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The fiscal position of Scotland, Wales and Northern Ireland

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About this report

This report examines the implicit fiscal balance of each of the four nations of the UK – that is, the difference between the revenues raised from economic activity in each nation and the amount of public spending done for the benefit of each nation. As part of the United Kingdom, Scotland, Wales and Northern Ireland currently benefit from a redistribution of resources from England. One question that would face any nation considering secession from the union is how to compensate for the loss of those resources.

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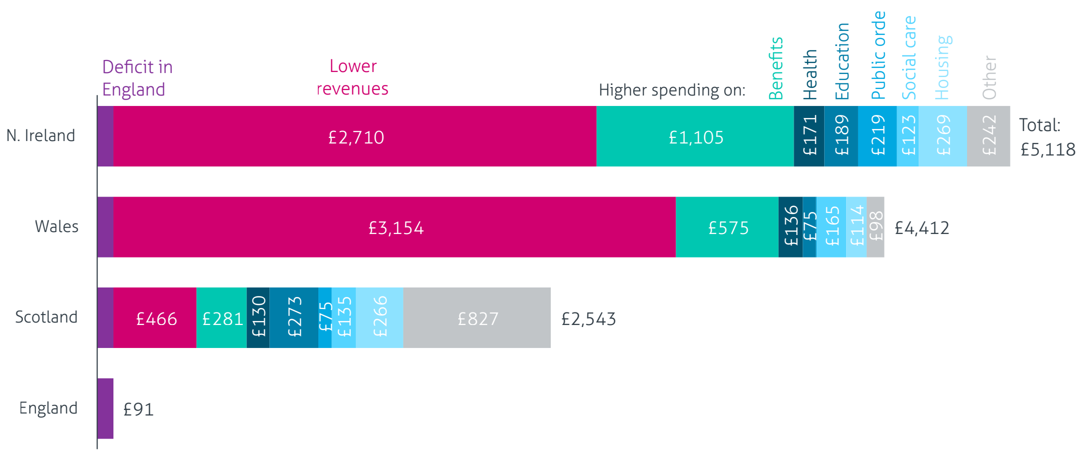
Summary

The UK has been a political and fiscal union within its current borders for more than 100 years. One of the features of that union is that resources are redistributed between areas through tax and public spending. But with support for independence growing in Scotland and Wales and the question of Irish reunification having risen up the agenda, it is worth examining what the levels of public spending and revenues currently are in each of the four nations of the UK to understand what position Scotland, Wales or Northern Ireland might be in if they left the union.

This paper examines how much public spending is done for the benefit of people in each of the four nations of the UK and how much revenue was raised from them. We examine figures for 2018/19 as this is the most recent year for which comprehensive data is available for all four nations.

In that year, the UK government spent £91 more per person in England than it raised in revenues from these people. But the net benefit received by people in the other three nations of the UK was much larger, as Figure 1 shows.

Figure 1 **Breakdown of the public sector deficit per person across the UK in 2018/19 (2019/20 prices)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; HMT, *Public Expenditure Statistical Analyses*, 17 July 2020; DWP, *Benefit expenditure and caseload tables*, 18 January 2021; NI Department for Communities, *Annual report and accounts*, 5 July 2019; ONS mid-year population estimates; HMT GDP deflators from December 2020.

There are several reasons why the gap between tax revenues and spending is larger in Scotland, Wales and Northern Ireland than in England:

- Most tax policy is dictated by the UK government and so differences in revenue raised across the nations mainly reflect differences in the size of tax bases in each. All four constituent nations of the UK generate a similar level of revenues relative to the size of their economies. But because the economies of Wales and Northern Ireland are substantially weaker than those of England and Scotland, they generate far less revenue per person in cash terms.

- All four nations raise a similar amount of cash per person from VAT and National Insurance contributions but revenues from income tax, corporation tax and capital taxes are much higher per person in England. Economic activity in the North Sea continues to generate sizeable revenues for Scotland – although falls in oil prices and rising decommissioning costs mean these have been far lower in recent years than they once were and have fallen further since 2018/19. Revenues from tobacco duty are higher in Wales, Scotland and Northern Ireland than in England, while revenues from alcohol duties are higher in Scotland and Northern Ireland.

- Since the vast majority of benefits spending across the nations is determined by UK government policy, differences in spending per head on these items mainly reflects differences in eligibility across the four nations.

- Average benefit spending per person is similar in Scotland and England but the composition is different. Scotland spends more on old-age benefits and less on child benefits, as it has more pensioners and fewer children. Scotland also spends more on disability related benefits, which can be explained partly by higher rates of ill health and partly by the legacy of weak labour markets and high rates of disability benefit claiming in former industrial areas. Scotland spends less on housing benefit because rents are lower and more claimants live in social, rather than private, rented accommodation.

- Wales's large proportion of pensioners means that more is spent there on old-age benefits. More is also spent on disability related benefits in Wales. Reported rates of disability in Wales are even higher than in Scotland and disability claimants are concentrated in the former industrial areas of South Wales. But Wales spends less on housing benefit than England because rents are lower.

- Northern Ireland has more children and fewer pensioners than any of the other nations, meaning more is spent on child benefit and less on old-age benefits. However, with the lowest average income of all the four nations, Northern Ireland has the highest spending on tax credits, means-tested benefits for working age adults and disability related benefits. The latter is associated with persistently high rates of economic inactivity in Northern Ireland.

- Most of the difference between the deficit per person in Scotland and England is explained by higher levels of spending in Scotland on domestic public services. Spending in Scotland is higher per person on all areas of public services. The biggest absolute differences are in spending on education (in part reflecting free university tuition), housing and community amenities (including greater investment in building and maintaining social housing) and transport (including higher spending on roads and subsidies for ferry and air services to the Scottish islands).

- Spending per person is also somewhat higher on most public services in Wales than in England. However, differences in domestic public service spending explain only a minority of the gap between the per person deficit in Wales and England. The biggest absolute differences in service spending are in spending on personal social services (where the Welsh government provides more generous, non-means-tested support than is available in England), health, and housing and community amenities. The main service area where less is spent per person in Wales than England is transport. Much of the higher transport spending in England is concentrated in London and transport spending in Wales is similar to that of other English regions.

- More is also spent per person on most domestic public services in Northern Ireland than in England. The biggest absolute differences are in spending on housing and community amenities (in part because water supply is still a public service in Northern Ireland but is privatised elsewhere in the UK), support for agriculture, fisheries and forestry, and public order and safety (reflecting the costs of Northern Ireland's unusual political and security environment). Northern Ireland has the lowest level of transport spending among the four nations. This is because Northern Ireland lacks a comprehensive rail network and so spending on railways is far lower there than elsewhere.

These differences resulted in England having a public sector deficit of 0.3% of GDP in 2018/19, compared to 7.7% in Scotland, 17.9% in Wales and 19.0% in Northern Ireland.

Since 2018/19, the fiscal position of the UK has deteriorated as a result of the Covid-19 pandemic. It is difficult to know what the lasting effects of that will be on the public finances. But the latest official forecasts suggest that coronavirus will permanently harm the UK's economic growth prospects and so depress tax revenues. Even factoring in a planned large increase in taxes and further squeeze on public service spending, official forecasts suggest that the UK government will borrow 2.8% of GDP in 2025/26 – up from 1.8% in 2018/19. It is beyond the scope of this report to construct a full forecast for each of the four nations. However, it is reasonable to assume that the fiscal balance of all four will be even further into the red over the next five to ten years than it was in 2018/19 without further action to raise taxes or cut spending.

There are many reasons why the people of Scotland or Wales might want to seek independence from the UK, or why the people of Northern Ireland might want to be part of a united Ireland. However, one cost of doing so would be that they would no longer be able to benefit from the redistribution of resources that currently takes place across the UK. The larger the deficit that they have is, the harder the case for independence becomes.

Nations do not always – or indeed often – need to run balanced budgets. However, the levels of deficit for Scotland, Wales and Northern Ireland implied by the current distribution of public money across the UK would not be sustainable if any of these nations were to leave the union. The figures presented in this report highlight the scale of the issues and emphasise the need that there would be after secession to go some way towards closing the gap between the revenues they generate and their levels of public spending. This would be possible to do but not without difficult decisions and trade-offs – particularly for an independent Wales and a reunited Ireland because of the weaker economic position and larger existing fiscal imbalances of Wales and Northern Ireland. Over time, different policy choices made by an independent Scotland and Wales or a reunited Ireland could affect each nation's economic growth and so change the fiscal pressures. However, any longer-term changes to economic performance would take time to manifest and would not enable any of the nations to avoid difficult fiscal choices in the early years after secession.

Introduction

One of the features of the UK – like other political and fiscal unions – is that resources are redistributed between areas through tax and public spending. Tax revenues raised from across the nation are also used by the UK government to fund a range of activities that are intended to benefit all UK residents, such as foreign relations and the armed forces. However, with support for breaking away from the union apparently growing in Scotland, Wales and Northern Ireland[1] – and with nationalist parties expected to perform well in the forthcoming elections for the Scottish[2] and Welsh[3] parliaments – it is worth examining the individual fiscal positions of each of the four nations of the UK as they currently stand.

Scotland seems the nation most likely to secede from the union: polls there show a close-run race between pro-independence and pro-union support, and parties supporting another independence referendum have held a majority of seats at Holyrood since 2011. Nationalist sentiment is weaker in Wales but has been growing.[4] Polls in Northern Ireland also show that a majority favour having a referendum about the border and that there is only a slim lead for unionists over those who support a united Ireland, with younger people preferring the latter.

This report sets out the fiscal positions of each of the four nations of the UK as they currently stand, providing a summary of the revenues raised from, and public money spent for the benefit of, each nation. We also outline what explains the differences.

The objective is to make clear the fiscal choices that would face a newly independent Scotland or Wales or a reunited Ireland, which will need to be addressed by those parties advocating for secession from the union. There are many features of independence from the UK that appeal to some voters. There are also many aspects of current policy within the union that some people feel do not deliver for them, which could be addressed after leaving the union. However, any advocates for breaking away must address the reality of the nations' current fiscal balances and the difficult policy choices these would necessitate after secession. The larger the deficit is, the harder those choices will be.

There are some disagreements about exactly what fiscal position Scotland, Wales or Northern Ireland might inherit – including what share of accrued UK debt each might take on and whether the seceding nation would want to continue with the UK's relatively high levels of defence and overseas aid spending. But, as this report sets out, these nuances do not detract from the core conclusion that each of the UK's three smaller nations would have a far higher level of public spending than revenues if they attempted to continue with current domestic policies after secession. The gap would be so large that it could not be sustained – at least, in Northern Ireland's case, not without substantial ongoing transfers from the rest of Ireland. While Scotland has a smaller underlying deficit than Wales or Northern Ireland, its deficit is now much larger than it was at the time of the last independence referendum, in 2014, raising more difficult questions about how – and how quickly – an independent Scottish government would reduce its spending or raise taxes.

Were Scotland or Wales to become independent, their newly autonomous governments would have complete freedom to change tax, spending and other economic policies. Similarly, were Northern Ireland to unite with the Republic of Ireland, its tax, spending and other economic policies could change from those pursued by the remainder of the UK. But when thinking about the position in which the departing nations would find themselves, it makes sense to use the current settlement as the starting point, since residents across the four parts of the UK are used to paying the current range of taxes and to benefiting from the current scope and quality of services and social security.

Much of this report focuses on cash figures for spending and revenues – looking at how much is spent and raised per person in each of the four nations. When thinking about the distribution of resources within the fiscal union of the UK, this is the most natural metric to use – tax and spending policy is explicitly designed to even out differences in cash resources between poorer and richer people and areas. It is also easiest to understand the flows of money if we start by looking at the cash changing hands.

However, the amount of money that an independent nation can afford to spend publicly – and how much it can expect to raise through taxes – depends on the size of its economy and so it is standard practice, when comparing different nations, to look at public spending and revenues as a share of national income. A poorer independent nation cannot hope to top up the incomes of all its citizens if it does not benefit from transfers from another richer area. We therefore also present figures for spending, revenues and borrowing attributable to each of the four nations expressed as a share of each nation's GDP. These figures change over time not only because revenue and spending levels change but also because the size of each economy changes.

