

Thanks for looking at the Red, white and blue live book.

After pressure from friends I've moved this over to a full blog

<http://rwbblog.blogspot.co.uk/>

You can still find the original book below but most of this is now available on through the above link. Give it a go.

Neil Lovatt



THE
LIVE
RED, WHITE & BLUE
BOOK

**THE FACTS THE NATIONALISTS
WANT TO AVOID**

Don't take any nationalist claim seriously until you've read this.

Introduction

On the 18th of September 2014 Scotland voted to remain in the Union. This followed a relentless campaign which changed the face and future of the country.

During the run up to the vote, whilst managing and analysing a book of bets on the outcome, I witnessed the sacrifice of truth by the yes campaign very early on. As someone who has always worked in finance, I quickly spotted that the Currency Union (CU) proposed by the Yes side was never going to work.

Indeed, it was immediately apparent to me that the CU proposal was simply a device to enable the Yes camp to avoid difficult questions about currency, and ease the way to a yes vote. I guess, when the CU didn't come to pass, the plan was there would be a shrug of the shoulders and the proposal of a new Scottish currency. The electorate would shout and scream about betrayal but the Scottish Government would point to the Edinburgh Agreement about the decision being final and decisive.

I was startled by the cynicism of such an obviously manipulative and deceptive ploy by the SNP, a party that I voted for at Holyrood, and I feared for the consequences of our country when false hope turned to anger and despair.

Little did I know that this was the start of a series of very obvious events and publications that would see truth and reality take a back seat in the name of Scottish nationalism at any price.

I spent the referendum campaign arguing against what I called the pig's breakfast of the White Paper, and pointing out the rather obvious flaws in the "Yessers" arguments. Sadly, since the "No" win. the truth has continued to be sacrificed in the name of nationalism, but now for no other reason than it provides an outlet of a section of the population who cannot accept they lost and prefer to believe they must have been cheated out of victory.

This is where the LIVE RED, WHITE & BLUE BOOK comes in. Here I deal with some of the biggest nationalist memes to be found on social media and explain how they represent the a willful departure from reality.

I can of be contacted on twitter [@neiledwardlovat](https://twitter.com/neiledwardlovat) or on [Google+](https://plus.google.com/+neiledwardlovat) if you have any comments or want to debate any of the sections of the "LRWBB". You can also suggest memes that I could tackle. Click here for the main comments thread <http://bit.ly/Livecommentsarea>

Finally, you may ask why not a blog rather than an online document? I agonised over how to do this for a couple of months but I've concluded that a live online document is slightly better for creating a structured read.

Whilst a blog is designed to be read chronologically, this is more a series of issues that I will change, rearrange and hopefully improve over time. That means that I will edit copy and content as time goes on, and you can see me doing it live (hence the name). That is quite different from a blog, but it's one that I think works well and is hopefully a little bit different from the numerous great blogs out there - if you read nothing else check out Kevin Hague's masterful [Chokka blog](#).

Thanks for taking the time to read this section, the following contents has hyperlinks to the questions you may want to consider, so feel to jump right into the section that interests you the most.

Neil Lovatt

Technical notes

As a live book this is effectively in a pre-beta state. This means there are some mistakes (including spelling and grammar) and it's nowhere near the final text. Over time I expect to improve on this, add in better hyperlinks and evidence and develop the arguments as I get feedback.

Right now for this version I've concentrated on the first section of the book on historical context, I'll add others as I have the time.

Once I'm happy with the book (which will be some time off) I'll be producing a PDF Edition but will maintain this evolving version as the main version and all other fixed PDF Editions will be sourced from this document.

Thanks

There are a lot of people who have worked closely with me over the last two years on social media, who have helped me to pull all of this data together.

In some cases, for their own safety and their right to anonymity, I won't list them all but you know who you are.

A special thanks to those people with editing rights to the Live Book, who have taken up the unenviable task of sub editing my copy and generally tidying it up (I always need a finisher completer).

Also, thanks to those who are directly submitting articles for inclusion in the Live Red White & Blue Book. Where these people are happy to take credit, they are fully attributed.

Finally, where I've used material from other website and blogs, I have always attempted to attribute it via hyperlink. If I have used your material without doing so, please contact me and I will rectify the situation immediately.

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Some historical context

In 1900 to 1921 Scotland was subsidising the UK?

One of the most bizarre claims made during the independence referendum was that someone has unearthed information on the state of Scottish and UK finances at the turn of the century.

This sourced data was conveniently held behind a paywall, so it was impossible to verify. However there is no reason to doubt the author. The table floated through social media with the tags that it “proved”, as far back as 100 years ago, Scotland had a surplus with the UK.

Year	Revenue from Scotland	Expenditure in Scotland	Contribution to Imperial Services	% Spent in Scotland	% Spent Outside Scotland
1900	£16,859,000	£4,973,000	£11,886,000	29%	71%
1901	£18,135,000	£4,925,000	£13,210,000	27%	73%
1902	£19,587,000	£5,059,000	£14,528,000	26%	74%
1903	£20,311,000	£5,145,000	£15,166,000	25%	75%
1904	£18,550,000	£5,377,000	£13,173,000	29%	71%
1905	£18,808,500	£5,664,500	£13,144,000	30%	70%
1906	£18,877,000	£5,699,500	£13,177,500	30%	70%
1907	£18,811,000	£5,962,500	£12,848,500	32%	68%
1908	£18,847,500	£6,300,500	£12,547,000	33%	67%
1909	£13,527,500	£6,654,000	£9,383,500	49%	69%
1910	£16,196,000	£7,450,500	£6,687,500	46%	41%
1911	£22,321,000	£7,927,000	£12,033,000	36%	54%
1912	£20,900,000	£8,311,500	£10,331,500	40%	49%
1913	£20,900,000	£8,311,500	£10,331,500	40%	49%
1914	£23,488,500	£10,105,000	£11,204,500	43%	48%
1915	£25,962,000	£10,178,000	£14,564,000	39%	56%
1916	£25,962,000	£10,178,000	£14,564,000	39%	56%
1917	£58,600,000	£9,763,500	£52,214,500	17%	89%
1918	£58,600,000	£9,763,500	£52,214,500	17%	89%
1919	£92,307,500	£19,527,500	£77,794,000	21%	84%
1920	£113,525,000	£28,990,500	£84,496,500	26%	74%
1921	£120,386,000	£33,096,000	£86,657,000	27%	72%

But did it? Did it even show that?

What it shows is revenue from Scotland and the explicit expenditure within the country. However, we know full well that Scotland benefits from UK wide services, such as paying the national debt and defence (more of that later).

So, let's remind ourselves of the world in 1900. Better still, let's just look at the notes accompanying the table above - that's right, there were notes, details and much more, but few nats ever saw past the table.

2	It's worth bearing in mind that there was no welfare state and Old age Pensions only came in in 1910
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In 1900, there was precious little state as we know it. What government expenditure there was in 1900 was very limited, and so it's of no surprise that there was little explicitly actually spent in Scotland. Notice the sharp upstep in Scottish domestic expenditure in 1911, when pensions started, which shows, as the state expanded into social protection, the position of Scotland's relative expenditure began to change. However, and more importantly, the greatest proportion of government expenditure during this period was on defence.

On that basis the figures look rather generous. But it get's worse, much worse for the nats. That's because the table does not provide the full picture. We know, for example, that Scotland received a guaranteed minimum allocation of public spending through the Goschen formula (the forerunner to Barnett). So, from here we can work out the Scottish deficit in relation to the UK deficit or surplus at the time.

[illegible]

None of this should come as a big surprise. In 1900, Scotland, like today, had a relatively sparse population compared to the rest of the UK. But more of that later.

Did Blair move the border and steal Scotland's Oil?

A quite remarkable Nat meme on social media is the concept that Tony Blair stole some of Scotland's oil just before devolution to screw the country over. It's a classic piece of disinformation, implying something that does not exist based on a factual piece of information.

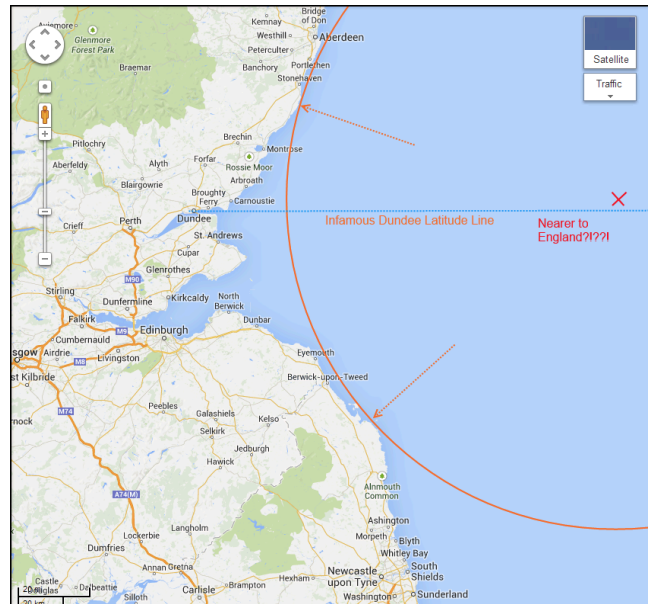
Here's the claim, which is usually augmented by a line that Westminster stole all the oil in this move:



Okay, so let's start with the facts:

In 1987, the [Civil Jurisdiction \(Offshore Activities\) Order 1987](#) defined the border between Scotland and England at sea for civil law. This border kinked northwards from Berwick, within the territorial waters of the UK (13.8 miles out from the land), and then essentially ran parallel out to the end of the Exclusive Economic Zone (EEZ) of the UK (extending out 200 nautical miles from the land). So that's the yellow line and is only in respect of civil disputes in offshore activity.

In 1999, with devolution approaching, Scotland was set to take over the regulation of fishing from the UK. This was an international obligation due to the Common Fisheries Policy, so it was believed that a boundary that would be more reflective of an international boundary between two states would be applicable. Therefore, the median line approach was used. This is the point of drawing the line so it marks the point that is of equal distance from the land of each territory (in this case Scotland and England) [as demonstrated here](#).



This approach is the starting line for defining an international boundary between two states, and is a good proxy for an international boundary.

This is the red line, as noted above. As you can see, it lies much further north of the original boundary and, therefore, it's here that the nat meme bases its claim that Blair stole the oil fields contained when the border “shifted”.

The new fishing border was set out in the [Scottish Adjacent Waters Boundaries Order 1999](#).

This order had two effects: firstly to define Scotland for devolution purposes within the (13.8 mile) territorial waters (this was the same as the 1987 border) and to define the border for fishing in the EEZ, and it was here that the median line approach was used.

So, where is the reference to oil in the Scottish Adjacent Waters Boundary Order?

There isn't one, so how can anyone claim that oil was stolen? Indeed, as a reserved issue, oil had no application to the fishing boundary, which confirmed by the government at the time.

