Preface

We have argued for the last five years that the method of financing spending by the Holyrood government is seriously undermining not only the resilience of the UK as a political entity but also the efficiency of public spending in Scotland, Scotland's rate of economic growth and the strength of the private sector in Scotland. At present the financing method is a bloc grant handed down from Westminster to Holyrood. We note that while a good deal of political support has got behind ideas for tax devolution, much academic opinion remains of the view that the system is working quite well and only a little tinkering is required. Various, usually small, modifications to the present 'command and control' bloc grant system have been suggested. The 'command' element in it is that the Westminster government commands the size of the annual bloc grant, and the 'control' element is that tax devolution (outside of the small 'tartan tax' variance) is ruled out by law. Thus, there have been suggestions to cut the size of the bloc grant by about 10 per cent, or, to link its size to an inverse regional per capita 'gross domestic product' formula, or, a direct per capita social security spending formula, or, to set up 'targets' (equals more 'control') to somehow raise the efficiency of public spending in Scotland, or, to set up a non-partisan grants commission (equals a different 'command' vehicle) that will somehow achieve desired levels of efficiency in public spending.

In this book we set aside all of these suggestions for being, as we have said, just tinkering. Worse than this they will fail because Scotland has a credible threat to secede from the union and, as successive UK governments have recognized, could do so unless compensated with generous public funding. This is all the more so given the increased prominence of the Scottish National Party in government. What we strongly support is a quite different approach, one that would be seen as legitimate in the eyes of a significant fraction of the Scottish electorate.¹ In such a system decision makers, meaning the Scottish voters, their representatives – the Members of the Scottish Parliament, as well as the Scottish Government – take financial responsibility for their spending decisions. That is, they face a hard, or harder, budget constraint than under the present bloc grant system, or, any of the modifications that have been suggested for tinkering with the system. This financial responsibility can only be achieved by devolving responsibility over taxes to Scotland: what we henceforth call

‘tax devolution’. There are of course degrees of tax devolution. One can argue that the ‘tartan tax’ is a small step in this direction. We have in mind greater degrees of tax devolution than this. Although we consider various forms of devolved fiscal systems in this book, we come down firmly in favour of fiscal autonomy in which essentially most if not all revenues raised in Scotland – including North Sea oil revenues – are returned to Scotland. Although this book is not about the economics of independence, which clearly has a much wider remit than the devolution of fiscal powers, we are now of a view that it may take much greater political independence to achieve the fiscal structure in Scotland which we believe is vital for Scotland and the efficient working of its parliament and economy.

Finally, it is worth pointing out that a recent judgment by the European Court of Justice² seems to have established the legality under EU law of tax devolution to Scotland. The ruling was that the Basque Country can have its own tax system as European competition law would not disqualify a region from cutting corporation and other taxes (possibly giving an unfair competitive advantage to firms in the region) if its legislatures already had sufficiently broad legislative competences. Moreover, it is the high court of the respective region that would decide on this latter matter. As Scotland already has its own Parliament, and had one for centuries prior to the Act of Union, it is hard to imagine that Scotland would not be seen as being ‘sufficiently autonomous’ to have its own tax system.

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NOTES

1. See the opinion poll data reported in Chapter 2.
2. Joined Cases C-428/06 to C-434/06, 11 September, 2008.