Because the aim of this paper is to describe how much money is raised from and spent by government for the benefit of people in each nation, we examine all forms of tax revenues and all forms of public spending, regardless of which government currently controls them. Control over a large part of public spending is devolved to the Scottish and Welsh governments and to the Northern Ireland executive. However, some major areas of public spending – such as defence, foreign affairs, most tax collection and debt interest payments – remain under the control of the UK government. Policing, prisons, courts and some transport services are run jointly for England and Wales. Most elements of the social security system in Scotland and Wales are controlled by the UK government, although the social security system in Northern Ireland is administered separately. The Scottish government estimates that, in 2018/19, three fifths of all spending that was done for the benefit of people in Scotland was done by the Scottish government or local authorities and public corporations in Scotland, with the remainder being done by the UK government.[5]

While the devolved administrations have some powers to design and levy taxes, most of the funding for public services and benefits in the devolved nations comes from taxes designed and levied by the UK exchequer or from UK government borrowing. In 2018/19, control over an estimated 31% of revenues raised from Scotland was devolved to the Scottish government; the equivalent figures are 20% for Wales and 9% for Northern Ireland.[6,*]

This report starts by describing levels of spending on public services and benefits across the four nations of the UK. It then examines what tax revenues are raised from each of the nations before pulling these two strands together to assess the deficit that the public sector runs in each nation – that is, how much public spending exceeds revenues.

* Legislation has been passed to devolve a further 10% of revenues to Scotland but this has not yet been implemented.

Box 1 **Methodology**

Throughout this report, we use official statistics from the Treasury's *Public Expenditure Statistical Analyses* (PESA) and the Office for National Statistics' *Country and regional public sector finances*. These statistics attempt to allocate spending and revenues to different parts of the UK.* Various assumptions are required to do that.**

Unless otherwise stated, monetary figures throughout this report are adjusted for economy-wide inflation (using the UK GDP deflator) and expressed in 2019/20 prices.

Public spending

Three quarters of spending can be directly allocated to specific nations – including, for example, benefits paid to people resident in a particular part of the country and spending on many public services, which provide services for the benefit of people in a particular area. In the statistical jargon, this is known as 'identifiable' spending. The rest of public spending (referred to as 'non-identifiable') is carried out by the UK government for the benefit of the UK as a whole – such as defence, overseas aid and debt interest. In the figures presented in this report – and in line with the approach of *Government Expenditure and Revenue Scotland* (GERS) and PESA – this spending is allocated on a per capita basis across the four nations.

When describing spending on public services, we show the breakdown using the UN classification of the functions of government – such as health, education and training, public order and safety. These classifications do not perfectly match the allocation of spending across UK government departments or their devolved counterparts but do provide a consistent classification of spending for each of the four nations.

Spending on benefits

To illustrate more clearly what drives differences in benefits spending between the four nations, we also use data from the Department for Work and Pensions (DWP) and the Northern Ireland Social Security Agency. This provides details of how much is spent on individual benefits.

* We use the ONS's *Country and regional public sector finances* because it provides figures for all four nations of the UK on a consistent basis. Publication delays due to Covid mean that the latest data available from this source relates to 2018/19. Data for 2019/20 is available for the UK as a whole (from the ONS) and for Scotland (from *Government Expenditure and Revenue Scotland*, GERS) but not for the other three constituent nations of the UK. There are some methodological differences between the ONS's *Country and regional public sector finances* and GERS so some precise estimates differ between the two. However, the main patterns in the data are the same.

** The ONS's *Country and regional public sector finances* statistics were first published in 2017 and are still classed as experimental statistics, meaning they are "novel and still being developed" but this label "does not mean that the statistics are of low quality". Source: Office for National Statistics, 'Country and regional public sector finances: methodology guide', 2019, retrieved 22 April 2021, www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/methodologies/countryandregionalpublicsectorfinancesmethodologyguide

Revenues

The ONS attempts to allocate revenues across the four nations of the UK based on the location of the person who pays the tax. For indirect taxes, like VAT, this is done by assuming the consumer bears the burden of the tax and so allocating the revenues based on where consumers live. Similarly, direct taxes – like income tax and National Insurance contributions (NICs) – are allocated based on where taxpayers live.

It is particularly difficult to identify where within the UK corporate profits – and thus taxes levied on those – are generated. In part this is because businesses operating across the UK have no need to identify and account for where within the country their activity takes place. But it also reflects a deeper problem that plagues international tax debates – about how to define where profits are generated and thus where they should be taxed. The data that we present in this report allocates each business's profits (and thus associated corporate tax revenues) to the four nations of the UK based on the distribution of each business's employment.

GDP

To calculate the GDP of each of the four nations, we start with the ONS's regional economic activity statistics. These provide an estimate of onshore GDP for England, Wales, Scotland[*] and Northern Ireland for each calendar year. We convert these into financial years by using the ONS's figures for UK-wide GDP in each quarter to work out how each calendar year's GDP divides into financial years and applying this ratio to the regional GDP figures. We then adjust these figures to allocate each nation a share of the UK's offshore GDP. Most (90.2% in 2018) of this offshore GDP relates to oil and gas extraction in the North Sea. We allocate this between Scotland and England using a geographic allocation, following the approach taken by the GDP Quarterly National Accounts, Scotland (QNAS).[**] This uses the boundary defined by the Scottish Adjacent Waters Boundaries Order 1999. The rest of offshore activity is made up of public administration and defence activities that take place abroad; we allocate these on a population basis across the four nations of the UK.

* The ONS's estimates of Scottish onshore GDP differ slightly from those of QNAS. However, the differences are small and vary in sign from year to year.

** QNAS figures imply that 80.1% of offshore mining and quarrying output was geographically attributable to Scotland. Source: Authors' calculations based on Table 10 of the Supplementary Analytical Tables, Scottish government, GDP *Quarterly National Accounts: 2020, quarter 3*, 2020, retrieved 22 April 2021, www.gov.scot/publications/gdp-quarterly-national-accounts-2020-q3

How much public money is spent in different parts of the UK?

In 2018/19, the UK public sector spent a total of £873.5 billion – or an average of £13,147 per person. But the amount of spending varies across the four nations of the UK, as Figure 2 shows. The lowest spending per person was in England, where the government spent an average of £12,864 per person. In Northern Ireland, Scotland and Wales, per capita spending was £15,182, £14,850 and £14,031 respectively – or 18.0%, 15.4% and 9.1% more than in England.

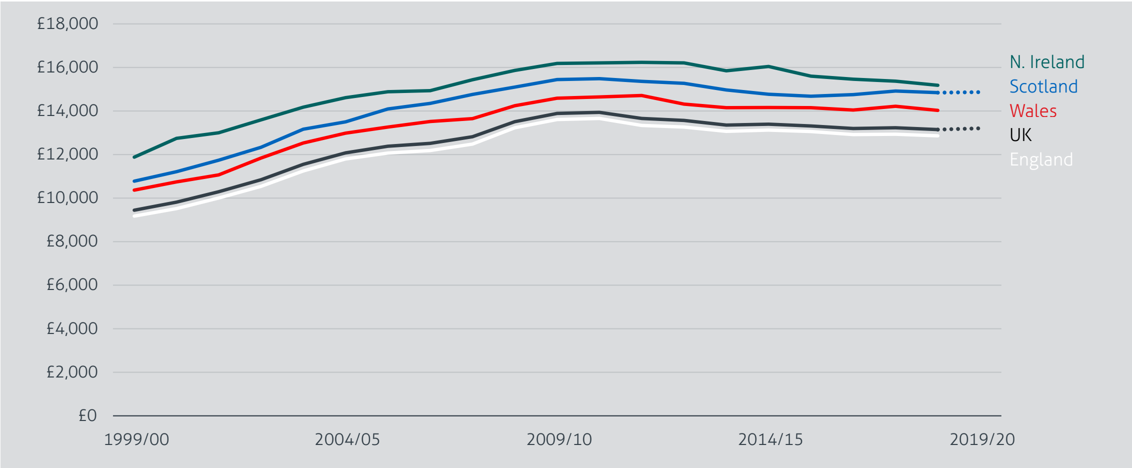
There are differences in need across the country, which can explain some of the difference in levels of spending. Differences in benefits spending are largely explained by differences in the age, health and income levels of people across the UK. For example, greater levels of public support tend to be needed in areas where incomes are lower: average equivalised household income in Northern Ireland (before taxes and benefits) is 33.5% below the UK-wide average,[1] providing part of the explanation for higher public spending there. However, more than half of the difference for Wales and Northern Ireland – and the vast majority of the difference for Scotland – is explained by different levels of spending on domestic public services. These differences are long-standing and largely determined by the Barnett formula. The Scottish government has also made use of its devolved tax powers in recent years to increase taxes to raise some additional revenue to pay for higher spending.[*]

The Barnett formula has been in use since the late 1970s to calculate the block grant payment from the Treasury to each of the devolved nations. When the Barnett formula was introduced, it preserved the different levels of spending across the UK that existed at that time.[2] Several studies over the past decade have shown that, while spending needs are higher in the devolved nations, the Barnett allocations are not well-correlated with differences in need and the devolved nations, in particular Scotland, do well.[3]

* The Scottish government estimates that income tax raised £456m more in 2020/21 than it would have done had Scotland followed English income tax policy (Source: Forbes K, letter to Bruce Crawford MSP, 3 March 2020, https://archive2021.parliament.scot/S5_Finance/General%20Documents/Report_on_2020_and_21_Scottish_Budget.pdf). However, this overstates the net benefit to Scotland's public finances from income tax devolution. The devolution of income tax revenues was accompanied by a reduction in the block grant from the Treasury. That block grant adjustment is set in such a way that if Scottish income tax policy had remained unchanged, Scotland would end up with the same revenues overall, as long as Scottish income tax receipts per person grew at the same rate as they did across the rest of the UK. In fact, in the absence of higher income tax rates, Scottish revenues would have grown less quickly than those elsewhere in the UK. As a result, the net gain to Scotland's finances has been only £46m (Source: Phillips D, *How and Why has the Scottish Government's Funding Changed in Recent Years?*, Institute for Fiscal Studies, 2021, retrieved 22 April 2021, www.ifs.org.uk/publications/15385).

As spending grew during the 2000s and then was constrained after the financial crisis, spending per capita in the devolved nations broadly tracked levels of spending in England but there has been some convergence. For example, in 1999/2000, spending per person in Northern Ireland was 29.5% above the level in England; it was 17.5% higher in Scotland and 13.0% higher in Wales – compared to 18.0%, 15.4% and 9.1% respectively by 2018/19. Convergence in spending on devolved public services is a deliberate feature of the Barnett formula, although – for various reasons – it has not always happened in practice.[4]

Figure 2 **Public spending per person across the UK (2019/20 prices)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS mid-year population estimates; HMT GDP deflators from December 2020. 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

Public spending can be divided into five broad categories – international services (including defence), domestic public services, benefits and tax credits, debt interest and a residual category. The latter category made up 10.3% of UK public spending in 2018/19 and includes net payments from the UK public sector to the EU, and accounting adjustments to allow for VAT refunds to public sector bodies, depreciation of fixed capital and the like.

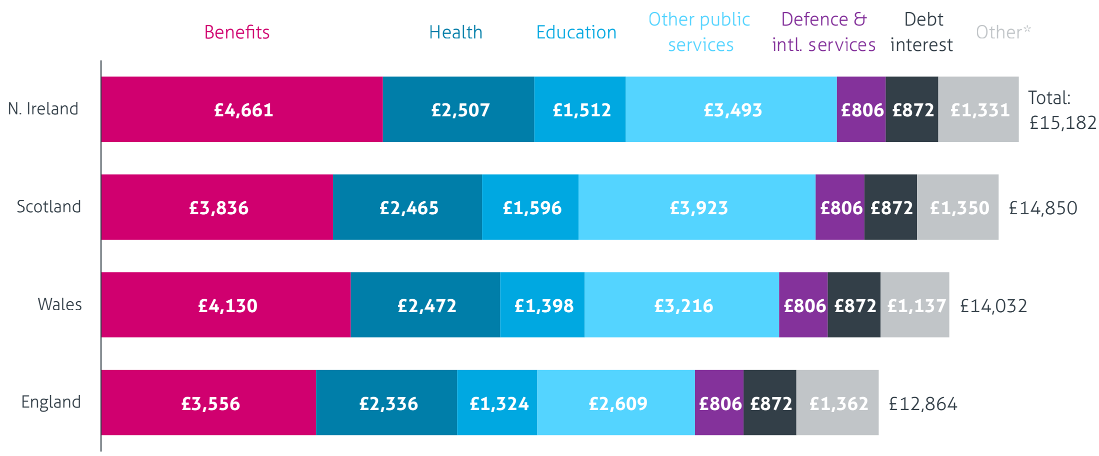
Spending on domestic public services is the largest single category, making up 49.3% of public spending across the UK. This includes both the day-to-day running of services like the NHS, schools and railways as well as investment in the buildings and other infrastructure needed to provide these services. International services, such as defence, comprise a further 6.1% of spending. The benefits of these international services are assumed to be distributed evenly across the UK but decisions about how much to spend on these are made by the UK government, with the devolved nations having no say. The individual nations may not choose to spend the same amount if they had completely free choice.