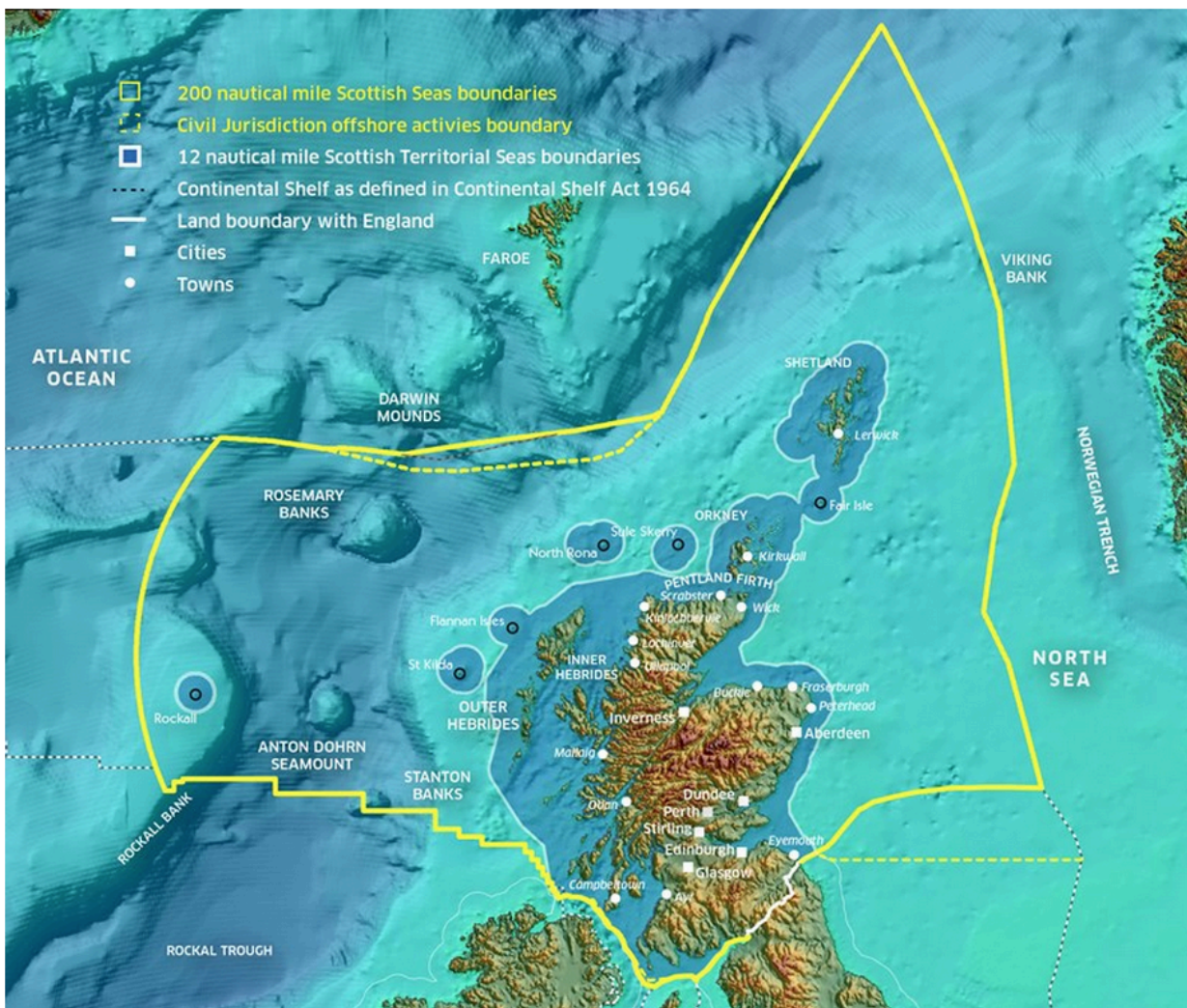
The boundary provided by the draft order has particular significance for sea fisheries. I wish to make it clear—though it should be self-evident—that the boundary has no significance for other matters at sea which are reserved. In particular, it has no relevance to the regulation of oil and gas exploration and production at sea since these are reserved matters.

<http://hansard.millbanksystems.com/lords/1999/mar/23/scottish-adjacent-waters-boundaries>

So, who applies the fishing boundary to oil? Well the Scottish Government through GERS and this is mirrored by HMRC when they later produced their hypothecation of Scottish tax revenue. It's worth making it clear that the Scottish Government are free to choose (or change at any time) the border used for geographic allocation of oil between Scotland and England. However, in their wisdom they have used the accurate median line approach and this is agreed by HMRC in their own independent analysis of the hypothecation of taxation.

So, did the UK government move the border for oil? No, not at all. The border didn't even move. Scotland simply has two borders between the outside of our territorial waters and up to the EEZ. One for fishing and another for civil jurisdiction, which a cursory glance at the Scottish Government website would tell you.

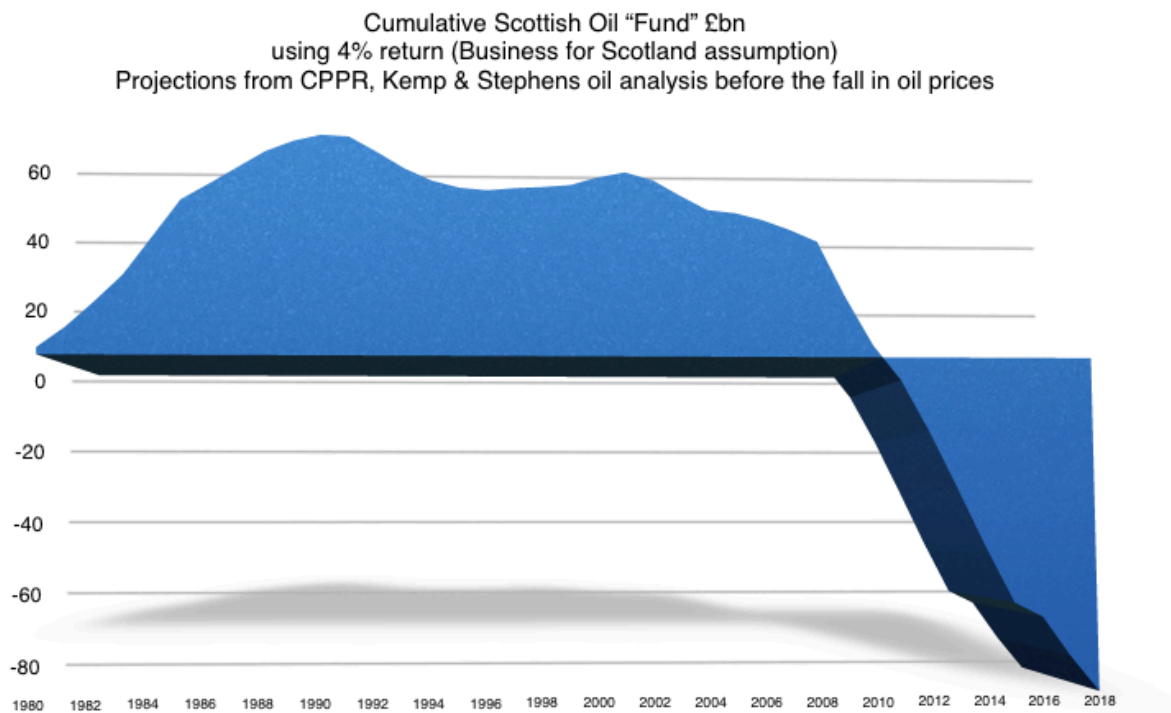
Scotland's seas & boundaries



<http://www.gov.scot/Topics/marine/seamanagement/national/seaarea>

If Scotland had an oil fund in 1980 we'd have a massive surplus right now?

The concept of the Scottish oil fund if only Scotland had become independent in 1980 ([a very important date](#)) is a key supporting argument from many nats. Let's leave aside the argument that one would need a time machine to make that proposition work, and there is no evidence at all that the past will be repeated in the future, so we can view the numbers. The fund would be built assuming Scotland maintained current levels of public spending and revenue as defined by GERS since 1980, but invested any surplus into a special oil fund growing at 4% a year (as assumption used by Business for Scotland), where there was a deficit Scotland would simply draw down from the fund. This means Scotland would have a huge oil fund when it needed it, when say the oil price collapsed this year. So how would that fund be doing now, when we really need it due to the oil price?



Sources: <http://www.gov.scot/Resource/0038/00389859.pdf>
<http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERS2014.xls>

http://www.gla.ac.uk/media/media_319446_en.pdf

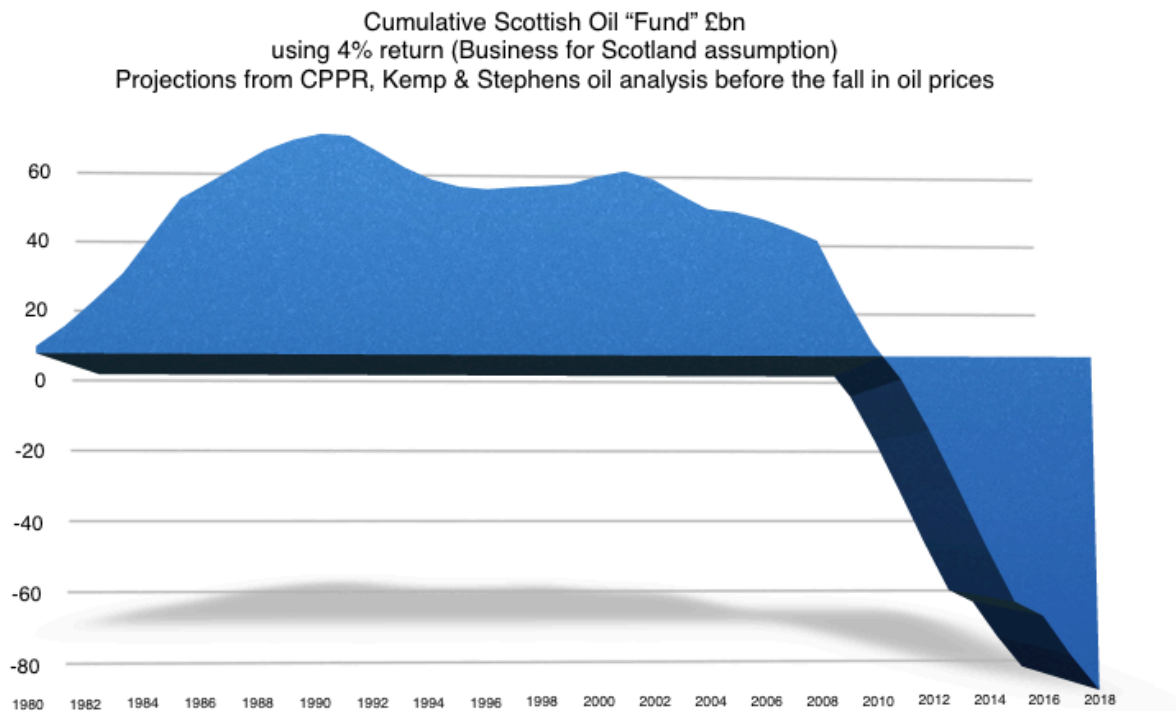
There really isn't much of a point in an oil fund if it's going to be worthless when you need it most.

Scotland should not have any historic debt?

Some serious (and less serious) people on the Yesser side attempt to argue that Scotland should not take a population share of UK debt liabilities. This is based on a strange assumption that debt seems to start in 1980.

As GERS data goes back to this date it provides an interesting starting point. It also coincides with the North Sea oil boom when for a relatively brief but important period Scotland contributed substantially more to the UK Exchequer than it received in spending. This has been comprehensively discussed by Kevin Hague in his blog [Explaining the £7.6bn FFA Black-hole](#)

But let's accept the "the world started in 1980" claim for the purposes of this argument. The argument then goes that had Scotland held on to their surplus from the 1980s it would not have any debt. However I've calculated the effect of reinvesting the GERS surplus at 4% (a Business for Scotland assumption) to project the size of an oil fund. This shows that the effect of higher public spending in Scotland negates any effect of a "start the clock in 1980" surplus.

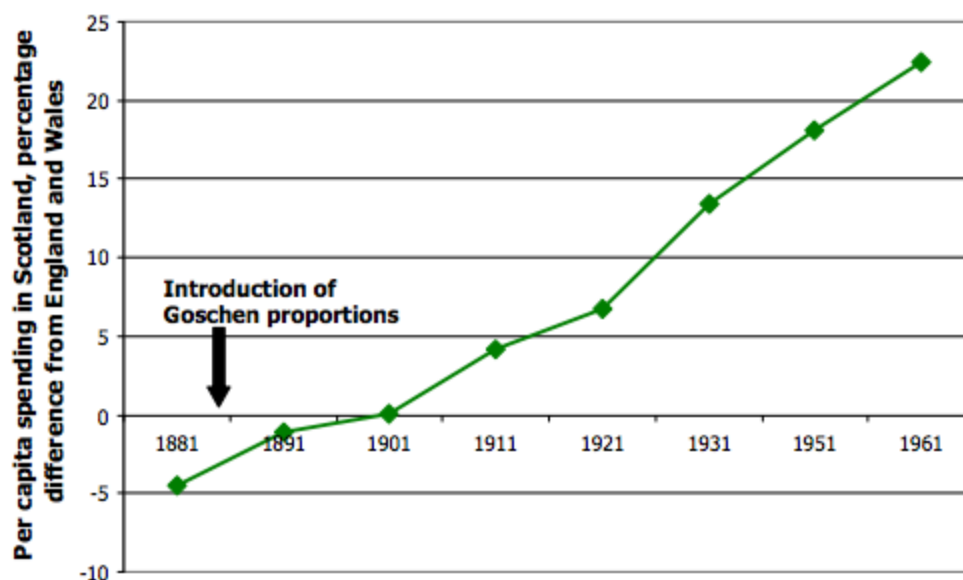


Now let's deal with the start the clock in 1980 concept. You just have to ask the question why start there? Why not 15 years ago for example where GERS shows that on a per head basis Scotland has only had three years where it had a lower deficit or better surplus than the UK.

