottish firms exported nearly £26 billion of goods and services to economies across the world, with the value of exports increasing by 6% between 2011 and 2012. [30]

Likewise, Scotland has a strong recent record in attracting international investment, accounting for 16% of UK Foreign Direct Investment job creation in 2012, well above our per capita share and ranking near the top of the UK table for the third consecutive year. [31]

Independence would provide the opportunity to build on these strengths through access to key policy levers including trade promotion, immigration, and the ability to fully represent Scotland's interests in the international economic community.

6 Independence as the key to boosting short-run responsiveness

The ability to respond swiftly and flexibly to changing economic needs is important not just to provide greater stability but also to deliver long-term sustainable growth.

Under the current framework, such 'macroeconomic' policy is set largely for the UK as a whole. The impacts of any economic changes or events in Scotland are not considered in their own right.

In contrast, independence would provide much greater scope to respond quickly and decisively to any negative event (such as a recession) in Scotland and, crucially, to capture distinct new opportunities.

It would also allow Scotland to address some of the weaknesses in the current UK model – such as the bias toward high indebtedness and unbalanced growth across sectors and regions – which have left the UK particularly vulnerable to economic shocks.

A number of criteria have been proposed to assess the impact of constitutional change on macroeconomic stability, including the '6 tests' put forward by Professor Andrew Goudie.[32]

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[28] *European Commission Women on boards - Factsheet 2: Gender equality in the Member States* http://ec.europa.eu/justice/gender-equality/files/womenonboards/factsheet-general-2_en.pdf

[29] *Childcare and labour market participation – Economic Analysis, Scottish Government, Jan 14* http://www.scotland.gov.uk/Resource/0044/00441783.pdf

[30] *Global Connections Survey, Scottish Government, January 2014,* http://www.scotland.gov.uk/Resource/0044/00442854.pdf

[31] *Ernst and Young Scotland Attractiveness Survey 2013,* http://www.ey.com/UK/en/Issues/Business-environment/2013-Scotland-attractiveness-survey

Our proposed macroeconomic framework is built around the insights of the Fiscal Commission Working Group (FCWG). Their informed analysis and proposals have been set out comprehensively over the course of the past year in a substantial body of work.

The FCWG model presents an effective balance between autonomy and risk management. It identifies areas where there will be benefits in sharing risks but also areas where Scotland will benefit from the autonomy to choose a different path.

For instance, a key proposal of the Fiscal Commission Working Group – and the Scottish Government agrees – is that *"the preferred model would be for Scotland to enter a formal monetary union with the rest of the UK and the Bank of England operating as central bank for the common monetary area".* [33]

Retaining Sterling has clear benefits both for Scotland and the UK. As highlighted by Governor Carney in his recent contribution[34], a currency union secures a single market, facilitates trade, competition and economic efficiency and eliminates transaction and exchange rates costs. With two thirds of Scottish exports destined for the UK and Scotland estimated to be the UK's second largest trading partner this makes clear sense, as highlighted by Sir James Mirrlees in his recent article "Benefiting the UK is the most logical option". [35]

It is clear that Scotland and the UK currently meet the essential economic criteria for successful currency union, with Scotland performing close to (or many cases slightly better than) the UK on key indicators such as the labour market, productivity, output per head and income.

Figure 3 demonstrates the relatively close movements between the two economies. It highlights that since 1964 estimates of the output gap between Scotland and the UK differed by only 0.7 percentage points over the period on average and only twice by more than 2 percentage points (1987 and 1988).

Scotland the rest of the UK also share similar institutional histories and there is a high degree of economic mobility and interaction between both countries.

Crucially, by providing detailed and well-engineered frameworks and institutions in areas such as governance, financial regulation, management of oil revenues and fiscal policy, the model proposed is robust and rich in design. It addresses all the key issues of monetary unions, including building on the lessons from the experience of the Euro area.

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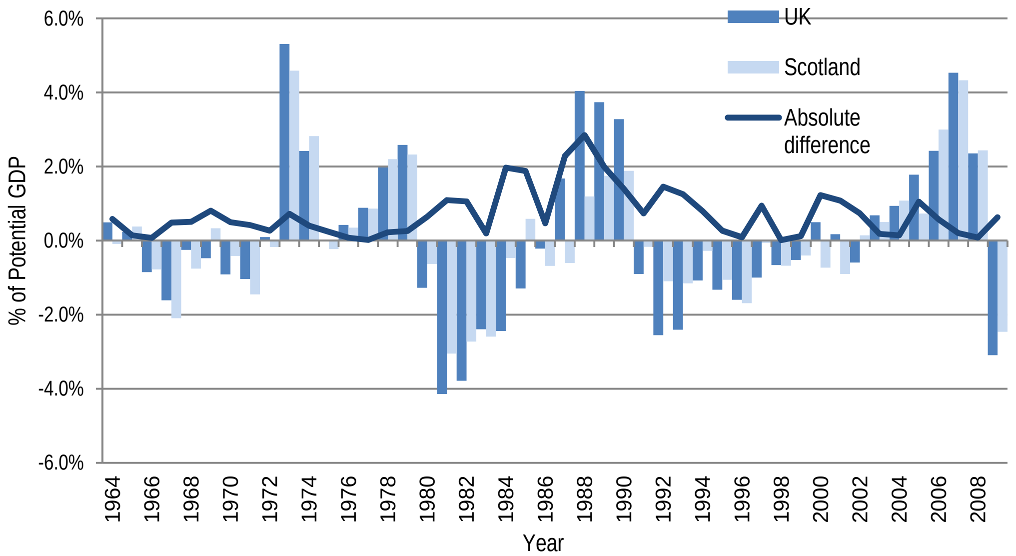
[32] *Andrew Goudie (2013), Scotland's Future: The economics of constitutional change, Dundee University Press*