The second largest component of spending is benefits and tax credits, which includes the state pension. Benefits spending makes up 27.7% of public spending across the UK. The remaining 6.6% of public spending in the UK goes on paying interest on debt.

As Figure 3 shows, the higher levels of per capita spending in Scotland compared to England are predominantly explained by higher spending on domestic public services. For example, domestic public service spending was £1,717 per person higher in Scotland than in England in 2018/19, while benefits spending was £281 per person higher. For Wales and Northern Ireland, the gap is explained more equally by higher domestic public service spending and higher benefits spending. In Wales, benefits spending was £575 per head higher than in England, while domestic public service spending was £817 higher. In Northern Ireland, the figures were £1,105 and £1,244 respectively.

These differences mean that benefits spending makes up the largest share of public spending in Northern Ireland (at 30.7%) and the smallest share in Scotland (at 25.8%). Meanwhile domestic public service spending makes up the largest share of the budget in Scotland (53.8%) and the smallest share in England (48.7%).

Figure 3 **Breakdown of spending per person across the UK in 2018/19 (2019/20 prices)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; HMT, *Public Expenditure Statistical Analyses*, 17 July 2020; DWP, *Benefit expenditure and caseload tables*, 18 January 2021; NI Department for Communities, *Annual report and accounts*, 5 July 2019; ONS mid-year population estimates; HMT GDP deflators from December 2020. Benefits spending includes spending under the 'social protection' category, except for spending on 'personal social services', 'social protection n.e.c', and non-housing benefit spending on housing, which are counted under 'other public services'. 'Other' includes accounting adjustments and EU transactions.

Spending on public services

Scotland has the highest level of spending per person on domestic public services out of all the nations – spending £7,985 per person in 2018/19 or 27.4% more than the £6,268 spent in England. The figures for Wales and Northern Ireland are £7,086 (13.0% above the England figure) and £7,512 (19.8% above the England figure) respectively.

All four nations spend a similar amount on health

The two largest components of domestic public service spending in all four nations are health and education. There is relatively little variation proportionally across the four nations in how much is spent per person on health compared to some other smaller components of spending, as Figure 4 shows.* However, the sheer size of the health and education budgets means the differences in these two areas explain a large part of the gap between per person spending in England and elsewhere, as Figure 5 shows.

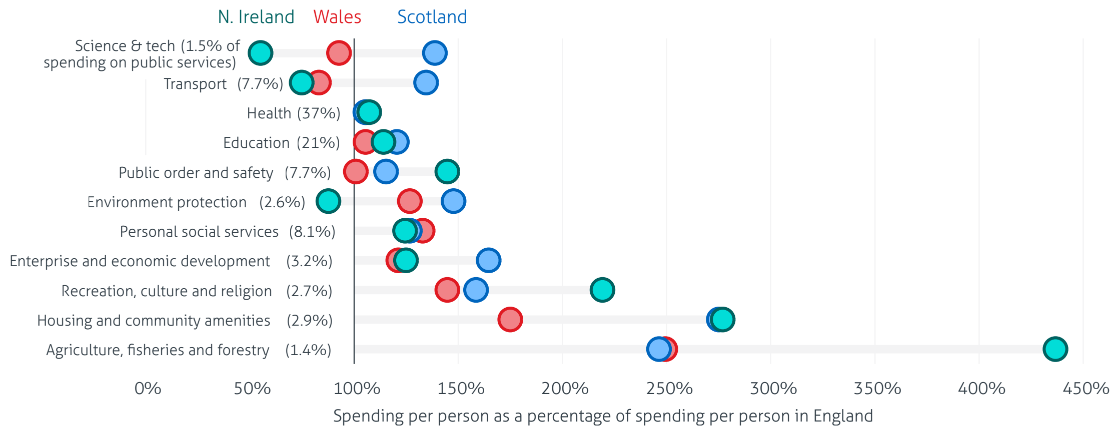
Across the UK as a whole, health spending makes up 36.4% of spending on domestic services. Health makes up the largest share of service spending in England – at 37.3% – and the smallest share in Scotland – at 30.9%. Per capita health spending varies from £2,336 in England to £2,507 (or 7.3% more) in Northern Ireland. Previous analysis has suggested that the higher levels of spending in Wales and Northern Ireland are more than explained by higher levels of need. However, the same is not true for Scotland, where higher levels of need can explain only part of Scotland's higher spending.[5]

Education and training make up a larger share of service spending in England than in the other nations – at 21.1%. It makes up the smallest share of domestic service spending in Wales – at 19.7%. Per capita education spending varies from £1,324 in England to £1,596 (or 20.6% more) in Scotland. The Scottish government spends substantially more on tertiary education – because of its policy of providing free university tuition** – and also spends more per pupil on early years and primary education, but less on secondary education, than in England. Northern Ireland appears to spend more per person on education than England or Wales. However, the large number of children in Northern Ireland (coupled with the fact that Northern Ireland spends more on tertiary and other non-school education) means that Northern Ireland spends the lowest amount per pupil on primary and secondary schooling.[6]

* For a discussion of how health policies and the outcomes of health services differ across the UK, see Atkins G, Dalton G, Philips A and Stojanovic A, *Devolved Public Services: The NHS, Schools, and Social Care in the Four Nations*, Institute for Government, 2021.

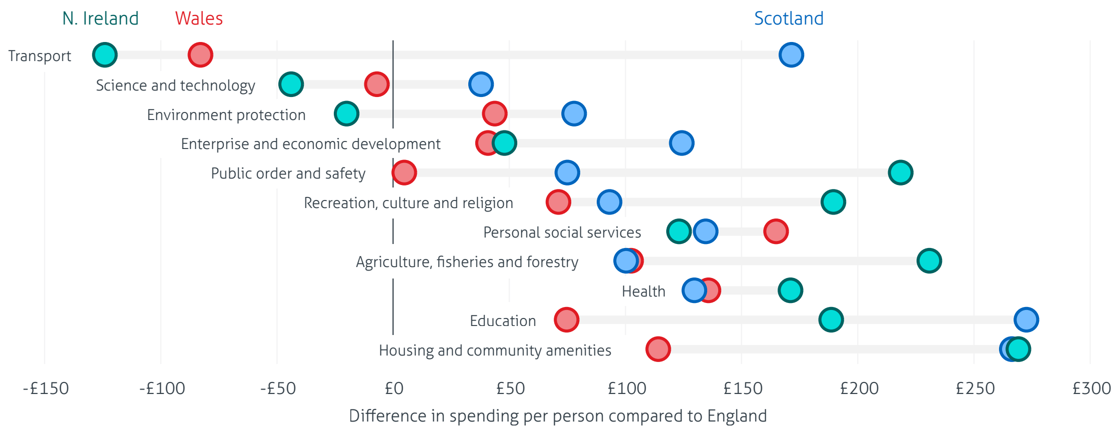
** These figures are likely to understate the true cost of tertiary education support in England because they do not incorporate the expected cost of future student loan write-offs. (Source: Farquharson C, Phillips D and Zaranko B, *Public Service Spending in Scotland: Trends and Key Issues*, Institute for Fiscal Studies, 2021, retrieved 22 April 2021, www.ifs.org.uk/publications/15395)

Figure 4 **Percentage difference in spending per person on public services in 2018/19 (100% = same per capita spending as England)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; HMT, *Public Expenditure Statistical Analyses*, 17 July 2020; DWP, *Benefit expenditure and caseload tables*, 18 January 2021; NI Department for Communities, ***Annual report and accounts***, 5 July 2019; ONS mid-year population estimates.

Figure 5 **Difference in per person spending on public services in 2018/19 compared with England (£0 = same per capita spending as England)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; HMT, *Public Expenditure Statistical Analyses*, 17 July 2020; DWP, *Benefit expenditure and caseload tables*, 18 January 2021; NI Department for Communities, *Annual report and accounts*, 5 July 2019; ONS mid-year population estimates; HMT GDP deflators from December 2020.

Different needs and policy choices drive different spending levels on other services

The relative importance of other public services varies across the nations. The third largest area of spending in Northern Ireland is public order and safety, which includes policing, courts and prisons. Spending per person on public order and safety in Northern Ireland is 44.9% higher than in England. As the Northern Ireland Audit Office put it, this higher level of spending reflects the "unique political and security environment in which it operates", including "legacy resourcing issues, a terrorist threat which is regarded as 'severe' and risks associated with Brexit".[7,*] However, spending devoted to public order and safety in Northern Ireland has fallen sharply since the Good Friday Agreement was signed.[**]

In England, Wales and Scotland, the third largest area of domestic public service spending is personal social services and other social protection. However, the actual amount of money spent per person is substantially higher in Scotland and Wales than in England, as Figures 4 and 5 show. Scotland, Wales and Northern Ireland all provide more extensive state support for social care costs than is provided in England. People in both Scotland and Northern Ireland are entitled to free home care for all who need it, while the costs of such care are capped in Wales, whereas in England support is provided only to those with a sufficiently low level of assets.[8] Northern Ireland actually spends the highest amount per person on adult social care but it spends less than the other nations on social care for children and families.[***]

The greatest proportional differences in public service spending across the four nations are on some of the smaller services – such as support for agriculture, fisheries and forestry, and funding for housing and community amenities (as Figure 4 shows). These differences reflect both differences in the economic make-up and geography of the devolved nations compared to England and different policy prioritisation by the four governments. For example, the Scottish government spends substantially more than the governments of the other three nations on building and maintaining local authority and social housing. This spending amounted to £304 per person in Scotland in 2018/19, compared to £87 per person in England.[****] The high level of public spending on housing and community amenities in Northern Ireland is explained in part by the fact that water is supplied publicly there – and so shows up as public spending – but is privatised elsewhere.

* Spending on policing in Northern Ireland was 77.0% higher per person than in England in 2018/19.

** In 1999/2000, £1,007 was spent per person directly on public order and safety in Northern Ireland; this had fallen to £678 by 2018/19. (Both figures are expressed in 2019/20 prices.) Responsibility for police and justice services was devolved to Northern Ireland in 2010.

*** For a more detailed comparison of differences in spending, policies and outcomes of adult social care across the four nations see Atkins G, Dalton G, Philips A and Stojanovic A, *Devolved Public Services: The NHS, Schools, and Social Care in the Four Nations*, Institute for Government, 2021.

**** These numbers are derived from figures for identifiable spending in each of the nations.

People in Scotland benefit from higher spending on all services than those in England

There are only three public service areas in which per capita spending is lower in either or both of Wales and Northern Ireland than it is in England (as Figures 4 and 5 show). By far the largest of these is transport. There are no service areas in which per person spending is lower in Scotland than in England.[*]

To understand why transport spending is lower in Wales and Northern Ireland – and higher in Scotland – than in England, it is useful to look at figures for spending that can be identified as directly benefiting a specific part of the UK. Examining sub-categories of service spending using this data shows that spending per person on roads is higher in all the devolved nations than it is in England.[9] This is consistent with the fact that England is more densely populated and so there are fewer miles of road per person in England than elsewhere in the UK.[**]

However, in Wales and Northern Ireland, higher spending on roads is more than offset by lower spending on other types of public transport – local public transport and railways in Wales, and railways in Northern Ireland. A lot of the public spending on local public transport and railways in England is concentrated in London, where spending per head on these items is 2.6 times the England-wide average.[10] Spending on local public transport and railways in Wales is similar to average levels of spending per person in England outside London.[***] Spending on local public transport in Northern Ireland was about 2.6 times the average across England outside London but spending on railways was less than a third of the level – this is because Northern Ireland lacks a comprehensive rail network.[11,****]

Spending on railways in Scotland is almost as high as it is in England (including the money spent in London) and Scotland spends much more than any of the other nations on other forms of transport: in particular, the Scottish government spends more on roads and offers large subsidies to ferry and air services to the Scottish islands. As a result, total transport spending per person in Scotland is 135% of the English level.