My own view is that you should start in 1888.

That was the year that the Goschen formula started, which was the forerunner to Barnett. It guaranteed a level of public spending for Scotland which turned out to be far greater than its population share. Something that the the [Taxpayers Alliance have been at pains to point out](#).

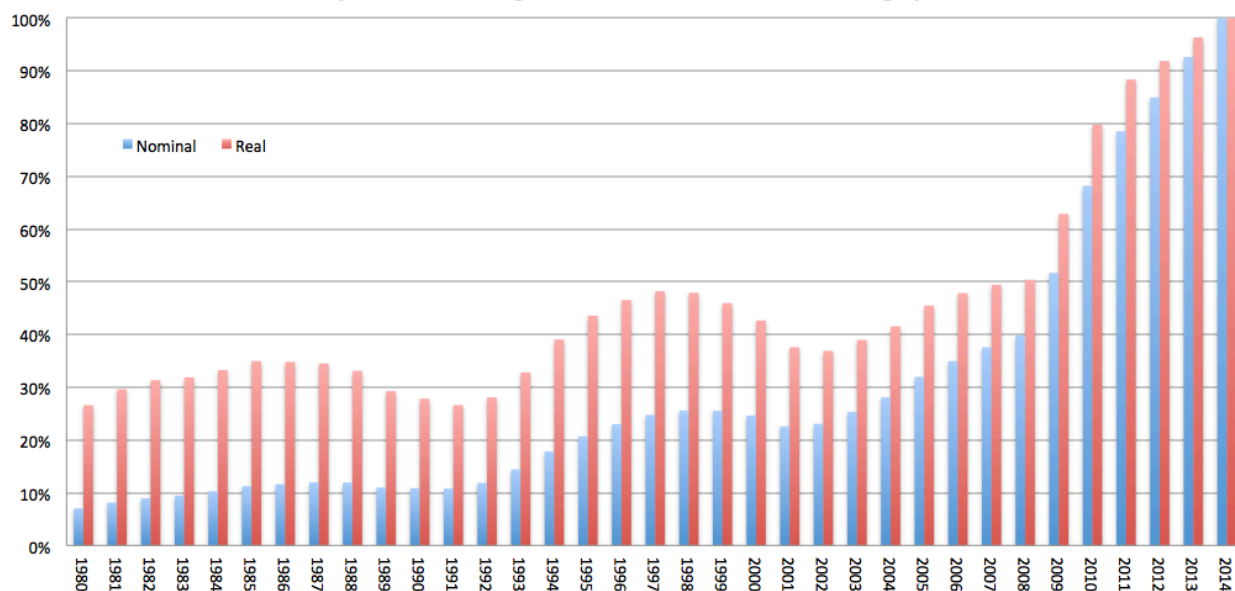
Figure 1: Scotland's Goschen bonus – how a fixed allocation boosted Scotland's per capita spending relative to England and Wales³



Of course whilst we know that Scottish spending was higher than the UK on a population basis (and rightly so due to our relatively sparse population which makes providing services more expensive) we don't have equivalent data on income. However it is reasonable to assume that the Scottish contribution to taxation would be broadly in line with its population share largely because that's what the GERS data shows if you exclude oil (a very generous assumption based on current data)

On that basis from 1888 up to the advent of North Sea oil Scotland contributed a population share on taxation but received a higher than population share of public spending. It therefore received a subsidy from the UK, again which was reasonable due to the wider dispersal of the Scottish population.

**UK Debt as a proportion of 2014 on a nominal and real basis
(4% discount rate, Business for Scotland Assumption)
<http://measuringworth.com/m/datasets/ukgdp/>**



One could argue that 1980 is a reasonable date to select as 93% of current debt was accumulated from that date. On a nominal basis that is the case but on real basis (discounting at the 4% Business for Scotland assumption I used earlier) that figure changes to 73%. More to the point when one considers the shape of the development of debt on a real basis the actual substantive rise in real debt started in 2002. In which case that year would be a suitable starting point, again that's not a position that favours Scotland.

Scotland as part of the UK has historic debt and a population share is a perfectly reasonable allocation for the country under independence, indeed if offered it on a population share basis I would argue that is very generous to us.

Scotland is sovereign and can legally declare independence whenever it wants

Of all the nat memes this probably remains one of the most obviously wrong statements once you put just a little bit of thought into it.

Firstly we should start with the Acts of Union. I won't go through all of the history of the position but what is undoubtedly legally the case is that the Scottish state was merged into either the English state or into a newly created British state (on the latter point there is some legal dispute).

It was this state (I'll call it the British state for the sake of clarity going forward) that obtained supreme legal authority through the Crown in Parliament.

Much is made by the nats of the Declaration of Arbroath (which like the gospels got its title a long time after the event). The meme goes that the sovereignty of the people of Scotland and their ability to depose the monarch whenever they want is embedded in the Declaration. The trouble is "The Declaration" is not a constitutional document, it is a letter to the Pope asking for him to recognise the Bruce as King. So far from actually proclaiming the sovereignty of the people it asserted the right of God's apparent representative on Earth to legitimise the King.

That's also not where the troubles end for the nats. A quick glance at historical Scottish legislation which actually is still on the statute book will show you that Scotland passed three Sovereignty Acts.

[Sovereignty Act 1584](#)

[Sovereignty Act 1606](#)

[Sovereignty Act 1633](#)

All of which assert the sovereignty of the Scottish Crown over the state.

Then of course there is the Claim of Right 1689 Act passed by the Convention of Scottish Estates. This is also used by some nats to imply that the sovereignty of the Scottish People applies.

But the trouble is if you actually read it, it doesn't, indeed it doesn't mention sovereignty once nor does it assert the rule of the people. The Claim was a catch up exercise by the Scots following the Bill of Rights in the English Parliament and the Glorious Revolution. It tidied up the fact that James VII did not nor could not have abdicated the Scottish throne.

In fact what the Claim did, in line with the events in England, was to strengthen the hand of Parliament against the Monarch.

And so we end up in 1707 and the Treaty of Union that became the Acts of Union, one in Scotland and another in England.

Whilst much is made of the legal status of the Treaty it has no legal significance and does not “sound” in international law, largely because at least one of the signatories no longer exists. For example a Treaty signed with the German Democratic Republic has no legal standing in international law because the entity which signed the treaty is no more.

The Treaty was simply the mechanism for the coordination of the Acts of Union and it was the Scottish Act of Union passed by the Scottish Parliament that ended the authority of the Edinburgh and passed it to Westminster. The Scottish Parliament was dissolved by [proclamation on 28 April 1707](#).

This left the Crown in Parliament as the supreme unitary authority in the United Kingdom and with respect to the Union there it has remained. No authority was assumed, the authority flows from the Sovereignty Acts, the Claim of Right and the Acts of Union.

Indeed so strong is this authority that the UK regularly demonstrates it. An old but significant example was the [Statute Law Revision Act 1964](#) which amended the [Union with England Act 1707](#) (which adjoined the Act of Union and was designed to protect the Church of Scotland). This Act guaranteed the religious persuasions (Church of Scotland) of the leaders of the great Scottish Universities and this restriction was abolished in 1964. However the Union with England Act also contained the provision:

“That all Laws and Statutes in this Kingdom so far as they are contrary to or inconsistent with the terms of these Articles as abovementioned shall from and after the Union cease and become void”

So in other words the amendment to the Union with England Act 1707 in 1964 could have dissolved the Union. But it didn’t simply because there is only one authority that can do this and that is Parliament at Westminster.

More recently the authority of Westminster was demonstrated with the [Scotland Act 1988](#), the list of reservations to Westminster includes the Union between Scotland and England. This clearly shows the inability of the devolved Scottish Parliament to have any say over the matter.

The nat meme seems to run that if the Scottish people vote in a referendum for independence then independence legally happens then and there. This vote could of course be in a Westminster sanctioned referendum or even an indicative ballot by the Scottish Government.

One need only think about that latter proposition to see the oxymoron of a legally binding indicative ballot!

So let's deal with the first proposition, the legal and constitutional position following a Yes vote in a legally authorised referendum.

The day after the Yes vote the UK is still legally and constitutionally intact, nothing has changed. Why? Because only Westminster can create an legal independent Scotland through an Act of Parliament. Let me say that again it would only be through the passing of a Scottish Free State Act through Westminster that Scotland would legally leave the UK.

Morally and politically the position may be different but legally the case is very sound.

A standard response to any nat who gets to this stage would be to argue that international law would force Westminster to grant independence. But international law does not apply to what at that stage would be the internal affairs of the British State.

Of course there is an option open to Scotland if it wants to declare independence: a Unilateral Declaration of Independence (UDI). This is a perfectly valid method of achieving independence but with great costs, up to and [probably including civil war](#). UDI is an illegal method of achieving independence, it would also ensure no possibility of a currency union, exit from the EU and the UN, massive capital flight from Scotland, basically a scenario I call game over.

So a legal separation from the UK can only be achieved by an Act of Parliament, not by the sole will of the Scottish people.

Does this matter?

Yes very much so. It means that Westminster has the whip hand when it comes to independence negotiations as the [Irish delegation](#) found out to their great cost, more of that [later](#).

The campaign

Was the Currency Union refusal by the UK a bluff?

As I said in my introduction the Currency Union proposal was nothing more than a political device rather than a serious proposal.

My own view was that when the UK made it clear that the CU was never going to fly then the Yes campaign would be holed below the water. To this day I still believe that this was the case and currency remains the soft underbelly of the nationalist movement.

The basis of the CU was set out in the [Fiscal Commission Working Group's report into currency for an independent Scotland](#). It makes the case that the best economic outcome for an independent Scotland would be a CU with the rest of the UK. I couldn't agree more with those conclusions, that's why I'm in favour of the Union as it is the safest way of guaranteeing that we keep the Pound.

However the concept of the CU was blown apart by [Osborne's sermon on the pound](#) and quickly followed up by [Danny Alexander](#) and [Ed Balls](#) repeating the same sentiment: the people of the remaining UK (rUK) would not tolerate a CU with an independent Scotland.

This should not have come as a surprise to anyone who has followed UK politics. The UK public and parties were overwhelmingly against the Euro Currency Union largely on economic and sovereignty grounds. Why then would they suddenly be interested in sharing their economic and political sovereignty with a country that had just left the Union?

More importantly why would the rUK want to give Scotland any say over UK borrowing levels (which would be required in a functioning CU and public spending)? Why would rUK want to take on the risk of an independent Scotland placing the Pound under threat by their independent actions? Witness the effect on the Euro by the actions in Greece.

To the rUK a CU would be risky with very little upside, it would be hugely unpopular with the rUK public (hence why all three parties distanced themselves from it), it would threaten their own financial stability and threaten their credit rating, [pushing up interest rates](#) (as Moody's concluded).

The question then would be why would anyone in their right mind think rUK would want a CU with Scotland?

Such a startlingly obvious refusal by the UK required an emotional and aggressive response from the SNP else their cause was lost even before they started.

That's what we got.

Salmond launched a scathing attack on the chancellor and his anger betrayed the difficult position he was in.

The argument started with the ["George tax"](#) a very weak line that the rUK would be all for a CU because it would add exchange costs to rUK business selling into Scotland.

As usual a bit of thought was only required to take this argument apart.

Firstly the transaction costs argument would go both ways and have a much greater impact on Scotland given the relative size of our economies and the level of Scottish exports to rUK. Secondly if transaction costs were a compelling argument for a currency union then the UK would have joined the Euro a long time ago, indeed it would argue that a Euro-USD single currency would be demanded by business across the EU and United States.

The fact is demonstrably transaction costs do not trump the very real structural costs and risks of a currency union. This argument held no water.

Finally the most likely Plan B would have been a pegged Scottish Currency, which would not create any transaction costs for rUK business. This was a very empty threat.