[33] *Page 28 - Macroeconomic Framework – First Report (2013), Fiscal Commission Working Group*

[34] *http://www.bankofengland.co.uk/publications/pages/speeches/2014/706.aspx*

[35] *"Benefiting the UK is the most logical option", Sir James Mirrlees, 13 February 2014, Scotsman, http://www.scotsman.com/news/analysis-benefiting-the-uk-is-most-logical-option-1-3304617*

Figure 3: Estimated output gaps UK and Scotland



Source: Chart 7.01, Page 131 - Macroeconomic Framework – First Report (2013), Fiscal Commission Working Group

6.1 Budget stability and affordability

Under the current framework, Scotland is dependent on decisions of the UK Government to both manage the public finances responsibly, and to allocate a budget for devolved spending.

As a result, not only is the affordability of Scottish policy choices driven by the performance of the UK, there is uncertainty in the method used to allocate funding to Scotland, which could be changed at any time. For example, it has been suggested that scrapping the Barnett formula could lead to a cut of around £4 billion from the Scottish Budget in a given year.[36]

Looking forward, given the poor financial management of successive UK governments, Scotland will be faced with a challenging fiscal position irrespective of the outcome of the referendum. This is because the UK's financial management prior to the global financial crisis left it particularly vulnerable. See Figure 4 overpage.

Under independence, Scotland's public finances would depend solely upon tax revenues raised here, the fiscal approach to borrowing and debt that is adopted and the choice of policy priorities by the people of Scotland. This has a number of advantages.

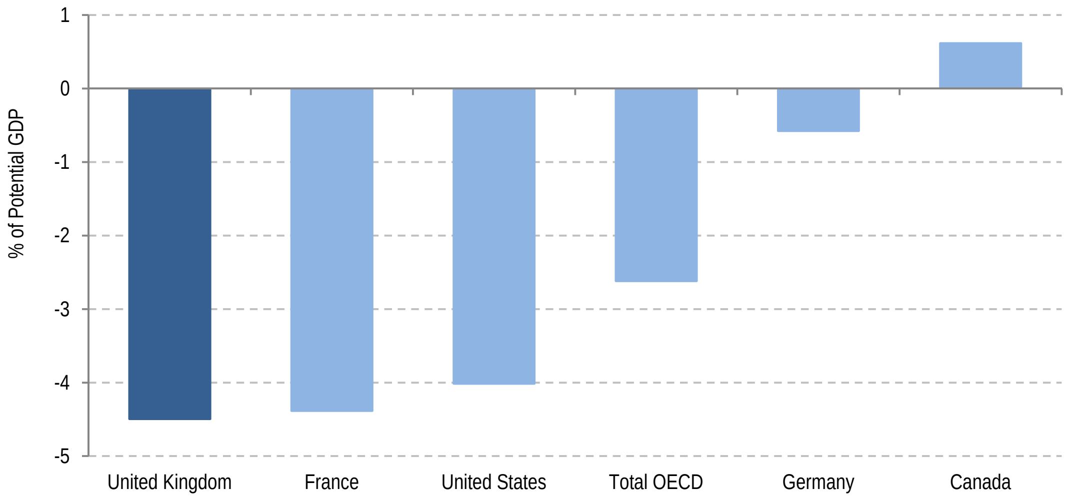
Firstly, subject to the broad parameters of a sustainability agreement, independence would provide the opportunity to manage the public finances in a manner most appropriate to the needs of, and conditions facing, the Scottish economy.

[36] *"Scotland is taking more than its share of funds", David Miles and Gerald Holtham, Financial Times, July 5 2010, http://www.ft.com/cms/s/0/eafb6198-8865-11df-aade-00144feabdc0.html#axzz2uFUleAdR*

Secondly, priorities could be managed according to the values and preferences of the people of Scotland.

Thirdly, if future Scottish governments were able to use the new economic powers to grow the economy more quickly, or to generate savings through preventative spending, then the proceeds could be re-invested to support the public finances or new initiatives.

Figure 4: General Government cyclically-adjusted balances, 2007



Source: OECD

6.2 Flexibility

Under independence, the Scottish Government will control key policy levers and be able to respond flexibly to changing economic circumstances and to tackle problems or areas which were underperforming.