* For an analysis of past trends in spending on public services in Scotland, see Farquharson C, Phillips D and Zaranko B, *Public Service Spending in Scotland: Trends and Key Issues*, Institute for Fiscal Studies, 2021, retrieved 22 April 2021, www.ifs.org.uk/publications/15395

** There are 13.6 metres of road per person in Northern Ireland, 10.7 metres per person in Wales and 10.9 metres per person in Scotland, compared to 5.4 metres per person in England. Source: For England, Scotland and Wales – Table RDL0201 of Department for Transport, 'Road length statistics', Department for Transport, 4 February 2021, retrieved 22 April 2021, www.gov.uk/government/statistical-data-sets/road-length-statistics-rdl; for Northern Ireland – Table 1.1 of Department for Infrastructure, 'Northern Ireland transport statistics 2018–2019', Department for Infrastructure, 24 October 2019, retrieved 22 April 2021, www.infrastructure-ni.gov.uk/articles/northern-ireland-transport-statistics

*** In 2018/19, identifiable spending on local public transport in England excluding London was £19 per person, compared to £15 per person in Wales. Identifiable spending on railways in England excluding London was £207 per person, compared to £190 per person in Wales.

**** Figures from the Department for Transport show that, in 2018/19, people in Great Britain travelled an average of 1,048km on the National Rail network. Figures from the Department for Infrastructure in Northern Ireland show that the equivalent figure for people in Northern Ireland was just 269km. (Source: Table TSGB0601 (RAI0101) of Department for Transport, 'Rail usage, infrastructure and performance', Department for Transport, 17 December 2020, retrieved 22 April 2021, www.gov.uk/government/statistical-data-sets/rai01-length-of-route-distance-travelled-age-of-stock; Table 2.4 of Department for Infrastructure, 'Northern Ireland transport statistics 2018–2019', Department for Infrastructure, 24 October 2021, retrieved 22 April 2021, www.infrastructure-ni.gov.uk/publications/northern-ireland-transport-statistics-2018-2019)

Spending on benefits

Welfare policy is largely dictated by the UK government and therefore the differences in spending per person across the four nations mainly reflect differences in the underlying characteristics of the populations and economies. The benefits available to working age and older people in England, Scotland and Wales are very similar, although the Scottish government has since 2016 had some powers to create new benefits in devolved areas and to top up reserved benefits.* Responsibility for administering benefits in Northern Ireland is devolved to the Northern Ireland executive. It is given funding that should be sufficient to provide the same benefits as are available in Great Britain but is free to provide additional payments to recipients if it chooses to, with this funded from the Barnett block grant. In practice, social security policy in Northern Ireland has closely tracked that in the rest of the UK.

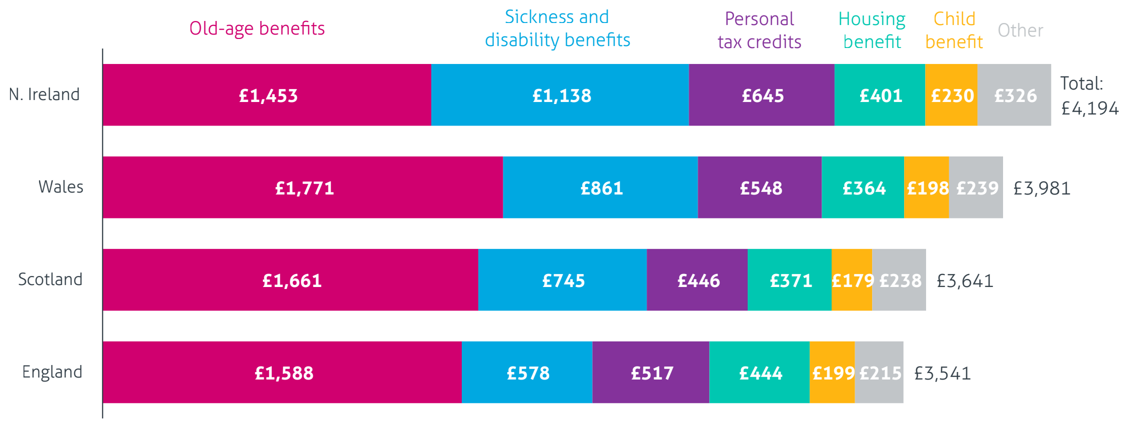
As Figure 3 showed, spending on benefits (including state pensions) per person is highest in Northern Ireland, followed by Wales, then Scotland, then England. Comparisons between the nations for recent years are hampered by the roll-out of Universal Credit, which replaces six other benefits and has progressed further in some parts of the UK than others. Therefore, in this section, we focus on benefits spending in 2013/14, when the roll-out of Universal Credit had only just begun.**

At that time, the UK government spent an average of £3,541 per person in England on benefits; £3,641 was spent per person in Scotland, £3,981 in Wales and £4,194 in Northern Ireland. Figure 6 shows the composition of this spending – grouping together different types of benefits.

* For a list of the benefits devolved to Scotland, see www.gov.scot/publications/responsibility-for-benefits-overview. For a discussion of the changes that the Scottish government has made to benefits over recent years, see Adam and Phillips (2021). GERS estimates that, in 2018/19, the Scottish government had devolved responsibility for around 18% of all benefits spending attributed to Scotland. (Source: Authors' calculations based on Box 3.1, Table 4.5 and Table 4.6 of GERS 2018/19.)

** The overall level of benefit spending in the categories of benefits that can be compared across nations in the latest data suggest that the pattern described here for 2013/14 remains similar in more recent years.

Figure 6 **Breakdown of benefits spending per person across the UK in 2013/14 (2019/20 prices)**



Source: IfG analysis of DWP, *Benefit expenditure and caseload tables*, 18 January 2021; HMRC, Disaggregated tax and NICs receipts, 20 December 2019; NI Social Security Agency, *Annual report and accounts*, 3 July 2014; NI Housing Executive, *Annual report*, 11 September 2014; ONS mid-year population estimates; HMT GDP deflators from December 2020. Old-age benefits includes state pension, pension credit, over 75s TV licences, and winter fuel payments. Sickness and disability benefits include Attendance Allowance, Carer's Allowance, Disability Living Allowance, Employment and Support Allowance, Incapacity Benefit, Industrial Injuries Disablement Benefit and Personal Independence Payment.

Scotland and England spend a similar amount per person – but on different types of benefits

As Figure 6 shows, spending per person on benefits is similar in England and Scotland. However, this apparent similarity hides differences in the composition of benefits spending in the two nations. Less is spent in Scotland per person on housing benefit and child benefit but more is spent on old-age* and sickness and disability related benefits.

The Scottish population is older than the English one, with fewer children and more pensioners – helping to explain higher spending on pensioner benefits and lower spending on child benefit and tax credits. Figure 6 suggests that spending per person on old-age benefits was 4.6% higher in Scotland than in England. However, spending on these benefits per person aged 65 and over** was only 1.7% higher in Scotland – in other words, the larger number of older people explains much of the difference. Similarly, Scotland appears to spend 10.2% less per person on child benefit but spends almost exactly the same amount per child as in England. The smaller number of children in Scotland also helps to explain why tax credit spending was lower in Scotland, since these payments are focused on low-income families with children.

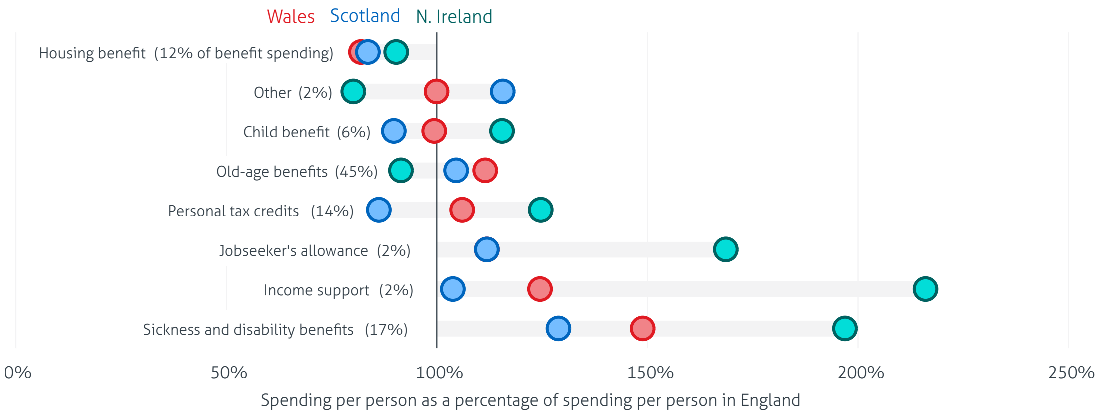
* Old-age benefits are those that are available only to older people – namely, the state pension, pension credit, over 75s TV licence and winter fuel payments.

** The state pension age for men was age 65 in 2013; it was slightly lower, but rising, for women. (Source: Department for Work and Pensions, 'State pension age timetable', 15 May 2014, retrieved 22 April 2021, www.gov.uk/government/publications/state-pension-age-timetable/state-pension-age-timetable)

Less is spent on housing benefit in Scotland than in England for two reasons. First, rents are on average lower in Scotland than in England. Second, a greater fraction of those in receipt of housing benefit in Scotland live in social, rather than private, rented accommodation – and social rents are on average lower than private rents.[12] This is facilitated by the Scottish government choosing to spend more than the other three nations on building and maintaining social and local authority housing.

The higher level of spending in Scotland on sickness and disability related benefits (which are 28.9% higher per person than in England) is consistent with higher reported rates of ill health and disability in Scotland than in England. For example, in 2013/14, 21% of people in Scotland said they had a disability, compared to 19% in England.[13] However, the higher prevalence of disability does not seem enough in itself to explain the much higher level of disability related benefit payments. A further part of the explanation seems to lie in the strength of local labour markets. As researchers from Sheffield Hallam University have documented, the employment rate of those with work-limiting disabilities is much lower in former industrial areas of the UK (including parts of Scotland) where local labour markets remain weaker than in the south and east of England. "This pattern is exactly what could be expected as a result of the diversion of men and women on to incapacity benefits in areas where jobs are harder to find."[14]

Figure 7 **Percentage difference in spending per person on types of benefits in 2013/14 (100% = same spending per person as in England)**



Source: IfG analysis of DWP, *Benefit expenditure and caseload tables*, 18 January 2021; HMRC, Disaggregated tax and NICs receipts, 20 December 2019; NI Social Security Agency, *Annual report and accounts*, 3 July 2014; NI Housing Executive, *Annual report*, 11 September 2014; ONS mid-year population estimates. Old-age benefits includes state pension, pension credit, over 75s TV licences, and winter fuel payments. Sickness and disability benefits include Attendance Allowance, Carer's Allowance, Disability Living Allowance, Employment and Support Allowance, Incapacity Benefit, Industrial Injuries Disablement Benefit and Personal Independence Payment.

People in Wales are older and more of them live with a disability

Spending on benefits in Wales is higher than in England or Scotland, driven by larger numbers of old people and higher prevalence of ill-health disability. But total spending on benefits is reduced somewhat by there being fewer children and lower rents for those on housing benefit.

Spending on old-age benefits is higher in Wales – an average of £1,771 per person – than in any of the other nations. But this is more than explained by the larger proportion of older people in Wales. Spending on old-age benefits is actually slightly lower per person aged 65 and over in Wales than anywhere else in the UK. Wales and the South West of England have larger inflows than any other parts of the UK of people in their fifties and sixties, who move there to retire. In contrast, Wales experiences a net outflow each year of people in their twenties, who move elsewhere to study and work.

The reverse plays out for spending on child benefit. As Figure 6 shows, Wales appears to spend marginally less per person on child benefit than in England. However, taking account of how many fewer children there are in Wales than in England, it turns out that slightly more is spent per child in Wales than in England.[*]

Spending on disability related benefits in Wales was 48.9% higher per person than in England. The reasons for this are similar to those outlined above for Scotland. The prevalence of reported disability is even higher in Wales than in Scotland[15] and a large fraction of disability claimants are concentrated in the former industrial areas of South Wales[16].

The amount spent on housing benefit per person in Wales is much lower than in England – at £364 per person, rather than £444. This is more than explained by lower rents in Wales than in England.[17]

Northern Ireland's population is the youngest but poorest

Of all the four nations of the UK, Northern Ireland has the youngest population, with more children and fewer pensioners. These demographics largely explain why more is spent on child benefit and less on old-age benefits per person in Northern Ireland than elsewhere in the UK. In fact, spending on old-age benefits is higher per pensioner in Northern Ireland than anywhere else in the UK.