The next line to follow was a dog whistle attempt to argue that if there was no CU then an independent Scotland would not it's [fair share of debt](#). Now here, other than one angry slip by Salmond, the Yes camp were at pains never to actually say they wouldn't take debt, just simply that they wanted a fair share of financial assets alongside debt and hoped that their supporters would read financial assets as the currency.

After relentless questioning Salmond finally conceded on the point that the pound [was not a financial asset](#) late in the campaign but the dog whistle had done its job.

Whether Scotland could or could not have refused a fair share of debt is another matter and will be dealt with later. Suffice to say that there was no credible option not to take a share of debt on a legal separation and this was yet another bluff by the Yes side.

So finally we turn to the main argument from the Yes side for a CU. Without oil and Scottish exports of oil backing up Sterling then the Pound would be [shredded on the financial markets](#) therefore refusing a currency union would be “bonkers”?

Anyone who actually read Osborne’s [sermon on the pound](#) would see that this point was explicitly dealt with at the time.

“The Scottish government have asserted that the rest of the UK would want to make a currency union work, because Scottish exports – especially oil – make a substantial contribution to the UK’s balance of payments.

As it happens independent experts think the effect would be broadly neutral, but let’s put that aside for now.

According to the Scottish government’s logic, if the value of oil exports went up, contributing more to the UK balance of payments, then we would have an even greater interest in making a currency union work.

But the opposite is the case.

Because if Scottish oil did make such a substantial contribution to the UK’s balance of payments, then it would be artificially increasing the value of the pound – and that would be to the detriment of exporters in other parts of the UK.

That’s exactly what many members of the euro have discovered over recent years.

That’s an argument against currency union, not for it.”

So if oil was, as the Yes campaign were arguing, propping up the Pound then it was artificially choking off rUK exporters and therefore the alleged devaluation of the Pound following independence would be a positive benefit for rUK. That therefore gives the Yes campaign no real substantive economic argument in favour of a CU if their proposition was correct.

However events since the referendum have enabled a real work demonstration that the Yes camp’s “shredding” assertion was simply wrong.

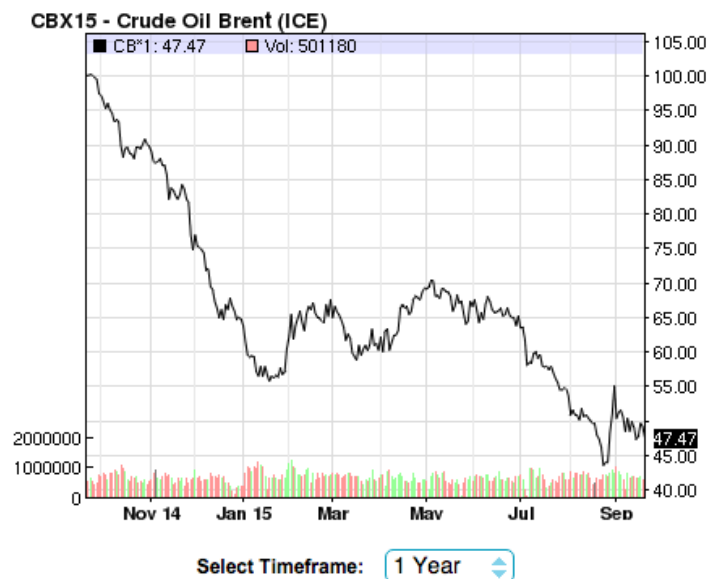
Since the referendum the price of oil has collapsed.

If the “shredding” proposition was true this would give us a proxy for Scotland leaving the Sterling zone and taking all it’s oil out of the balance sheet and the balance of payments. Whilst

Crude Oil Brent

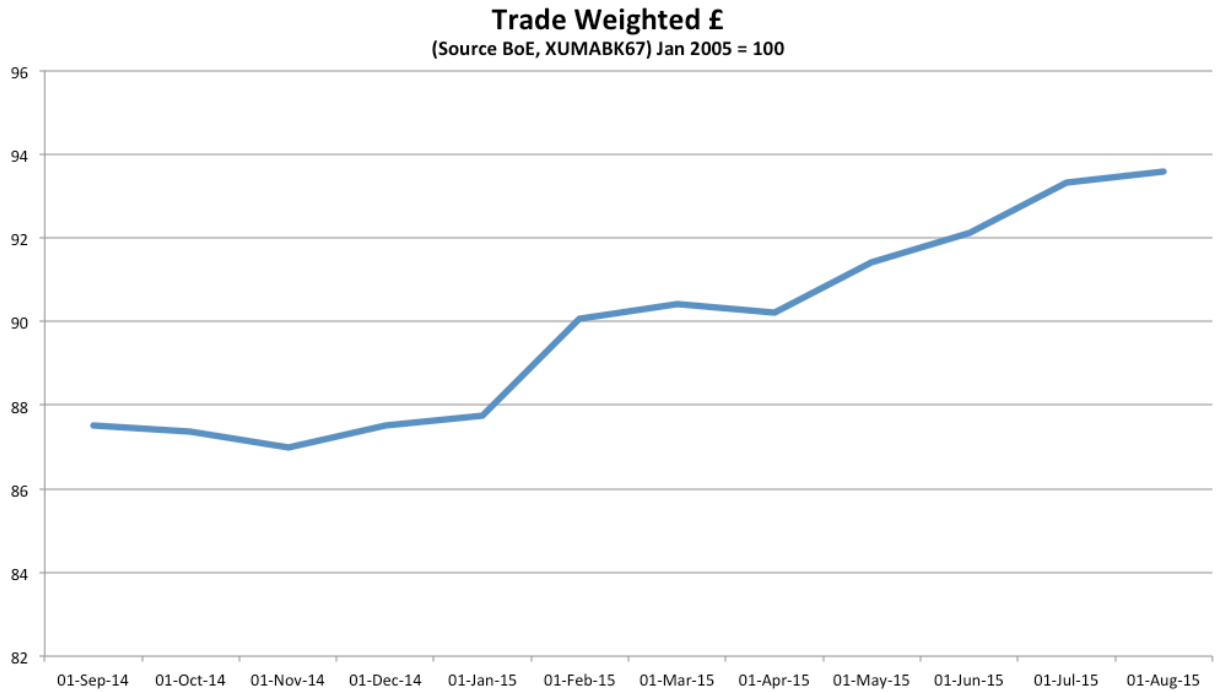
Latest Price & Chart for Crude Oil Brent

End of day Commodity Futures Price Quotes for Crude Oil Brent



this wouldn't have shredded the Pound it would have taken a huge toll on the level of the Pound, if the Yes camp's proposition was correct.

Unfortunately for the yes side the Pound reached a [7 year high](#) over this period. So far from shredding the Pound the collapse in oil actually took place at a time when the Pound strengthened.



Demonstrably the Yes side's final claim on a currency union was just plainly untrue.

The Currency Union was a bluff, but it was a bluff on the part of the Yes campaign. It made no political and economic sense and in the end was just demonstrably untrue.

Currency was and remains the soft underbelly of the independence movement and only the UK joining the Euro will resolve that issue.

Could Scotland have refused to take a share of UK debt?

Following Westminster's refusal to countenance a CU an angry over-reaction by Alex Salmond created the distinct impression that, if Scotland was not allowed to keep the Pound, an independent Scotland would not take on a share of historic UK debt.

Whilst not explicitly followed up by the leaders of the Yes campaign⁽¹⁾ the impression that Scotland could refuse to take debt was certainly encouraged to grow amongst the rank and file supporters who continually stated the "no Pound, no debt" mantra.

The position was made even easier when the UK Treasury (under pressure from international investors that they were not about to get stuck with Scottish rather than UK debt) clarified to the markets that in the event of Scottish independence they would [legally take on all historic UK debt](#).

This was fuel to the fire of the meme.

Rather than state that an independent Scotland would not take on debt the leaders of the Yes campaign would simply remind everyone that the UK had guaranteed all debt. The implication being that it then followed that an independent Scotland would not have to take debt.

The trouble is that it does not follow as a few seconds thought and more importantly a close reading of the UK Treasury announcement would show.

Whilst the rUK was prepared to guarantee all debt to international creditors in the very same announcement it stated that Scotland's share of this debt would be covered by a side agreement between rUK and an Independent Scotland.

1.2 An entirely separate contract between the continuing UK Government and an independent Scottish state's Government would need to be established. The respective shares of debt and the terms of repayment would be subject to negotiation.

1.3 In the event of independence, the full spectrum of assets and liabilities – past, future and contingent – would need to be considered in negotiations between the continuing UK and Scottish Governments, on a case-by-case basis. This means that the negotiations would need to cover the arrangements for all forms of debt covered in this note, not just gilts and Treasury bills.

So the UK Treasury announcement also stated that an independent Scotland would indeed continue to have debt, but in this case it would be debt to the rUK rather than a collection of international creditors.

Failing to pay this rUK debt would have been a default and would have made Scotland an international pariah. It would also be relatively easy for rUK to recover this money from Scotland given the numerous cross border payments that would apply between the nations.

The *desperation stage* of the argument would then follow.

This would run that an independent Scotland would simply refuse to agree to debt with the UK and the UK would have no means to force such an agreement on an independent Scotland.

This unfortunately omits to recognise that any Scottish Free State Act would have to pass through Westminster. The concept that the text of a Scottish Free State Act would not include an allocation of debt within it is laughable.

Why on earth would rUK enable the new Scottish state to start entirely debt free whilst lumbering rUK citizens with more debt per head than they had the day before? Any party even considering such a suicidal deal would be swiftly despatched at the ballot box.

Therefore the Act and the final agreement on the establishment of a Scottish state which would be signed by the Scottish Government would contain provisions on Scotland taking debt. If the Scottish Government refused to sign the agreement including debt then independence simply wouldn't happen. The rUK would have the luxury of time on their side during these negotiations whilst the Scottish Government would not, economically and politically they would be charged with delivering on independence as quickly as possible.

Like the Irish delegation before them in 1922 (who also reluctantly took on Imperial debt) Scotland would have found their ability to make ridiculous demands such as “no Pound, no debt” was nothing more than empty rhetoric that actually did them more harm than good in the final outcome.

(1) (for example watch [Salmond](#) in the final TV debate craftly hint that if they don't get a CU they would not take any debt without actually saying it - 22:30 in

Could Scotland have just used the pound anyway?

As the weakness of the CU case began to get exposed the Yes movement threw their campaigners another bone, although it was really another dog whistle but I'll be mixing my metaphors: we don't need permission to use the Pound anyway.

Very true. There was nothing to stop an independent Scotland using the Pound, the Euro, the Dollar or the Ruble for that matter.

The trouble is using the Pound is not in any way keeping the Pound, which by definition implies ownership. Just using the Pound, so called Sterlingisation is not a CU, not by a long shot and is an economic policy which would be ruinous to Scotland and certainly to the social plans of the Yes movement.

The most obvious point of contradiction for anyone from the Yes movement advocating Sterlingisation would simply be to point them towards the [Fiscal Commission Working Group](#) (FCWG) report and its lesser known Annex which examined in detail all but one of the currency options for an independent Scotland.

This was the famous "[three plan Bs for the price of one](#)" line used by Salmond in his debate with Darling where he argued that all options were perfectly viable. Of the options that Salmond set out Sterlingisation was not one of them, for a good reason. Simply using the Pound was not viable as far as the Fiscal Commission Working Group was concerned.

- 20. International evidence suggests that informal monetary unions tend to be adopted by transition economies or small territories with a special relationship with a larger trading partner (e.g. between the UK and Jersey, Guernsey and the Isle of Man). Advanced economies of a significant scale tend not to operate in such a monetary framework. Though an option in the short-term, it is not likely to be a long-term solution. The focus of the discussion below is therefore set within the context of a formal monetary union.**

Sterlingisation, an informal CU, was the only option dismissed out of hand by the FCWG and required no further analysis.

Strange then that the Yes movement seemed to flirt with this option as a viable currency option and on the front line it seemed to be the default option following the "[revelation](#)" by Darling at

the final televised debate that “of course Scotland can use the Pound”. Indeed the audible triple “[AHHHHHH](#)” from Salmond at that point of the debate was only missing the word “GOTTCHA”.

However Salmond knew full well that simply using the Pound was not viable and yet deliberately pedalled this as a perfectly viable option in the debate and encouraged his supporters to view it as such.

Key quotes

Alex Salmond: "I set out the options very clearly - three Plan Bs for the price of one. They are just like buses... you expect one and then three turn up at once."