There is a trade-off between temporary pooling of resources and flexibility. On the one hand, a centralised system can allow for temporary transfers from more prosperous parts to relatively poorer areas. However, a reliance upon such 'transfers' run the risk of locking areas into permanent lower levels of growth. Long-term economic development is unlikely to be achieved on a sustainable basis by transfers and redistribution alone. This is a clear failing of the UK approach.

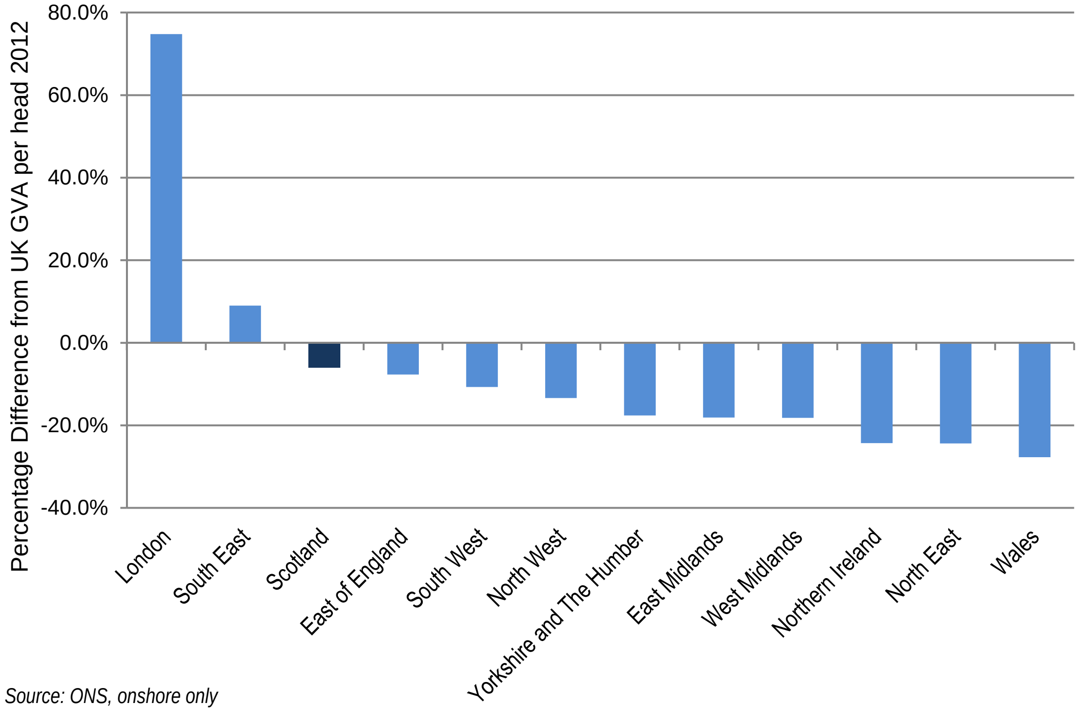
For example, the UK is one of the most regionally unbalanced economies in the world, with Figure 5 highlighting how, in 2012, output per head in London was nearly 75% higher than the UK average whilst output in Wales was nearly 28% lower.

7 Conclusion

Since devolution and even with limited powers, Scotland has made progress. This demonstrates what can be achieved even with limited economic self-determination. But with independence Scotland could do even more. Independence would provide the opportunity to create a stronger, fairer and more resilient Scottish economy.

Being strong neighbours will benefit both Scotland and the rest of the UK. A stronger Scotland will provide an economic counterweight across the islands of the UK, helping to address the unequal nature of regional growth. We will continue to work together with the rest of the United Kingdom on issues of common interest such as sharing Sterling and working together to ensure financial stability.

Figure 5: Gross Value Added (GVA) per head (workplace based) percentage difference from the UK average[37], 2012



Source: ONS, onshore only

However, the choice to do things differently – and better – would lie with us. This is fundamental to Scotland's future economic success.

Remaining part of the UK without control of key economic levers will perpetuate the lower levels of growth experienced in Scotland. It will mean the continuation of one size fits all economic policies which repeatedly fail to meet Scotland's needs. It will leave the Scottish and UK economies unbalanced and will fail to deliver the economic instruments needed to ensure all parts of Scotland's economy are working to capture the opportunities available, to address the challenges we face and to share the benefits of success.

[37] *Regional Gross Value Added (Income Approach), December 2013, ONS, http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2013/index.html*

It is not enough to have tax raising powers without the ability to grow the tax base, or the ability to grow the tax base without the means of benefitting from the revenues.

Scotland requires control over both sides of her balance sheet in order to fully succeed.

The greatest opportunities come not just from the ability to vary individual powers, but from the ability to design a consistent and coherent approach to supporting key sectors and implementing a fully coordinated economic policy.

There are no longer arguments over Scotland's wealth. We are one of the wealthiest nations in the developed world and wealthier per head than the UK as a whole. Our strengths stretch from world leading universities, to a vibrant food and drink sector, from low carbon technology to oil and gas and from financial services to innovative life sciences and creative enterprises. Combining powers over business investment, employment creation, and taxation will help secure stronger levers of economic growth from which all the people of Scotland could benefit.

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