Spending on tax credits and working age means-tested benefits is higher in Northern Ireland than elsewhere, reflecting lower average incomes and lower employment rates.[18] The low employment rate in Northern Ireland reflects high levels of economic inactivity, rather than high unemployment – in fact, unemployment is lower in Northern Ireland than in the other nations. Tackling the high rates of economic inactivity in Northern Ireland has consistently been included in the Northern Ireland executive's Programme for Government. A large fraction of those who are inactive report being unable to work because of a disability. This high rate of disability related

* Since April 2013, child benefit has been withdrawn from people who earn more than £50,000. Since average earnings are higher in England than in Wales, this is likely to explain why average child benefit payments per child are higher in Wales than in England. The same is true for Northern Ireland.

benefit claiming (evident in Figures 6 and 7) is a long-standing feature of Northern Ireland. However, measures of ill-health and disability in England and Northern Ireland do not suggest there should be anything like the current disparity in disability related benefit claims.[19] The explanation for the high rates of disability benefit recipiency in Northern Ireland remains unclear, although the weak Northern Irish labour market could provide part of the explanation.

Public spending relative to the size of the economy

Were any of the nations of the UK to want to leave the union, the amount of money they could afford to spend on public services and benefits would depend on the size of their economy. It is therefore useful also to consider how the cash figures outlined above relate to the size of each of the four economies. Figure 8 does this for the four nations of the UK and shows a rather different picture – in terms of which of the nations look like the biggest spenders – to the cash comparison above.

Figure 8 shows that, in 2018/19, public spending in England amounted to 37.8% of GDP – the lowest share across any of the four nations. While Scotland ranked second highest in terms of cash spending per head – ahead of Wales but behind Northern Ireland – it ranks second lowest when we instead look at spending as a share of the economy. This is because its GDP per head is substantially higher than Wales's, in part because of the oil and gas output from the North Sea.[*] Public spending in Scotland in 2018/19 – well before the Covid pandemic pushed spending up further – amounted to 45.2% of GDP, compared to 56.4% in Northern Ireland and 56.8% in Wales.

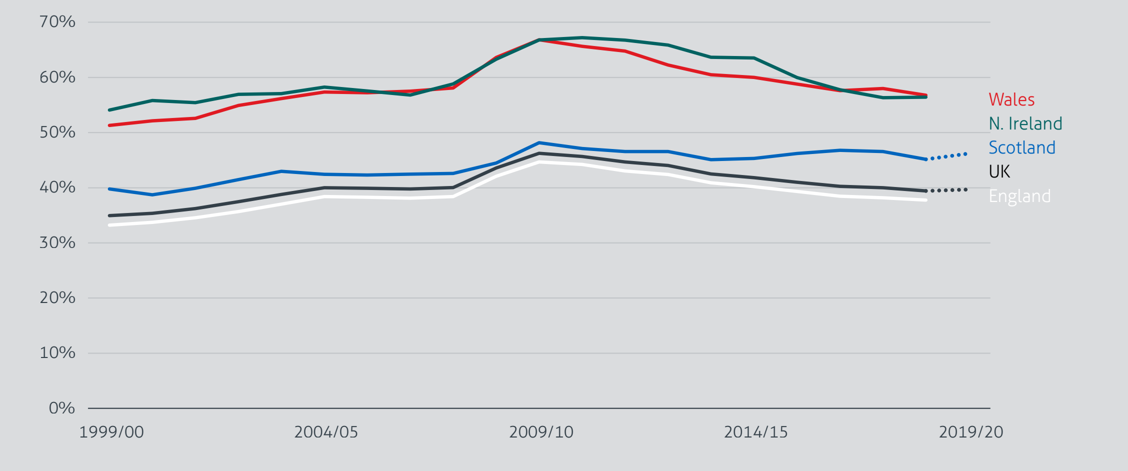
The UK ranks towards the bottom among other advanced economies in terms of public spending as a share of GDP. Figures from the OECD, which use a slightly different measure of public spending to that described here, indicate that the UK government spent 41.1% of GDP in 2018.[20] Some nations like South Korea and Switzerland spend substantially less – at just over 30% of GDP – but some other European nations spend much more. The highest spending nation in the OECD in 2018 was France, which spent 55.7% of GDP – but even this would be below the figures implied above for Wales and Northern Ireland.

The gap on this measure between England, Wales and Northern Ireland has been fairly consistent over time. Between 2009/10 and 2018/19, spending in England, Wales and Northern Ireland fell markedly – both the real terms spend per person (as shown in Figure 2) and as a share of national income (as shown in Figure 8) – as a result of a concerted effort by the UK government to reduce the UK's deficit. However, the same is not true for Scotland because of variation from year to year in the size of the Scottish economy, driven by fluctuations in the amount of economic output from the North Sea – in particular, North Sea output fell sharply between 2013/14 and 2016/17 and has recovered only partially since then. Between 2013/14 and 2015/16, the overall size of

* Scotland's onshore GDP per capita in 2018/19 was 24.3% higher than Wales's. This gap increased to 33.1% with the inclusion of output from the North Sea.

the Scottish economy shrank by 1.3% in nominal terms before growing by 11.8% over the following three years. In contrast, the English economy grew by 8.0% between 2013/14 and 2015/16 before then also growing by 11.8% between 2015/16 and 2018/19.*

Figure 8 **Public spending as a percentage of GDP across the UK**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS and Scottish government GDP figures (see Methodology). 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

* GDP growth figures for Scotland are based on our analysis of ONS GDP figures (see Methodology). GDP growth figures from the Scottish government's Quarterly National Accounts differ slightly, suggesting a 2.3% nominal fall between 2013/14 and 2015/16, and a 13.1% increase between 2015/16 and 2018/19. Overall GDP growth between 2013/14 and 2018/19 is similar for the two sources: 10.3% for our modelled ONS figures and 10.5% for QNAS.

How much revenue is raised from different parts of the UK?

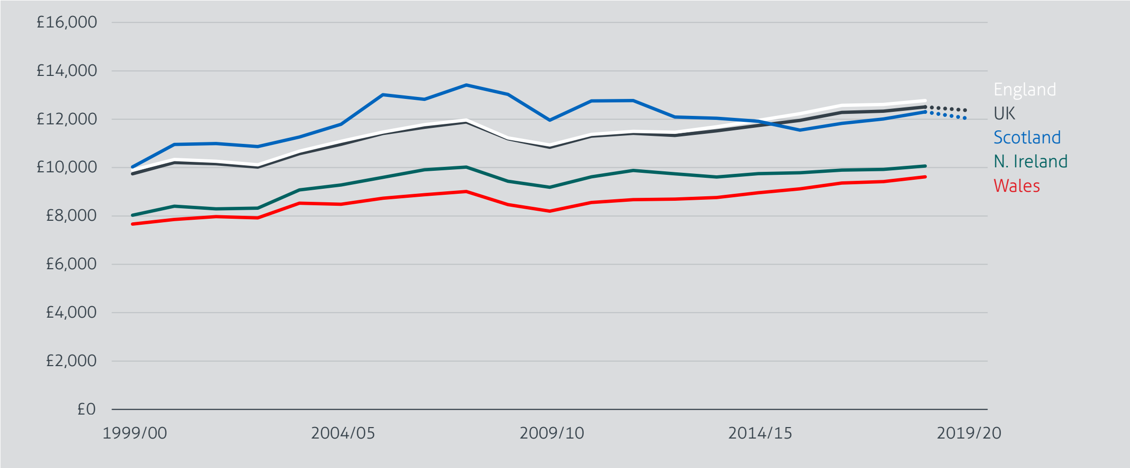
In 2018/19, the UK government raised a total of £831.1bn from taxes and other sources, such as interest on assets and the operating profits of public corporations. This equated to an average of £12,510 per person in the UK – of this, £19 comes from taxing the extraction of oil and gas from the North Sea. The amount of revenue raised varies substantially across the four nations of the UK. Average per capita revenues are highest in England (£12,773) and lowest in Wales (£9,619), as Figure 9 shows, although Scotland topped the rankings up to 2013/14 because of high revenues from North Sea oil and gas extraction in those earlier years.

Most tax policy is controlled by the UK government so differences in revenue raised across the four nations mainly reflect differences in the tax bases in each, rather than differences in policy design. There are some exceptions, however. Locally levied taxes (namely council tax, business rates and – in Northern Ireland – domestic rates) are set locally and are affected by decisions made by the devolved governments: for example, council tax rates were frozen in Scotland from 2007/08 onwards, well before a similar policy was implemented in England. The Scotland Act 2012 and Scotland Act 2016 also granted the Scottish government some powers over income tax charged on non-savings, non-dividend income of Scottish residents,* as well as giving it full control over taxes on land transactions and waste disposal to landfill. The Scottish government now levies five rates of income tax – ranging from 19% to 46%, rather than the 20%, 40% and 45% rates charged in England.** The Wales Acts of 2014 and 2017 granted the Welsh government control over taxes on land transactions (from April 2019) and waste disposal to landfill (from April 2018), as well as the power to set Welsh rates of income tax (from April 2019). Finally, the Northern Ireland executive sets rates for air passenger duty on long-haul flights originating in Northern Ireland – this is currently set at zero.

* Between 1999 and 2015, the Scottish government had the power to change the basic rate of income tax by up to three percentage points but it never made use of this power. After that it was granted control over all income tax rates and bands (though not allowances) for non-savings, non-dividend income.

** Most people in Scotland pay slightly less income tax than they would pay in England but higher earners pay more and this is sufficient to mean that the Scottish income tax system raises more revenue than it would if it matched the rest of the UK's income tax system.

Figure 9 **Revenue per person across the UK (2019/20 prices)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS mid-year population estimates; HMT GDP deflators from December 2020. 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

The pattern of growth in revenues over time looks broadly similar for England, Wales and Northern Ireland: revenues grew until 2007/08, then fell during the financial crisis, before starting to grow again. Before the pandemic, per capita revenues were higher in real terms in all three nations than they had been before the financial crisis – substantially so in the case of England and Wales.

A very different pattern has been seen for Scotland, however, where per capita revenues remained well below their pre-financial crisis peak even before the pandemic. This is explained by the collapse in revenues from the North Sea, resulting from lower oil prices and higher costs for decommissioning, which can be offset against current and past profits. In 2008/09, the UK government received £10.6bn (in cash terms) in revenues from the North Sea. The vast majority of this (£8.9bn) was estimated to have been generated by oilfields that were apportioned to Scotland by the Scottish Adjacent Waters Boundaries Order 1999. As a result, revenues per person in Scotland exceeded those of any of the other UK nations.[*] In 2008/09, North Sea revenues made up 16.0% of all revenues attributed to Scotland.

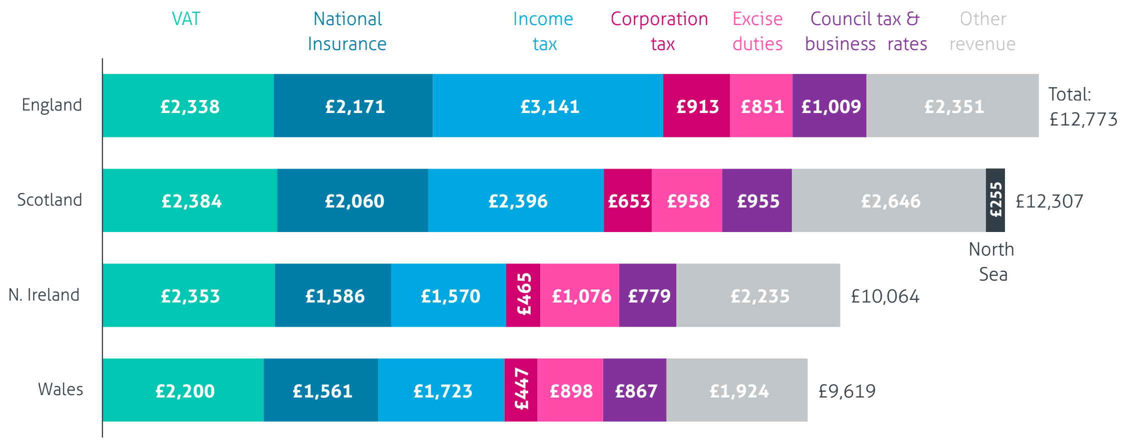
But by 2015/16, these revenues had been wiped out, before then recovering slightly to generate £1.2bn for the UK government in 2018/19 (in cash terms). This much lower level of revenues from the North Sea means that Scotland is now estimated to generate slightly lower revenues per person than England. North Sea revenues now make up just 2.1% of all revenues for Scotland. What revenues will be generated in future is uncertain and will depend on future oil prices as well as the costs of extracting what remains of the North Sea's oil reserves. However, the latest forecasts from the Office for Budget Responsibility (OBR), the UK's independent fiscal watchdog, show these revenues declining again to only £200m a year by 2024/25.[1]

* For a longer history of the tax revenues raised from North Sea oil and gas extraction, see Figure 3 of Adam S, Johnson P and Roantree B, *Taxing an Independent Scotland*, Institute for Fiscal Studies, 2013, retrieved 22 April 2021, www.ifs.org.uk/publications/6912

As part of the union, these fluctuations in North Sea revenues have no impact on levels of public spending, since that is determined by the Barnett formula and the UK-wide benefits system. As an independent nation, a Scottish government could also have chosen to smooth out the revenue fluctuations by saving revenues in good years and borrowing more in lean years. In its 2018 report, the Sustainable Growth Commission – which was established by the first minister and Scottish National Party (SNP) leader, Nicola Sturgeon, to assess projections for Scotland's economy and public finances under independence – suggested that, post-independence, oil revenues should be saved in a 'fund for future generations' to invest in intergenerational projects. However, ahead of the 2014 referendum, the Scottish government promoted the idea of independence in part by highlighting that its forecasts – which assumed that continued high oil revenues would more than offset higher Scottish public spending – suggested Scotland's deficit would be lower than the UK's.[2]

One of the reasons that North Sea revenues have been so low in recent years has been the high costs of decommissioning oil rigs, which are offset against taxable profits. All the figures outlined here effectively attribute these costs of decommissioning to Scotland, depressing the revenues apparently raised from activity in Scotland's waters. One of the arguments made by those in favour of Scottish independence is that these costs should be met post-independence by the UK, rather than Scotland, while the revenues from future extraction should go to Scotland. This would be subject to negotiation with the rest of the UK. The argument in favour of such an arrangement is that the entire UK has benefited from the tax revenues raised from oil and gas production in the North Sea and so the entire nation should bear the costs of decommissioning the rigs. Were it to happen, it would increase Scotland's revenues and increase the rest of the UK's spending commitments.