Alex Salmond: "You're in bed with the Tory Party, in bed with the Tory Party."

Alex Salmond: "They cannot stop us using the pound - that's the most important revelation."

Alistair Darling: "He's asking us to his word for it on everything, no Plan B for anything. Trust what he says - sorry I can't."

Alistair Darling: "In the last debate, Alex Salmond mentioned the NHS once. Since then we have been subjected to a scare campaign, principally of what's happened in England."

Alistair Darling: "A good line is not always a good answer."

It was a masterclass in deceit on a grand scale.

So what then is wrong with Sterlingisation? It is a valid method of running monetary policy but it's one that has profound consequences for anyone interested in using the state as a means of correcting the mistakes of the market.

It's no surprise then that the Adam Smith Institute was quite comfortable with the concept of [Sterlingisation](#). This resulted in some of the most bizarre social media posts at the tail end of the campaign as outright socialists ignorantly posted the Adam Smith Institute as seemingly backing their preferred currency option post independence.

Sterlingisation firstly denies the state any access to monetary policy. You are in every sense of the word giving that control over to a foreign state who has no interest in the well being of that state's citizens.

It also severely restricts the ability of the state to borrow as it must hold reserves of another currency in order to meet demands from creditors as it cannot use a central bank to print money if required. It would consequently mean that the government would be severely constrained in its ability to borrow or run a deficit and would likely mean huge austerity to bring the budgets into balance through tax and spending cuts (effectively the only weapons available to the government).

Further as the government has restricted access to available funds the financial services industry would face a severe contraction as state backed schemes such as policyholder protection could no longer operate. That is if the obligations within the financial services sector are greater than the resources at the government's disposal (which they are in Scotland) then it would be impossible for the state to bail out the industry. Without state backing and policyholder protection which rational investor would put their money with a Scottish based institution? Hence the likely capital flight if Sterlingisation was proposed.

Finally with no central bank and no policyholder protection scheme an Independent Scotland under Sterlingisation would not meet the entry criteria for the EU.

Could Scotland have used the Pound without permission? In the words of Darling "of course" but, and it's a huge but, doing so would have devastated Scotland and the Scottish state, it would be everything the vast majority of Yes campaigners would have been against and Salmond and the Yes leadership knew it. They just refused to be honest with their supporters about that fact.

Was the UK bound to pay Scottish pensions after independence?

Pensions are a fiendishly complicated subject. They needn't be but they are because governments of all stripes like to tamper with them in their private and public forms. They are also often the key to any election as they represent the main cohort of society that actually bothers to vote.

Get pensions wrong and you can probably kiss goodbye to any electoral success.

Taken together then; complexity and a third rail of elections and you have a wonderful recipe for disinformation.

It's strange because at the start of the campaign it looked like the nature of state pensions at least were going to be uncontentious from a factual point of view.

The Scottish Government set out a very good paper [Pensions in an Independent Scotland](#) a full year before the referendum. In this they clearly set out the priorities for pensions and how they would operate in an independent Scotland.

Remarkably, given what followed, this paper set out in very clear terms that existing pensioners in receipt of a UK State Pension would after independence receive a Scottish State Pension paid for by the Scottish Government rather than the UK Government.

ENTITLEMENT TO A SCOTTISH STATE PENSION

State pension entitlement in an independent Scotland would be organised as follows:

For those people living in Scotland in receipt of the UK State Pension at the time of independence, the responsibility for the payment of that pension will transfer to the Scottish Government.

So one year before in a not exactly technical document the Scottish Government stated that existing pensioners would no longer receive a UK pension.

Politically this was a huge blunder by the Scottish Government, it's likely that Better Together were having a field day when this publication was uploaded to the Scottish Government website.

Simply put the Scottish Government had confirmed that for existing pensioners their UK pension would end on independence. Granted it would be replaced by an identical Scottish State Pension paid by the same offices in Scotland but the fact was the UK Pension would end.

As the detrimental effects of the Better Together propaganda message began to sink in the Yes Campaign realised that they would need to muddy the waters. Enter the disinformation campaign, helped on by the Department of Work and Pensions.

Worried pensioners had started to write to the DWP long before pensions became an issue in the independence campaign. The DWP quite correctly wrote back to those pensioners setting out the legal position taking the Scottish and UK Government's positions on board.


The State Pension will continue as present.

It was not for the civil service after all to then comment on who would be administering or paying for pensions in an independent Scotland and such replies were designed to reassure voters without straying into politics.

But they did stray in, or rather Alex Salmond dragged them in.

In desperation the Yes movement effectively decided to rip up their pensions policy and replace it with rhetoric in an attempted to imply that these DWP pronouncements meant that the UK would continue to pay existing Scottish Pensions after independence.

Next was Steve Webb's (the Pension Minister) evidence to the [Scottish Select Committee](#), specifically the session in which Webb gave evidence was prefaced by the Committee Chair Ian

 The Pension Service Department for Work and Pensions	Our address: Department for Work and Pensions The Pension Service PO Box 3 Edinburgh EH91 5AF
Our Phone Number: 0845 60 60 265	Our Telephone User: 0845 60 60 285
Website: www.direct.gov.uk	Email address: enquiries@the-pension-service.gsi.gov.uk
National Insurance: [REDACTED]	Date: 4 January 2013

Dear [REDACTED]
State Pension

In reply to your letter regarding your State Pension if Scotland votes for Independence.

If Scotland does become Independent this will have no effect on your State Pension you will continue to receive it just as you do at present.


In answer to your second question; anyone who is in receipt or entitled to claim State Pension can still receive this when they live abroad, if this is a European country or a country where Britain has a reciprocal agreement they will continue to receive annual increases as if they stayed in Great Britain.

If the country does not fall into the above criteria then the rate of State Pension remains payable at the rate it was when they left Britain and no annual increases will be applied until such times they come back to live in Britain permanently.

If you have any further queries please don't hesitate to contact us our details are at the top of this letter.

Yours sincerely
[REDACTED]
[REDACTED]
Customer Advisor

The Pension Service is part of the Department for Work and Pensions



Davidson noting that they wanted to discuss rights to pensions “as distinct of who is paying for it”.

In his evidence Webb made very clear that after independence Scottish pensioners would still have an entitlement to the pensions they had built up in the UK. There is really no question about this, morally people who have paid into the system are entitled to the pension they were promised by the state. The only issue was which state would be fulfilling those obligations post independence.

There then followed an array of judiciously edited YouTube videos cut to show Steve Webb saying that pensions would be guaranteed. The implication being that they were guaranteed to be paid by the UK state, despite the fact that the question of payment was dealt with later by Webb in written evidence.

As so often with many in the Yes movement this really failed to give the full picture.



To understand the full picture one would need to view the [written evidence](#) as well, which specifically covered the question of who was paying for pensions after independence.

In this Steve Webb made it very clear

"I would think the Scottish people would expect their Government to take on full responsibility for paying pensions to people in Scotland including where liabilities had arisen before independence. Similarly people in the rest of the UK would not be expecting to guarantee or underwrite the pensions of those living in what would then have become a separate country. The security and sustainability of pensions being paid to people in Scotland would, therefore, depend on the ability of Scottish tax payers to fund them."

This position is entirely in line with that set out by the Scottish Government in their own pensions paper. The responsibility for all pensions, including those in payment, would fall to the

Scottish Government for Scottish citizens and the rUK government for UK citizens. After all the UK would not be paying for unemployment benefits in Scotland after independence and in this respect pensions were no different.

Given the transfer of state pension obligations from the UK to the rUK and Scottish state after independence it would only be right and proper that the states split the assets backing their pension obligations on a similar basis.

If state pensions were a employer pension scheme this would be a complex but routinely completed task. However state pensions are very different. They are not funded at all, they are paid for out of transfer payments.

So today's workers who are paying taxes and National Insurance (NI) contributions are directly funding the pensions payments of existing OAPs. UK State pensions are and have always been transfer payments from one generation directly to another.

2. The National Insurance Fund

The majority of receipts from NICs are paid into the National Insurance Fund, which is separate from all other revenue raised by taxation. The Fund is used exclusively to pay for contributory benefits, and operates on a 'pay as you go' basis: broadly speaking, this year's contributions pay for this year's benefits. Indeed, retirement pensions account for over 90% of benefit expenditure from the Fund.⁹ The Government has no powers to use NICs to fund anything else.¹⁰

Whilst there is actually an NI fund this is just an accounting method of [managing NI contributions](#) as the IFS notes:

These exercises in shifting money from one arm of government to another maintain a notionally separate Fund, but merely serve to illustrate that NI contributions and NI expenditure proceed on essentially independent paths. The government could equally well declare that a quarter of NICs revenue goes towards financing defence spending, and no-one would notice the difference.

Therefore Scotland would be entitled to a share of the assets backing current and future pensions in respect of their obligations to existing and future Scottish pensioners but an 8.5% share of zero is nothing.

In summary then under independence Scotland would have taken over all state pension obligations to Scottish citizens and they would have received no financial compensation for this

obligation. Like the UK now pensions would be paid for by existing workers and would depend entirely on the government's ability to pay.

Both sides officially agreed on this point, but in desperation the Yes movement attempted to hoodwink voters into believing something implausible that contradicted their own written policy. It was a triumph of spin over substance that still today Yes campaigners cannot accept the very position set out in black and white by the Scottish Government 12 months before the independence referendum.

Did the ratings agencies say Scotland would be AAA?

When Standard and Poors published their [report on an Independent Scotland](#) it was a careful and considered view of the risks which would face Scotland in the event of a yes vote.

Unlike other ratings agencies - such as Moody's - S&P did not publish a preliminary credit rating for an independent Scotland but rather attempted to provide an overall narrative of the issues facing Scotland. As you would expect this covered the positives and negatives for Scotland, the trouble was that in the febrile atmosphere of the independence referendum the nats would take any positive they could get and the report was unfairly reported out of context by many people who had obviously not read the full report.

Thus was born the meme that S&P had given Scotland a AAA rating.

Aided and abetted by the Yes leadership nudges and prods were given in the direction of Scotland's AAA status without actually saying that it had been given.

Independent Scotland could be AAA rated – Standard & Poors

Gordon MacIntyre-Kemp | 28/02/2014 | 38 Comments

In a massive blow to the credibility of the No Campaign's scaremongering, the credit rating agency Standard & Poor's released a report yesterday, clearly stating that an independent Scotland would be an investment grade economy.

The [report](#) states emphatically that S&P would expect Scotland to 'benefit from all the attributes of an investment-grade sovereign credit' due to its 'wealthy' economy, and that it sees 'no fundamental reason' in terms of Scotland's balance sheet why Scotland could not float its own currency (even though we do not intend to).



Independent Scotland AAA?

Take this egregious example from [Business for Scotland](#), who are not well known for letting the facts get in the way of their own special reality.

Note the headline which uses “could” but then reading the text about the “massive blow” to Better Together and the “emphatic” statement about the positives for Scotland - in reality the report wasn’t emphatic it was extremely well balanced.

For example whilst Business for Scotland note that the report “emphatically” says Scotland could float its own currency it actual fact S&P noted that, whilst possible, this would be hard going for Scotland.

Specifically, we think Scotland would be hard-pressed, under a new currency regime, to quickly replicate the deep capital markets it enjoys today as part of the larger U.K.

However of all the comments made by S&P this was probably the most oft quoted by nats who did not even understand its meaning

Economic Structure And Growth Prospects: A Rich, Diversified Country

The Scottish economy is rich and relatively diversified, with 2014 per capita GDP estimated to be US\$47,369 (based on the Scottish government's estimates, which include Scotland's geographic share of North Sea output, abbreviated as Scotland (Geographical) in the table above). Scottish wealth levels are comparable to that of the U.K. ('AAA'), Germany ('AAA'), Ireland ('BBB+'), and New Zealand ('AA-'). Even excluding North Sea output and calculating per capita GDP only by looking at onshore income, Scotland would qualify for our highest economic assessment. Higher GDP per capita, in our view, gives a country a broader potential tax and funding base to draw from, which supports creditworthiness.

The proximity to AAA ratings along with the line “Scotland would qualify for our highest economic assessment” was taken by many nats to mean that Scotland would be AAA.

Far from it.

It’s important to understand the context of S&Ps work. As a ratings agency they look at sovereign debt from countries of all shapes and sizes. In relative terms Scotland is a wealthy western economy, in that respect it would be subject to S&Ps highest economic assessment - which simply means that S&P would not consider Scottish debt to be junk status. Which they explicitly state:

Although we recognize that the debate is still in its early stages, we can draw a few broad conclusions about the creditworthiness of an independent Scotland:

- The macroeconomic profile of the wealthy and open Scottish economy conforms with the typical profile of sovereigns rated in investment-grade categories (i.e., 'BBB-' or higher).

So Scotland would be BBB- or higher according to S&P. That's a good rating and one that Scotland could be happy with, but it's not AAA and at no point did S&P say or hint that it would be. You'd be forgiven for being shocked about that conclusion if you read the Business for Scotland piece, however if that piece was issued by a real business it would be removed for false and misleading advertising.

Incidentally one of the reasons why the nats never wanted to look at the far more comprehensive reports on an independent Scotland from Moody's, and why Business for Scotland never wrote a puff piece on them, was that they went into incredible detail about an independent Scotland and it was very uncomfortable reading.

You can read each one [here](#), [here](#) and [here](#).

But their conclusion on their rating is all important. In this they did not depart from S&Ps views and Scotland qualified for a non junk bond status of A, below that of the UK and similar to Malta or Mexico or Poland.

Of course much of this was subject to Scotland obtaining the prized Currency Union in the White Paper and the oil

price staying at its current levels. In reality an independent Scotland would have started with a rating even lower than that predicted by Moody's in these reports and may well have fallen to junk status.

Scotland's rating likely to be investment grade – but below the UK's Aa1 rating

Any assessment of Scottish sovereign credit post-independence rests on a number of important assumptions, and comes with a wide margin of possible outcomes. It might also be more prone than most sovereign ratings to change, as we learned more about – for example – the likely institutional structure and strength. Taking into account all these uncertainties, it is not possible to be precise in offering guidance on the possible rating. Assuming a measured approach to implementing independence that allowed the new Scottish government the time and support needed to put in place an effective institutional structure, and, in so doing, to gain the confidence of investors, the rating would most likely be positioned well into the investment-grade portion of our rating scale. An 'A' rating is the most likely at the outset, but with risks of a different outcome tilted to the downside. Over time, greater clarity over (and confidence in) Scotland's institutional structure and measures to address longer-term fiscal issues could make higher rating levels attainable.

However, a speculative-grade rating might be warranted to better capture fundamental credit risk and the new government's exposure to event risk in an unlikely scenario if (1) separation were to be achieved at a pace or in a manner that created doubts about the effectiveness of Scotland's institutions, or in some way undermined the country's economic strength; and (2) market access were to prove more difficult than we anticipate.

This matters greatly because it's the ratings agencies that set the benchmark for other investors when it comes to pricing debt and indeed are often the gatekeepers to large swathes of capital. This would have forced an independent Scotland to raise interest rates which would not only have affected people with mortgages in the new Scottish currency, but slowed investment and increased the cost of debt repayments to rUK.

No wonder that the nats attempted to pervert a well researched report from S&P into the economic position of an independent Scotland. Rather than face up the the reality of the difficult choices that lay ahead. Fantasy, denial and selective editing became the only choice available to an increasingly panicky Yes campaign.

Did the Vow break purdah?

Loss is difficult. It's even greater when you have spent 2 years in a bubble composed of a self selecting audience of like minded souls. You mistake the enthusiasm of your audience for general popularity.

So when the loss did come for the Yes movement it was almost impossible for many of the most enthusiastic supporters to take. Conspiracy theories filled the failed Yes movement with [42% of Yes voters](#) believing that fraud played a part in the referendum result. Some centered around the [Dundee count](#) and others over [Ruth Davidson](#) on BBC discussing postal vote sampling (something that Humza Yousaf also stated on the [same programme](#)).

However the most mainstream conspiracy theory centered around "the Vow" which was, according to the advocates, an illegal intervention late in the campaign in breach of the purdah rules.

Despite the [overwhelming evidence](#) that the Vow had no impact on the result of the referendum this became the principle excuse for most bitter Yes conspiracy theorists as they thrashed around for someone else to blame for their loss rather than confront the contradictions of their own campaign.

The Vow emerged from the cooperation between the three parties in the Better Together campaign, each of which had published a different set of proposals for devolution after a No vote in the independence referendum.

On the 16th of June 2014 the three party leaders in Scotland issued a [joint statement](#) covering the common aspects of their proposals:

"Power lies with the Scottish people and we believe it is for the Scottish people to decide how we are governed.

We believe that the pooling and sharing of resources across the United Kingdom is to Scotland's benefit in a partnership of four nations in which distinct national identities can flourish and be celebrated. We believe that Scotland and the United Kingdom have been strengthened since the advent of devolution. We support a strong Scottish Parliament in a strong United Kingdom and we support the further strengthening of the Parliament's powers. The three parties delivered more powers for Holyrood through the Calman Commission which resulted in the Scotland Act 2012.

We now pledge to further strengthen the powers of the Scottish Parliament, in particular in the areas of fiscal responsibility and social security.

We believe that Scotland should have a stronger Scottish Parliament while retaining full representation for Scotland at Westminster. Our common agenda can bring people together from all of Scotland, from civic society and every community.

The Scottish Labour Party, the Scottish Conservative and Unionist Party and the Scottish Liberal Democrats have each produced our own visions of the new powers which the Scottish Parliament needs. We shall put those visions before the Scottish people at the next general election and all three parties guarantee to start delivering more powers for the Scottish Parliament as swiftly as possible in 2015.

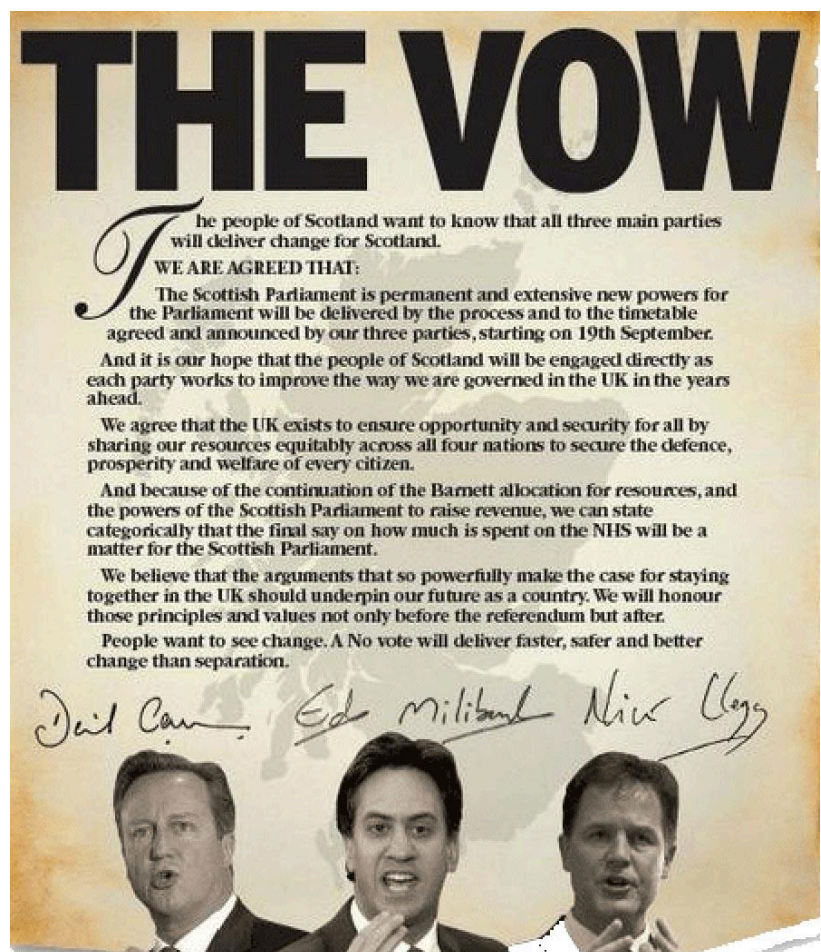
Our common endeavour will deliver a stronger Scottish Parliament in a stronger United Kingdom."

Note the key aspects of this statement.

More powers for the Scottish Parliament in tax and welfare, a commitment to pooling and sharing and a commitment to start work "as swiftly as possible" after the General Election.

Following on from this joint press statement by the Scottish Party leaders a second statement was prepared by the UK Party leaders, issued on the 7th of September and published in the Daily Record, who with a creative flurry dubbed the statement the Vow and published it on the front page with a clever creative treatment.

This Vow followed on from the Scottish Party leaders statement reiterating the commitments to more powers in tax and welfare and the retention of pooling and sharing under Barnett as well as a specific commitment to a new timetable for the implementation of the new powers which replaced the vague "swiftly as possible"



This statement by the three party leaders has since been held up by Yes conspiracy theorists as a breach of the rules of purdah, thereby making the result illegal.

Purdah is a specific period in the run up to general or local elections or referenda where the machinery of government cannot be used in such a way that it can influence the result. So for

example during a general election campaign imagine the concerns expressed if the UK government (which their media reach and the machinery of the civil service) was used to announce a series of huge public works. This would clearly be to the benefit of the day and is rightly outruled by purdah.

More than anything else the rules are designed to protect civil servants from being involved in conflicts of interest during an election or referendum period. The [rules](#) for the UK civil service under purdah during the independence referendum were set out in August 2015.

The key part of the guidance for civil servants was set out here, again designed to protect the impartiality of the Civil Service.

Key Considerations

5. During the restricted period, particular care should be taken:

- with Ministerial and Departmental announcements that could have a bearing on the referendum campaign;
- in relation to any proposed official visits to Scotland;
- in respect of publicity campaigns (reflecting restrictions set out in legislation); and
- to ensure even-handedness in meeting information requests from the different political parties and campaigning groups.

Clearly purdah does not and cannot apply to party announcements otherwise the government of the day could not issue a party manifesto during the election purdah period.

This point has been specifically clarified in Parliament where ministers are [legally allowed to speak and campaign in an unofficial \(non Governmental\) capacity](#).

Lord Stoddart of Swindon asked Her Majesty's Government:

Whether it is the case that Ministers are permitted to speak and take part in referendum campaigning so long as they make it clear that they are doing so in a personal capacity; and what measures were taken when Ministers took part in the recent referendum in the north-east to clarify that they were not taking part as a Minister of the Crown. [HL65]

The Minister of State, Office of the Deputy Prime Minister (Lord Rooker): It is the view of the Office of the Deputy Prime Minister that where Section 125 of the Political Parties, Elections and Referendums Act 2000 applies to a referendum, as in the north-east, the restrictions on publications in the final 28 days do not prevent Ministers speaking and taking part in referendum campaigning where they do so in a personal or political capacity. In addition, by virtue of the Bill of Rights, Section 125 does not restrict Ministers as to what they can say during proceedings in Parliament.

The Office of the Deputy Prime Minister issued guidance to all Ministers. The guidance has been made available in the Library of the House. In accordance with this guidance, Ministers made their role clear when acting or speaking in a personal or political capacity.

Therefore the Yes movement contention hangs on the Vow being a new statement of government policy using the machinery of government.

One can argue about the Vow being something new, the case is very weak given that it reiterated the statement already made on 16 June 2014 however leaving that aside the case hangs on whether this was a government statement in breach of purdah.

Ed Miliband was not in government at the time of the Vow, the statement was issued by the "Three Leaders" as the Daily Record explicitly noted.



This was not or could have been a government statement, it did not employ the machinery of government but was a three party media release which was published in a privately owned newspaper.

All this is often ignored by the Yes conspiracy theorists but the central issue which they cannot escape was that if the Vow did indeed breach purdah as they claimed then the Yes movement

would have had the right to subject the result to a judicial review. Why didn't they? If this was indeed a flagrant breach of the rules then there would have been a challenge. There wasn't.

The Vow did not breach purdah, it did not affect the result.

The Yes movement lost because they didn't have a coherent case for independence, rather than face up to this they prefer to obsess over "we was robbed" conspiracy theories that don't stack up. That may help them feel a little better inside but it does nothing for the independence movement they profess to care so much about.

Scotland was promised “close to Federalism” or Home Rule during the referendum. Did that mean Devomax?

During most debates on the powers of the Scottish Parliament, the Vow or the Smith Commission many like to note that Gordon Brown promised Scotland Federalism or Home Rule. This is usually then followed up with a statement that this means DevoMax.