Figure 10 **Breakdown of revenue per person across the UK in 2018/19 (2019/20 prices)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; ONS mid-year population estimates; HMT GDP deflators from December 2020. Excise duties include fuel duties, tobacco duties, alcohol duties, vehicle excise duties, and the soft drinks industry levy.

The big three taxes are important in all four nations

The same big three taxes – income tax, National Insurance contributions (NICs) and VAT – make up the majority of revenues from all four nations. These taxes account for between 54.7% of all revenues in Northern Ireland and 59.9% in England. However, the ranking of the taxes differs, reflecting differences in income and spending patterns across the nations.

Income tax is, by some margin, the single largest revenue generator in England. But it raises around the same amount per person as VAT in Scotland, and VAT is the single most important in Wales and Northern Ireland. In England, income tax generates £803 more revenue per person than VAT, while in Scotland it raises only £13 more, and in Wales and Northern Ireland it raises £477 and £783 less respectively.

Of the two main taxes on income, there are also revealing differences between the four nations. In England, income tax raises 45% more revenue than NICs, while in Scotland and Wales the difference is 16% and 10% respectively, and in Northern Ireland NICs raise 1% more than income tax. The comparison between Scotland and England is particularly interesting in this case, since median incomes are similar in the two nations.[3] Each of these two nations raises a similar amount per person from NICs – £2,171 in England and £2,060 in Scotland. However, Scotland raises significantly less from income tax than England (£2,396 per person, compared to £3,141), even though the Scottish government has used its powers over income tax to put in place a system that raises more revenue than it would if Scotland emulated England's income tax schedule.

This apparent puzzle is explained by differences in the distribution of incomes in Scotland and England. Median incomes are similar in the two nations but mean income is higher in England, implying that there are more very high income people in England than in Scotland. Income tax is a strongly progressive tax – that is, marginal rates rise with income and so higher income individuals pay a larger share of their income in tax. This means that, for a given amount of income received by residents, more tax will be raised if this income is unequally distributed than if it is equally distributed. In contrast, the marginal rate of NICs is lower for high earning people than low earning taxpayers, as a result more revenue will be raised through NICs if earnings are more evenly distributed. Also, people start to pay NICs at a lower level of earnings than income tax so there are some low earning people who will pay some NICs but not income tax.

The reason Scotland raises so much less in income tax, therefore, despite raising almost as much through NICs, is that incomes are somewhat more evenly distributed in Scotland. Nine per cent of England's adult population had an income above the higher rate income tax threshold in 2018/19 (that is, above £46,350 in 2018/19 prices), including 0.9% of adults having incomes above £150,000.

In Scotland, a slightly smaller 8.2% of the adult population had income above the higher rate threshold (which was lower in Scotland, at £43,430), with 0.4% of the adult population above £150,000.[*]

Taxes on alcohol and tobacco raise more in Northern Ireland and Scotland

VAT, which is a tax on purchases of goods and services, generates slightly more revenue per person in Scotland and Northern Ireland than in England. However, there are even more marked differences in revenues from taxes on some specific goods (referred to as excise duties) – in particular, taxes on alcohol and tobacco – which raise more in the devolved nations, with the largest amount of revenue generated in Northern Ireland.

Smoking is more common in Northern Ireland, Wales and Scotland (where 15.6%, 15.5% and 15.4% respectively of the adult population smoked in 2019) than in England (13.9%).[4] With more people smoking – and smoking more – in Northern Ireland, tobacco duties there generated £291 per person, compared to £206 in Scotland, £167 in Wales and just £128 in England.

Alcohol duties are highest in Scotland (£197 per person) and lowest in Wales (£162 per person), with England and Northern Ireland in the middle (on £187 and £189 respectively). The differences between the nations reflect both differences in the amount of alcohol consumed and differences in the type of alcohol consumed. The latter matters because some types of alcohol are taxed more heavily than others, with cider taxed least heavily per unit of alcohol and spirits taxed most heavily.[5]

Welsh people on average consume less of all forms of alcohol except cider than those in England. People in Scotland and Northern Ireland consume less cider, wine and beer than people in England but more spirits.[**] Higher alcohol consumption[6] and this preference for the most heavily taxed form of alcohol explains why alcohol duties generate more revenue per person in Scotland and Northern Ireland.

Capital taxes raise much more in England

One area where taxes in England raise notably more than equivalent taxes in the other three nations is taxes on capital gains, assets and transfers of assets – including capital gains tax, inheritance tax, and stamp duty and its equivalents in Scotland and Wales. In 2018/19, capital taxes[***] generated a total of £467 per person in England, but just £241 in Scotland, £167 in Wales and £117 in Northern Ireland. In part this reflects the fact that property and assets in England – particularly in London and the South East

* Authors' calculations based on figures from Table 2.2 of HM Revenue and Customs, 'Income tax statistics and distributions', 26 June 2021, retrieved 22 April 2021, www.gov.uk/government/collections/income-tax-statistics-and-distributions; Office for National Statistics, 'Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland', 24 June 2020, retrieved 22 April 2021, www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland.

** Authors' calculations based on HM Revenue and Customs, 'disaggregation of HMRC tax receipts', 20 December 2019, retrieved 22 April 2021, www.gov.uk/government/statistics/disaggregation-of-hmrc-tax-receipts

*** This includes capital gains tax, stamp duty land tax (and its equivalents in Scotland and Wales), stamp duty on shares, inheritance tax, and the annual tax on enveloped dwellings.

– tend to be worth more than those in the other three nations. Capital gains are also concentrated among very high income people,[7] more of whom live in England than elsewhere in the UK.

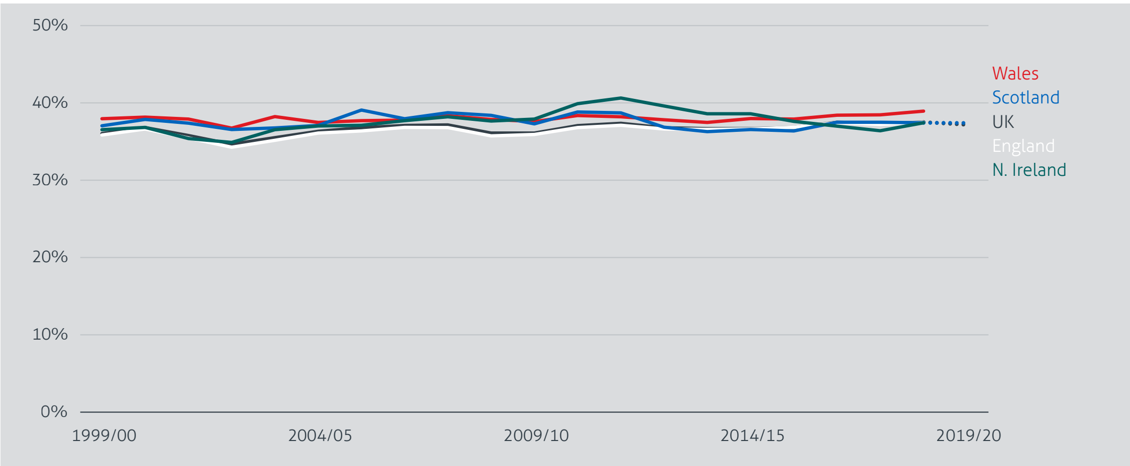
Stamp duty land tax, for example, is charged on the purchase of properties in England and Northern Ireland. The tax has a progressive structure, meaning that a greater percentage is paid on the value of more expensive properties. In 2018/19, residential properties that changed hands were worth on average £294,000 in England but just £148,000 in Northern Ireland. In London, the average value of properties that changed hands was £565,000 (with all figures given in cash terms).[*]

Revenues as a share of national income

If we look at the revenues generated by each nation as a share of their GDP, the nations appear much more similar to one another than when looking at the cash figures. While revenues are lowest in cash terms per person in Wales, it is the nation that generated the highest level of revenues relative to the size of its economy in 2018/19. In that year, revenues generated in Wales amounted to 38.9% of Welsh GDP, compared to 37.5% in England and 37.4% in both Scotland and Northern Ireland. The ranking of the four nations has varied from year to year over the past 20 years.

Although Figure 11 suggests there is remarkable consistency over time and across the nations of the UK in the share of GDP taken in tax revenues, there is substantial variation in this across other countries. Figures from the OECD, which use a slightly different definition of revenues to that described here, suggest that the UK government received revenues worth 38.8% of GDP in 2018, while some countries like the US raised substantially less (31.6%) and others like Sweden, Denmark, Belgium, Finland and France all raised over 50% of GDP.[8]

Figure 11 **Revenues as a percentage of GDP across the UK**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS and Scottish government GDP figures (see Methodology). 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

* Authors' calculations based on Table 3a of HM Revenue and Customs, 'UK stamp duty statistics 2019 to 2020', 30 October 2020, retrieved 22 April 2021, www.gov.uk/government/statistics/uk-stamp-tax-statistics. HMRC figures include only residential properties sold for at least £40,000.

What is the deficit in each of the four nations?

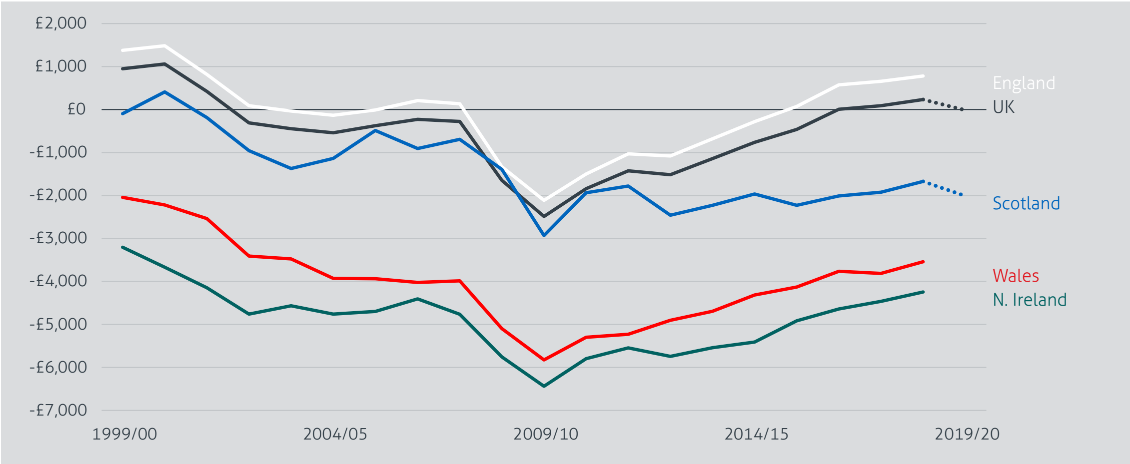
Combining the figures for spending and revenues presented in the previous sections allows us to construct the fiscal balance of each of the four nations – in other words, what the gap is between the spending that people in each nation currently enjoy and the taxes they pay. Were Scotland or Wales to become independent, the newly independent government would have complete freedom to change tax, spending and other economic policies. Similarly, were Northern Ireland to unite with the Republic of Ireland, its tax, spending and other economic policies could change. However, the current settlement should serve as the basis for thinking about these choices, since UK residents are used to paying the current range of taxes and to benefiting from the current scope and quality of services and the social security system.