They do this as if it was a rabbit out of a hat, a killer argument that instantly wins them the debate. Unfortunately it just demonstrates their chronic lack of attention to detail.

For a detailed analysis of the Vow and the nationalists lack of detail on this subject I'd strongly recommend Fraser Whyte's excellent shredding of their Vow narrative.

<https://whYTEpaper.wordpress.com/2015/09/19/one-year-on-and-some-crap-about-the-vow/>

Firstly it's easy enough to establish what Brown did say in the final days of the campaign. Brown promised “[a modern form of Scottish Home Rule](#)” and

We're going to be, within a year or two, [as close to a federal state as](#) you can be in a country where one nation is 85 per cent of the population.

There is no disputing what Brown said and in both cases it was a valid statement and prediction of what would follow.

Before moving any further we need to understand the terms DevoMax, Full Financial Responsibility or Full Fiscal Autonomy?

We have the nat definition in [Stewart Hosie's own words](#) when he deemed himself capable of talking for everyone in Scotland:

"The Scottish people are quite clear that devo-max means devolving every power except defence and foreign affairs to Scotland."

This is in line with the Scottish Government's [detailed paper on the subject in 2011](#). So DevoMax means effective control of everything other than foreign affairs and defence. As an aside this is a rather strange position because the Yes movement recognised this wasn't even possible under independence through their CU proposals which placed restrictions on the [Scottish Government's fiscal policy and borrowing levels](#).

So what of Home Rule? This has a wide variety of possible meanings but in legislative terms it was defined in the [Irish Home Rule Bills](#), specifically in the Government of Ireland Act 1914.

This Act gave devolved self government to Ireland but [reserved](#) aspects to the “Imperial Parliament” such as:

- Pensions, national insurance “labour exchange”
- The collection of taxes
- Financial services (Post Office, TSB, Friendly Societies)
- Debt made before the passing of the Act

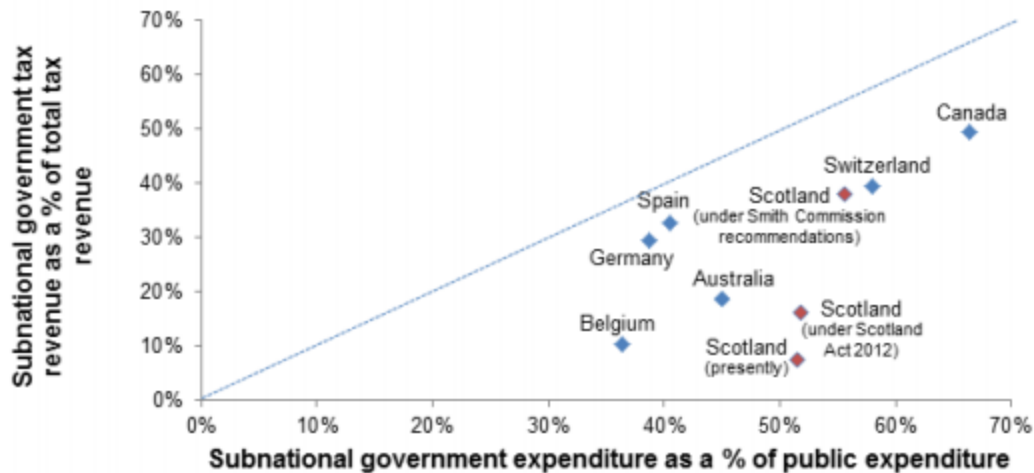
This should seem familiar, especially when you consider the taxes and public spending levels that existed in 1914, so a “modern form of Home Rule” would look similar in reserving certain taxes to Westminster whilst devolving others to Edinburgh.

This is certainly what the Scotland Bill 2015 provides for. It is however clear that by reserving powers, and maintaining pooling and sharing to the Imperial Parliament, Home Rule cannot be DevoMax.

Turning to Federalism? Was this DevoMax?

Rather embarrassingly for the nationalists the Scottish Parliament published a comprehensive comparison of different federal systems locating the Smith Commission proposals on a spectrum of the strength of local parliaments in federal or devolved systems.

This showed that Scotland under the Smith Proposals would be one of the [strongest local Parliaments](#) alongside that of federal Switzerland and considerably more powerful than that of devolved Spain or federal Germany. Therefore again Brown’s statement was fair and reasonable at the time and has been borne out by the facts that followed.



Federalism clearly does not mean DevoMax, no where in the study does any local Parliament come close to the nationalist definition of DevoMax.

The trouble for the nationalists is that they are contradicting themselves. Before the referendum result they sang a very different tune on the promises made by the Better Together campaign.

The day before the referendum for instance Nicola Sturgeon issued a [press release](#) where she argued that the the Vow did not guarantee a “single power”. This is clearly at odds with the “maximum devolution” rhetoric of her Deputy Leader after the referendum.

On BBC TV the day before the referendum Sturgeon stated openly that “[we don’t know what they’re pledging](#)” in respect of further powers. On the night/morning of the referendum (5:22am) itself Sturgeon reiterated the lack of clarity on future powers and, telling said, that she thought that “[full devolution of income tax](#)” would need to be delivered - something that Smith delivers. But again this is not DevoMax.

As “close to federalism” and “modern home rule” were promised and they are being delivered by the Smith Commission and the Scotland Bill. DevoMax or maximum devolution is a very different concept and unworkable within a currency union as the Fiscal Commission Working Group noted themselves.

The nationalists knew this before the referendum but in their desperation they are now trying to rewrite the past hoping to airbrush their own statements out of history.

The economy

In much of the following section I would defer and refer you to my colleague Kevin Hague's blog <http://chokkablog.blogspot.co.uk/> who has published a series of blogs which cover off this subject in terrific detail.

Would we have been better off under independence?

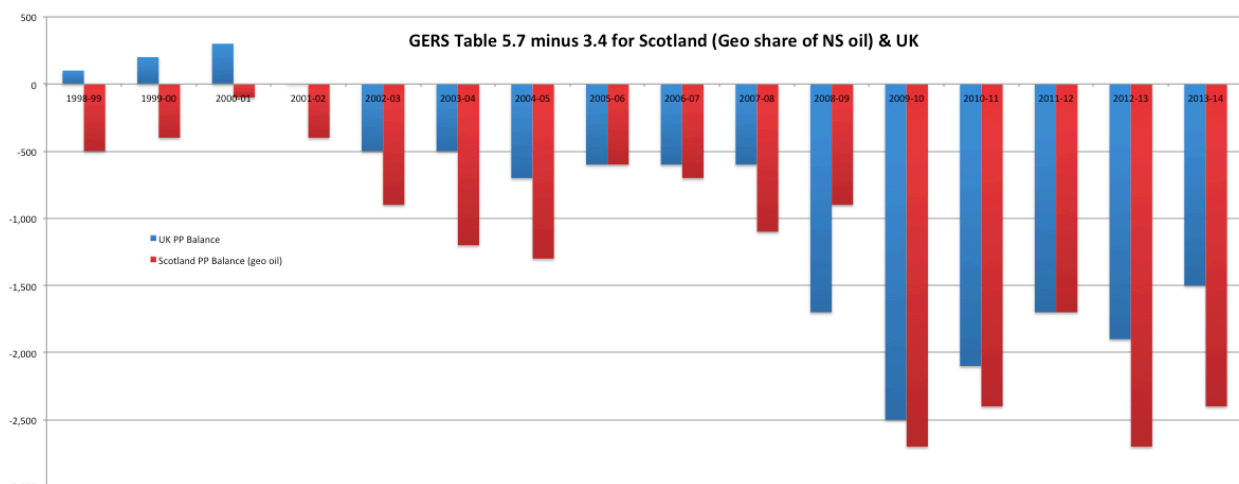
It's almost impossible to answer this question with absolute certainty. What one must deal with in these subjects is the balance of probabilities, but any discussion of this type has to start with the point of greatest certainty which is position immediately at the point of independence.

Had Scotland voted Yes then the country would be heading for independence early in 2016. This means that the economic situation right now (late 2015) is our best guide.

That current situation can be reasonably estimated with GERS (Government Expenditure Revenue Service) - to clarify the Government here is the **Scottish** Government.

GERS is a highly detailed study by the Scottish Government of the financial position of the country, it uses a wide variety of sources and has been subject to rigorous studies and revisions over the years to provide as accurate and authoritative position as possible. It is not supposed to represent the position on independence but the financial position of Scotland at present within the Union. That doesn't stop the nationalists using it as a proxy for the position on independence but as I will show later GERS only flatters the position on independence.

GERS was used by the Yes campaign during the independence referendum and it formed the basis of the analysis used by the Scottish Government in their white paper [Scotland's Future](#). Therefore, at least from a nationalist perspective, GERS provides a good guide to the economic position of an independent Scotland, so accepting the figures in GERS for the basis of debate should not be under question by nationalists.



The position outlined in the latest [GERS](#) shows that compared to the UK (blue) on a per person basis Scotland (red) has a worse deficit than that of the UK of £900 per person. In fact on this basis Scotland has only has one year out of the last 15 when it has a significantly better per person position than the UK. In other words in 14 out of the last 15 years had Scotland become independent in that specific year moment it would have been worse off than had it been in the UK.

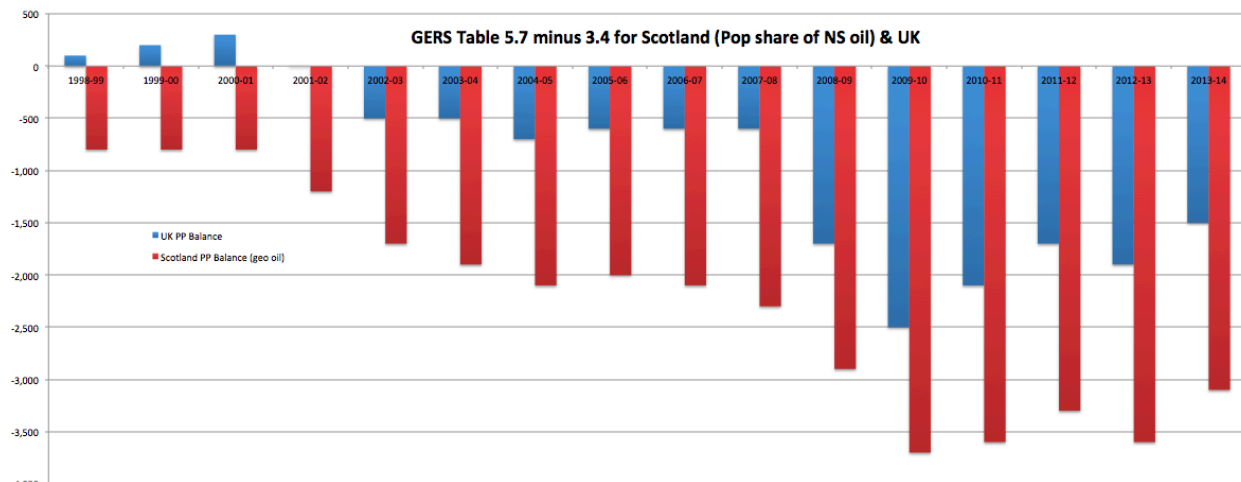
GERS 2013-14 shows Scotland would be

£900

per person per year worse off
outside of the UK.

What is notable is the deterioration in the position of Scotland in the last couple of years and this is largely due to reduced oil revenue. However as the current set of GERS data only covers the position up to April 2014 the effect of the collapse in the oil price from September 2014 has not yet fed its way into the data.

We now know that the likely tax take from oil in the next GERS figures will be very small if not simply a rounding error in the Scotland's finances. Therefore it's possible to view the data in a different way by either eliminating oil from Scotland's finances or better reducing it significantly. Fortunately GERS allows us to do this as it quotes oil on a geographic basis (used above), on a population basis or with no oil revenue at all.



It may not be readily apparent but the position is obviously considerably worse for Scotland with oil on a population basis but the “gap” between the UK and Scotland has been remarkably

consistent at around £1500 per head for the last 10 years. Therefore given what we actually know about oil this year it is more than reasonable to conclude that the position next year will be in line with that position.

So according to the nationalist side's own figures Scotland would be £1500 per person per year worse off outside the UK than inside it.