We start by looking at the primary balance in each nation – that is, total revenues less non-debt interest spending. There has been some debate about how much, if any, of the UK's already accrued debt would need to be serviced in future by an independent Scotland,[*] and similar debates may arise if either Wales or Northern Ireland were to face a vote on secession from the UK. It is, therefore, useful to start by examining each nation's fiscal balance, abstracting from these debt interest payments.

In 2018/19, the UK ran a small primary surplus, as Figure 12 shows. However, the only one of the four nations to run a primary surplus in its own right was England, where this amounted to £43.7bn, or £781 per person. The primary deficit was £1,671 per person in Scotland, £3,540 per person in Wales and £4,246 per person in Northern Ireland. To put these figures into perspective, they amount to roughly the entire education budget in Scotland, almost as much as the combined health and education budgets in Wales, and a bit more than the combined total of these two budgets in Northern Ireland.

* The Sustainable Growth Commission pointed to the Treasury's 2014 statement: "In the event of Scottish independence from the United Kingdom (UK), the continuing UK Government would in all circumstances honour the contractual terms of the debt issued by the UK Government" (Part B, page 15 of Sustainable Growth Commission, *Scotland – the new case for optimism: A strategy for inter-generational economic renaissance*, 2018, retrieved 22 April 2021, www.sustainablegrowthcommission.scot/report). However, the same Treasury document went on to say: "An independent Scottish state would become responsible for a fair and proportionate share of the UK's current liabilities" (HM Treasury, *UK debt and the Scotland independence referendum*, 2014, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/270643/uk_debt_and_the_Scotland_independence_referendum.pdf).

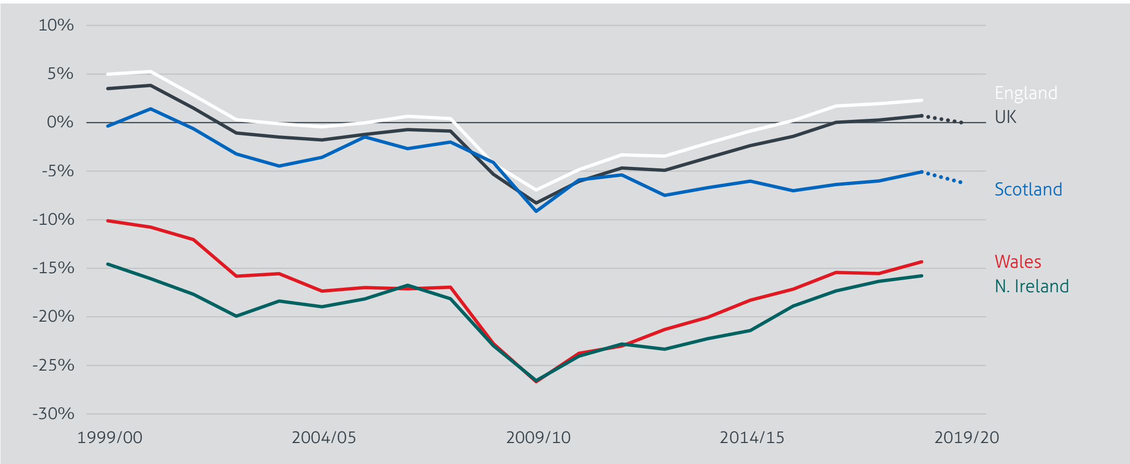
Figure 12 **Primary balance per person across the UK (2019/20 prices)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS mid-year population estimates; HMT GDP deflators from December 2020. 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

Expressed as a share of GDP, as shown in Figure 13, England's primary surplus amounted to 2.3% of GDP. This compares to a primary deficit of 5.1% of GDP in Scotland, 14.3% in Wales and 15.8% in Northern Ireland.

Figure 13 **Primary balance as a percentage of GDP across the UK**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS and Scottish government GDP figures (see Methodology). 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

Adding in spending on debt interest payments turns the UK's primary surplus in 2018/19 into an overall deficit of 1.8% of GDP. Allocating debt interest spending equally across every person in the UK implies that each of the four nations ran an overall deficit in that year – ranging from £91 per person in England to £5,118 per person in Northern Ireland, as Figure 14 shows.

It is not essential for countries to run surpluses every year – or, indeed, at all. The UK government has run a surplus in only 12 of the years since the end of the Second World War. Countries typically grow from year to year and so can afford to borrow some money now since the burden of repaying that debt will be lighter in future when the economy is larger.[*] There are some very good reasons for countries to borrow some money every year – for example, to invest in better infrastructure and education, which should improve growth prospects and benefit future generations.

However, there is a limit to how much countries can do this without debt rising inexorably – and thus unsustainably – relative to the size of the economy. Figure 15 shows that Scotland had a deficit of 7.7% of GDP in 2018/19 and that this widened further in 2019/20 (when some of the costs of Covid had started to impact on the public finances). In its 2018 report, the SNP's Sustainable Growth Commission concluded that "a 6-7% fiscal deficit [which it calculated at the time was the position likely to face a newly independent Scotland in 2021/22] is not sustainable and action will be required to reduce it to more sustainable levels".[1] The commission suggested that an independent Scotland should seek to cut borrowing to around 3% of GDP within five to ten years of independence.[2]

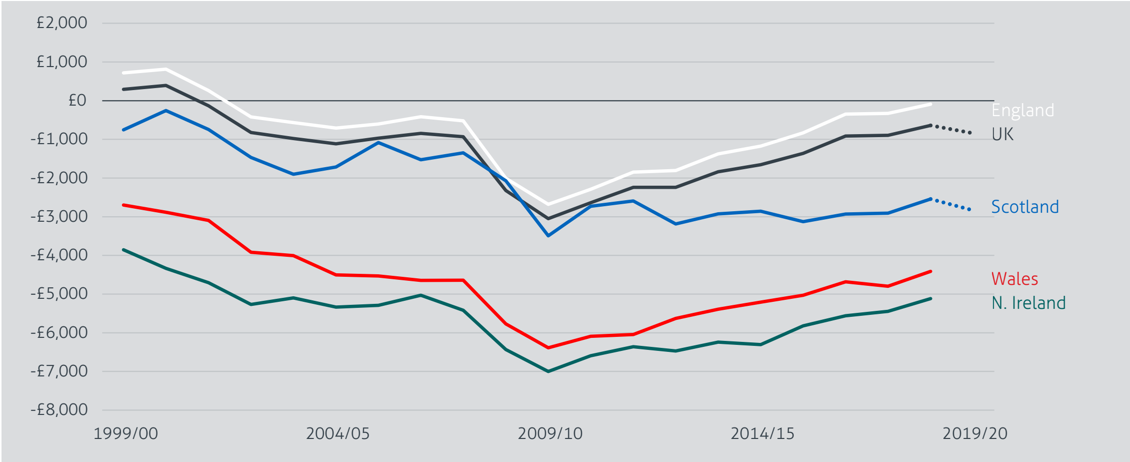
The position for Wales is even weaker, with a larger gap in cash terms between spending and revenues and lower GDP per head meaning that the Welsh deficit in 2018/19 stood at 17.9% of GDP. This would certainly not be sustainable. As researchers from Cardiff University have put it: "Under any arrangements, Wales' fiscal…deficit would need to be addressed. Whether that economic adjustment is made through fiscal policy alone, or through a mixture of fiscal, monetary and exchange rate adjustment, it would ultimately require lower consumption of goods and services in Wales than is currently the case."[3]

The overall deficit attributable to Northern Ireland in 2018/19 amounted to 19.0% of its GDP. Were Northern Ireland to unite with the Republic of Ireland, it could then benefit from transfers from the south, as East Germany did when it reunited with West Germany. However, the Republic of Ireland's economy is much smaller than that of Great Britain, meaning that financing the current level of transfers to Northern Ireland would be a much greater burden. In 2018/19, £9.4bn more was spent (in cash terms) for the benefit of people in Northern Ireland than they paid in taxes. This subsidy equated to 0.4% of the economy of Great Britain but around 5% of the Irish economy.[**] It is unlikely that the rest of Ireland could afford for long to finance subsidies on this scale.

* The UK's national debt amounted to over 250% of national income at the end of the Second World War. By 1972/73, it had fallen to less than 50% of national income – not because successive UK governments had run surpluses to pay off the debt, but rather because the UK economy had grown so much in nominal terms that the outstanding debt was worth far less compared to the size of the economy. (Source: Office for Budget Responsibility, 'Public finances databank – March 2021', 23 March 2021, retrieved 22 April 2021, https://obr.uk/download/public-finances-databank-march-2021-2)

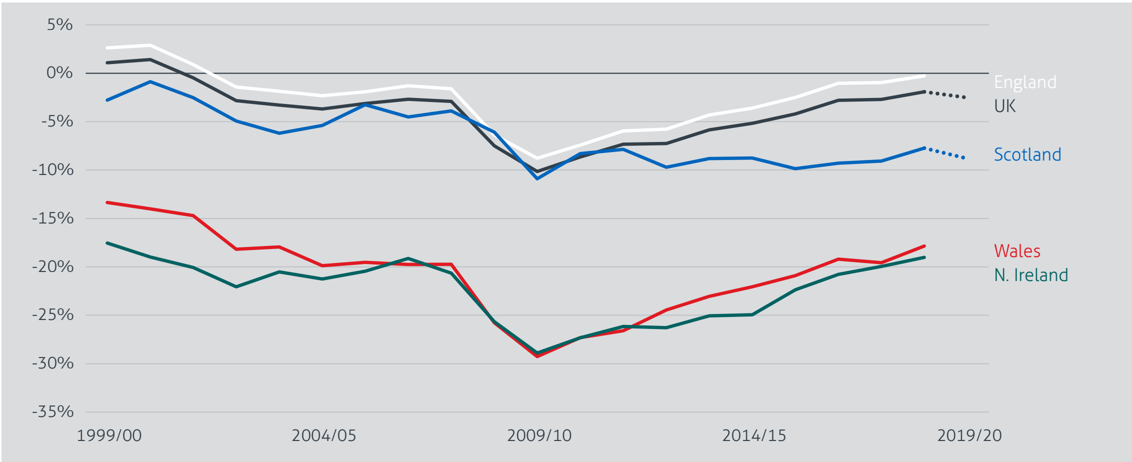
** Authors' calculations based on estimates of Ireland's modified gross national income (www.cso.ie/en/releasesandpublications/in/nie/in-mgnicp) and the sterling/euro exchange rate from mid-2018.

Figure 14 **Public sector deficit per person across the UK (2019/20 prices)**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS mid-year population estimates; HMT GDP deflators from December 2020. 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

Figure 15 **Public sector deficit as a percentage of GDP across the UK**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; Scottish government, *Government Expenditure and Revenue Scotland*, 26 August 2020; ONS and Scottish government GDP figures (see Methodology). 2019/20 figures for Scotland and the UK are based on working out the percentage change between 2018/19 and 2019/20 figures in GERS 2020, and applying this percentage change to the ONS figures for 2018/19.

How have the nations' fiscal positions changed since 2018/19?

The fiscal position of the UK has worsened since 2018/19 because of the coronavirus pandemic. The UK public sector deficit grew from 1.8% of GDP in 2018/19 to 14.5% in 2020/21, as public spending ballooned and the economy contracted. The OBR currently predicts that coronavirus will not be merely a temporary issue for the UK but leave a lasting legacy of weaker economic performance and public finances. The OBR's latest forecast suggests that UK borrowing will return to 2.8% of GDP by 2025/26 but only as a result of tax increases and further cuts to some areas of public service spending over the next few years, which are planned by the UK government. This includes an increase in the main rate of corporation tax and a tight settlement for many areas of public services over the next five years.[1]

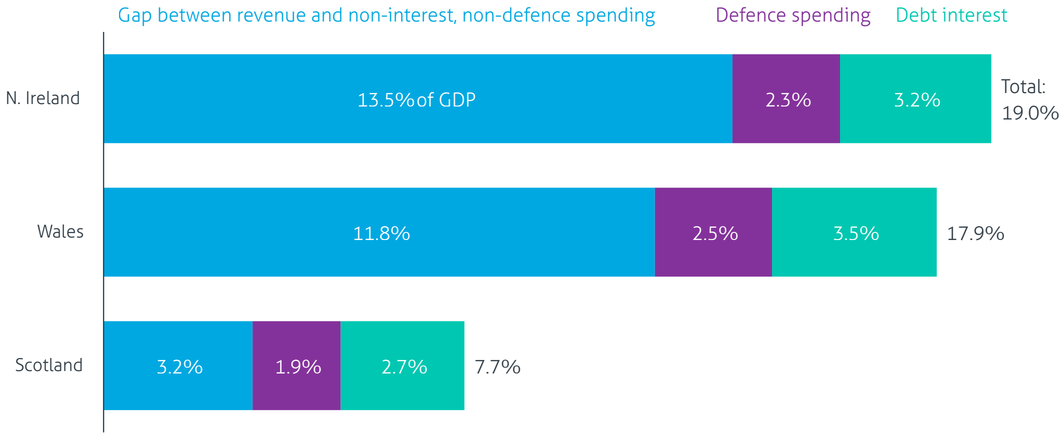
It is beyond the scope of this report to try to estimate what is likely to have happened to the economic and fiscal outlook for the four nations of the UK. However, the OBR analysis implies that their underlying fiscal position will be weaker in future than it was in 2018/19, even after planned UK-wide tax rises and spending cuts.[*]

* The latest forecasts from the Scottish Fiscal Commission suggest that Covid-19 will leave the Scottish economy and public finances weaker than was expected before the pandemic. (Scottish Fiscal Commission, *Scotland's Economic and Fiscal Forecasts*, Scottish Fiscal Commission, 2021, retrieved 22 April 2021, www.fiscalcommission.scot/forecast/scotlands-economic-and-fiscal-forecasts-january-2021/). The *Financial Times* recently estimated that an independent Scotland would have a deficit of 9.9% of GDP in the middle of this decade (Giles C and Dickie M, 'Independent Scotland would face a large hole in its public finances', *Financial Times*, 2 April 2021, retrieved 22 April 2021, www.ft.com/content/ff6c0f6b-2d65-4a4e-bbba-878e2260cf3e).

Conclusion

In 2018/19, public sector net borrowing totalled 1.8% of GDP in the UK. But the implicit deficit of the four constituent nations of the UK varied substantially. Allocating responsibility for debt interest spending and all international and defence spending evenly across the UK population suggests that England ran a deficit of just 0.3% of GDP, while Scotland had a deficit of 7.7%, Wales of 17.9% and Northern Ireland of 19.0%, as Figure 16 shows. All four nations' fiscal positions have deteriorated since then because of Covid and the effects of that on the public finances could be lasting.

Figure 16 **Breakdown of the public sector deficit as a percentage of GDP in 2018/19**



Source: IfG analysis of ONS, *Country and regional public sector finances*, 19 December 2019; ONS and Scottish government GDP figures (see Methodology).

There are many reasons why the people of Scotland or Wales might want to seek independence from the UK, and why the people of Northern Ireland might want to be part of a united Ireland. However, one cost of doing so would be that they would no longer be able to benefit from the redistribution of resources that currently takes place across the UK.

These transfers have been facilitated in some years by the UK government's ability to borrow large amounts of money at very low interest rates. An independent Scotland or Wales would be unlikely to be able to borrow as cheaply as the UK currently can. Smaller countries often pay a debt interest premium over bigger countries because their bond markets are less liquid. A new country would also not have the track record with markets and, depending on its currency arrangements, might not have a central bank that could act as a credible lender of last resort.[1] Independent estimates at the time of the 2014 Scotland independence referendum placed the likely premium of Scottish bonds over UK bonds at one to two percentage points.[2]

As part of a reunited Ireland, the north could benefit from transfers from the south. However, the Republic of Ireland's economy and total tax revenues are far smaller than those of Great Britain, meaning that it would place a greater burden on the rest of Ireland to match the current scale of transfers to the north. Each of the nations would, therefore, likely need to go some way towards closing the gap between the revenues they generate and their levels of public spending.

There is some uncertainty and disagreement about exactly how large a deficit Scotland, Wales or Northern Ireland would have if any of them left the union. There is obviously uncertainty about how each of the economies will perform between now and some potential future date of secession. But there is also disagreement about some of the decisions that the exiting nations might make and about the outcome of exit negotiations with the remainder of the UK. Three main factors have provoked debate:

- **Historic UK debt:** Figure 16 shows the deficit of each nation assuming an equal per capita distribution of debt interest spending. However, a nation seceding from the UK could attempt to take on a smaller share of this burden – for example, when the southern part of Ireland left the UK in 1922, the Irish Free State ultimately did not take on any of the UK's existing debt.[3] The SNP's Sustainable Growth Commission has suggested an independent Scotland should also not necessarily take on a population share of debt and Sinn Fein has suggested that Northern Ireland would leave with no debt. This would have to be the subject of negotiation with the remainder of the UK.

- **Defence and overseas spending:** The figures outlined above allocate to each nation all the spending that is deemed to be done on its behalf. However, after secession these nations may choose to spend less on some of these areas. A notable example is defence – the UK spends a relatively large amount on this by international standards. The SNP's Sustainable Growth Commission suggested that an independent Scotland would cut defence spending by 0.4% of GDP, to 1.6% of GDP.[4] Commentators in Northern Ireland have also noted that a united Ireland would not need to replicate UK defence spending.[5,6] Were an independent Wales to continue to spend the same amount per capita as the UK does, it would imply Wales spending 2.5% of its GDP on defence – well above the 2% Nato target. Sinn Fein has also suggested that a united Ireland would not need to replicate the UK's other overseas spending, which currently amounts to 0.7% of Northern Irish GDP, if allocated on a per capita basis.[7] In contrast, the SNP's Sustainable Growth Commission suggested that an independent Scotland would want to increase the share of its national income that is spent on overseas aid.

- **Future payments from the rest of the UK:** There are some arguments for the remainder of the UK to make payments in future to meet some of the costs of spending that is classed above as being for the benefit of Scotland, Wales or Northern Ireland. Such payments could reduce the deficit faced by the new country. For example, an independent Scotland could seek support from the rest of the UK for North Sea decommissioning costs since the UK as a whole benefited from the taxes generated by the past extraction of oil and gas. If English pensioners retire to Wales in future, their pension costs could be met by the UK, rather than by the Welsh government (to the extent that those pension rights were accrued after Welsh secession) – just as the UK currently pays the pensions of those who retire abroad. However, Sinn Fein's suggestion that the entire cost of future state pension payments in Northern Ireland should be met by the rest of the UK (including those that have already been built up) because "the people of the North have already accrued pension rights by way of their national insurance contributions" ignores the fact that the UK state pension system works on a pay as you go basis.[8] Again, these settlements would need to be negotiated with the rest of the UK on secession.

Even allowing for these adjustments, however, all three of the smaller UK nations would face a sizeable fiscal deficit if they were to break away from the rest of the UK. This would be particularly true for Wales and Northern Ireland, but Scotland's fiscal position is also markedly weaker now than it was when the last independence referendum was held, in 2014, largely because of the decline in output and revenues from the North Sea.

In principle, both Scotland and Wales could function as independent countries.[*] Similarly, a reunited Ireland could in principle be a vibrant, successful, small open economy. However, there would be difficult fiscal adjustments to be made in the years after secession to address the fiscal imbalances that each currently faces. The pressure to do this would likely be greatest for an independent Wales. An independent Scotland or Wales or a reunited Ireland could pursue different economic policies, which may help to boost economic growth, incomes and tax revenues in future. However, this would be unlikely to happen quickly enough to avoid the necessity for difficult tax and spending choices after secession. The larger the initial fiscal deficit, the more difficult the task. This raises the questions: How would an independent Scotland or Wales address this? And to what extent would the rest of a united Ireland want to continue plugging the gap in the north's finances?

The positions of Wales and Northern Ireland are different from that of Scotland. Wales and Northern Ireland are substantially poorer than the UK average. At the moment, transfers through the tax and benefit system and top-ups to the funding of public services even out those differences in income, boosting living standards in Wales and Northern Ireland. By contrast, Scotland is a wealthier nation than the other two – with average earnings and tax revenues close to those in England – but has for many years enjoyed higher levels of public service spending than in England. Since revenues from North Sea oil and gas extraction started to decline, this higher spending has effectively been subsidised by transfers from south of the border.

* For a more detailed discussion of the options for an independent Wales, see Ifan G, Siôn C and Pool E G, *Wales' Fiscal Future: A path to sustainability?*, Wales Fiscal Analysis, 2020, www.cardiff.ac.uk/__data/assets/pdf_file/0004/1767424/Wales_Fiscal_Future_FINAL.pdf

The level of economic output per person in Northern Ireland is currently below that of the Republic but transfers from the rest of the UK have ensured that the average standard of living in Northern Ireland is close to the UK average and above that of Ireland.[9] Continuing this scale of transfers within a united Ireland would require a cut to spending and/or an increase in taxes elsewhere in Ireland – with a consequent reduction in living standards there.

To reduce their fiscal deficits, Scotland, Wales and Northern Ireland would need to do a combination of three things:

- **Cut spending:** One way to close the gap would be to cut spending back to match revenues more closely. At the moment, public spending makes up about the same share of GDP in Scotland as in Germany but is higher in Wales and Northern Ireland than in any other advanced economy.

- **Raise taxes:** Many European countries generate tax revenues worth a larger share of their GDP than Wales, Scotland or Northern Ireland currently do. To do that, those countries typically raise more from income tax and social security contributions levied on lower and middle earners – rather than extracting more from high income people – than the UK does.[10] The optimal structure of the tax system for an independent Scotland or Wales would likely be different from that for the UK, since these would be smaller, more open economies. This suggests that these newly independent countries may find it harder to raise taxes on 'movable' tax bases, such as companies, internationally mobile people and purchases of goods – since companies would be more able to shift their profits elsewhere, high income people may choose to relocate, and consumers in Wales and Scotland may be more readily able to shop across the border in England.[*] It would instead be easier for them to focus on raising taxes on 'immovable' tax bases, such as land and property.[**] One particular area of uncertainty for an independent Scotland is what revenues might be generated from North Sea activity. These taxes have generated very little in recent years but could recover, particularly if oil prices rise again or new technologies allow easier extraction of the remaining reserves of oil and gas.

* Whether or not consumers could easily shop across the border would depend in part on the future trading relationship between Scotland, Wales and England. See Paun A, Sargeant J, Thimont-Jack M, Shuttleworth K, *Scottish Independence: EU Membership and the Anglo-Scottish Border*, Institute for Government, 2021, retrieved 22 April 2021, www.instituteforgovernment.org.uk/publications/scottish-independence-eu-border

** For a full discussion see Adam S, Johnson P and Roantree B, 'Taxing an independent Scotland', *Oxford Review of Economic Policy*, 2014, vol. 30, no. 2, summer 2014, pp. 325–345.

- **Increase economic growth:** The fiscal arithmetic becomes easier if the economy grows faster – taxes generate more revenue and spending can be squeezed relative to the size of the economy without requiring cash or real terms cuts to spending levels. A major part of the SNP's pitch on independence is that an independent Scottish government could tailor policy to better suit the needs of Scotland and so boost growth.[*] Some have also highlighted potential economic benefits for Northern Ireland of reunification – such as greater foreign investment, if the north adopted the same corporate tax policies as the Republic, and improved trade flows between north and south.[11] However, it could also impose costs – for example, through increasing trade frictions between Northern Ireland and Great Britain. Substantially boosting growth in Scotland, Wales or Northern Ireland would require a reversal of recent patterns of sluggish growth. The history of efforts by past UK governments and others around the world suggests that governments have only limited ability to boost growth and that it takes a long time for the benefits to materialise. In the short-term, the uncertainty and disruption caused by breaking away from an established fiscal, monetary and trading union could drag on growth.

There are many potential benefits that some are attracted to in the idea of an independent Scotland or Wales or a reunited Ireland. There are also a range of discontents with the operation of current UK policies and devolution settlements within the UK, which some feel do not deliver for them. But any decision about seceding from the union must grapple with the reality of the current fiscal position of the UK's constituent nations.

[*] Modelling by the Centre for Economic Performance at LSE, however, suggests that leaving the UK would have a substantial negative impact on Scotland's growth because of the barriers to trade it would throw up with the rest of the UK, even if Scotland rejoined the EU. Any benefits from alternative policies would, therefore, need to offset these costs. Huang H, Sampson T and Schneider P, 'Brexit, trade and Scottish Independence', UK in a Changing Europe, 3 February 2021, retrieved 22 April 2021, https://ukandeu.ac.uk/brexit-trade-and-scottish-independence

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