We could leave the argument there but I think it's worthwhile examining the problems I noted with GERS. It is not an estimate of the position on independence but crucially of Scotland within the UK. Independence would change the numbers for Scotland and not in a good way.

GERS data shows that with the current oil position Scotland will be

£1500

per person per year worse off outside of the UK.

Firstly GERS produces a lower estimate of defence spending for an independent Scotland, which under NATO membership needs to be 2% of GDP. Defence is allocated on a population share basis in GERS but because Scotland's share of UK GDP is greater than its population share it effectively lowballs the cost of defence under independence. That is small change compared to the next two observations.

Secondly GERS makes the assumption that existing debt costs are allocated on a population share basis (which I argue [here](#) is very fair to say the least) but paid at UK rates of interest. Under independence this would be an incorrect assumption, Scottish debt interest would be based on the Scottish risk of default not that of the UK. As demonstrated [here](#) Scottish interest rates would be higher than that of the UK. This means that for example a 1% spread on Scottish interest rates over rUK rates would mean comfortably over £1bn in extra costs to Scottish taxpayers. This extra cost is not included in GERS.

Finally a deficit of £1500 per person over the UK deficit takes the Scottish deficit to close to 12% of GDP. This is very similar to the level of deficit that Greece had just before it got into serious trouble. This is not to say that Scotland would be Greece but we can say with confidence that capital would be swiftly leaving Scotland before the government had an opportunity to tax it. The effect of this run on capital would make the financial position of Scotland even worse and potentially much worse if a deficit and capital exits spiral took hold.

Indeed it would certainly force the provisional Scottish Government to announce serious and painful cuts to public services if it wished to give the markets any confidence in their public finances. These cuts themselves would be painful and likely make the starting position of an independent Scotland even worse.

So we can say with some considerable certainty that at had we voted Yes then Scotland would be starting out considerably worse off than it was inside the UK, a figure of £1500 per person is a very low estimate of the actual position faced by an independent Scotland.

Is Scotland subsidising the rest of the UK?

Reading the previous section this might seem a bizarre question. Obviously if Scotland would not be better off under independence then by definition Scotland cannot be subsidising the rest of the UK?

Well not exactly. It would be possible for both to hold true if the effects of independence (say higher Scottish interest rates) would eliminate any Scottish financial advantage in the UK. However as noted [here](#) GERS does not take account of any independence effects therefore it is a bizarre contention to make.

That of course does not stop nationalists making the claim. Indeed some go so far as to argue that even without oil Scotland pays more into the UK than it gets back.

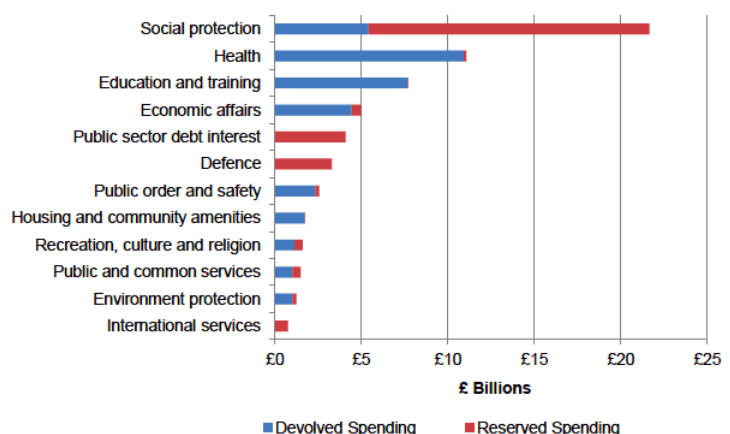
This claim is usually based on a quite obtuse and deliberate misreading of GERS and the block grant.

Quite simply in 2013-14 Scotland pays in tax, according to GERS, £50bn without oil or £54bn with oil (geographic share) and the Scottish Government received back in £43bn in devolved expenditure. Therefore Scotland is subsidising the UK to the tune of £7 or £11bn depending on how you count Scottish Revenue.

This is usually accompanied by a poorly designed graphic with a map and arrows to emphasise this loss of money to Scotland to the “greedy” Westminster. Alternatively it is just stated as fact by a [SNP MSP](#) who either does not know better or is outright lying.

A couple of seconds of thought would show that this equation doesn't add up. Why use 100% of all Scottish revenue but only a proportion of Scottish public spending? The implication of the argument is that reserved expenditure does not benefit Scotland and therefore can be safely ignored? Can it?

Chart 2.1: Total Public Spending: Scotland 2011-12



The [White Paper](#) on helpfully provides a breakdown of this

reserved and unreserved expenditure, and it can be broken down into three areas; defence, debt and social security.

To claim that Scotland gets no benefit from these areas is nonsensical. Scotland obviously benefits from defence and as noted [here](#) is actually allocated in these numbers less than it would have to spend as an independent member of NATO.

Scotland also benefits from debt interest payments seeing as it is these payments that are supporting the UK deficit which Scotland contributes disproportionately from and the low interest rates that Scotland benefits from as part of the UK.

In terms of social security the lion's share of this is pensions which are a clear and obvious benefit to Scottish pensioners, or anyone in receipt of most social protection payments.

It is possible to argue that Scotland is subsidising the UK, if you ignore debt, defence and pensions. Then again you could also just make up the figures and write them on a piece of paper with crayon, it would make about as much sense.

Is it not humiliating for Scotland to be subsidised by the UK?

Once a nationalist is defeated on the numbers of the economics independence they usually try to change the narrative. Accepting that Scotland does receive revenue from the UK they argue that this is humiliating for Scotland and that only they have pride in their nation.

An alternative arrangement of this is that Scotland's relative deficit has arisen within the Union so highlighting it is argument for the Union. The trouble for this nationalist argument is that this position has existed for a [very long time](#) and is largely a result of Scotland's sparse population, more of that later.

No matter what the reason it doesn't change the financial position.

However a cursory glance at the data shows that the concept of a subsidy does not apply, unless one believes that basic rate taxpayers are subsidised by higher rate taxpayers. To be fair that is a position held by some proponents of a [flat tax](#) however the general justification for higher rate tax is that those that benefit the most from society should contribute the most back. In that sense it is not a subsidy but a fair payment and contribution for the opportunities presented by the society in which these successful individuals thrive.

It's no different when it comes to the UK.

The UK deficit or surplus can be segmented in many ways but when broken down to the regions and nations of the UK a clear pattern emerges.

Firstly Scotland's financial position is entirely respectable in this context (even after taking account of lower oil receipts). Indeed compared to the nation of Wales or the province of Northern

Figure 2.5 - London's 2011/12 balance in a UK context



Ireland Scotland has a much stronger position. Further compared to many comparable sized parts of England Scotland is in a much healthier position. The financial position of the UK is largely supported by the [South East and London](#). Or to put it another way, take away London and the South East and the financial position of the remainder of the UK deteriorates to a Greek style unsustainable deficit.

So does this mean that London and the South East subsidising the rest of the UK (including Scotland)? No, it simply means that London and the South East are the most successful parts of the UK, but crucially, their success depends on their position in the UK. Let me put it another way if the rest of the UK decided to split off from London and the South East and blockade them both sides would suffer greatly. To coin and phrase they are better together.

Just like the success of higher rate taxpayers depends on being part of a wider society, London and the South East thrive because of their place within the UK, therefore it is only right that they should pool and share some of their wealth with the rest of the UK.

Therefore from a Scottish perspective part of the success of London flows from Scotland's participation in the UK, a financial transfer from London is not a subsidy but just a repayment of the wealth that is flowing from Scotland to London.

The trouble for nationalists is that if Scotland were to become independent then London would be unlikely to suffer significantly as capital would continue to flow freely from Scotland to the magnet that is London and the South East, however Scotland would suffer as it would no longer receive a fiscal transfer payment from London. Indeed it would suffer so much that it is likely it would hasten a [capital flight to London](#).

Scotland is not a subsidy junkie. It is one of the most successful parts of the British Isles. As a consequence of that success the powerhouse of landmass, London and the South East, grow stronger, it's only fair and equitable that Scotland should receive some payback for its support in generating that success. The question nationalists have to answer is why on earth would they want to deny Scotland a repayment which is rightfully ours?

Is Scotland too wee, too poor to be independent?

"And that is why they will always run down the Scots - why they will always say we are too stupid and too poor to be trusted to run the affairs of our own country."

[John Swinney 2/3/2001](#)

A normal nat meme when confronted with the reality of GERS and the financial position of Scotland following independence is to throw their hands up in the air and accuse anyone advancing the numbers as talking Scotland down.

This is usually accompanied by the phrase "you think Scotland is just too wee, too poor to be independent". Once this is uttered it generally represents the white flag of the nat in question as it's a statement that makes no sense at all for a nationalist to utter.

Firstly the statement was uttered by the SNP and not by a unionist (see above), indeed the only people who actually use the phrase are nationalists it seems.

Secondly the phrase completely misunderstands a reasonable analysis, which is that under independence Scotland would be worse off according to GERS. That doesn't mean Scotland could not be independent or that under independence Scotland would collapse, just that there would be very hard choices ahead for an independent Scotland. Indeed it's this jump from reasonable criticism (begging questions of how a nat would fill the deficit gap on independence) to the portrayal of the argument as Scotland can't be independent that shows the inherent weakness in the nat position. In other words "worse off" is not the same as "can't".

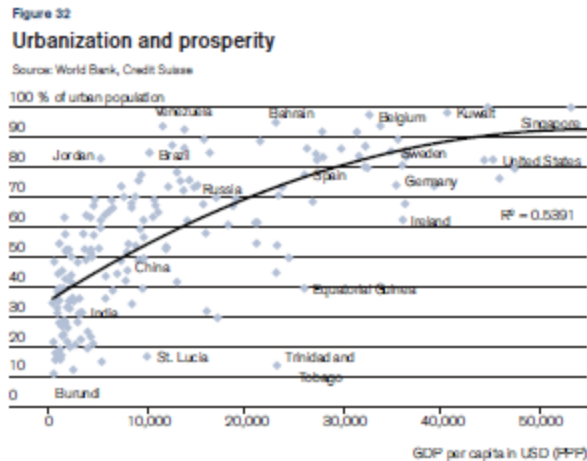
Thirdly the position just has it all wrong.

Scotland is not wee. It's not a small country, indeed the nats end up making this case themselves without noting the contradictions in their own position.

[Scotland represents around 60% of the landmass of England,](#) and in terms of [coastline it is 5 times larger than England.](#) No Scotland isn't too wee, if anything it's too big.

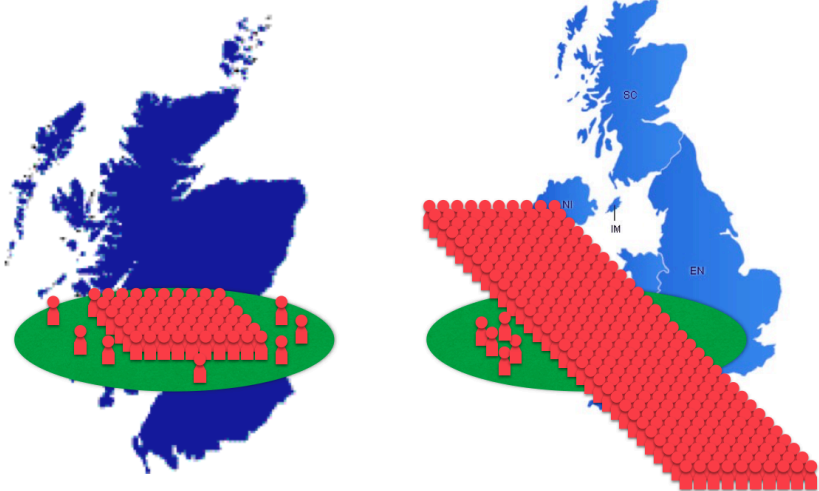
The trouble for nationalists is that whilst Scotland represents such a large landmass relative to England in terms of population the difference is stunning. [England has a population of 54.3 Million, Scotland 5.3 Million.](#)

The debateable observation that small countries are [successful](#) argument holds as small countries have relatively dense populations. Infact that argument is normally boiled down to the extent of urbanisation in a country, small countries have less opportunity to have population anywhere other than in or close to urban centers.



In other words it's much easier and cheaper to provide services to the population of a small country than a large country. The larger the country the greater the opportunity for a sparse population with all the costs of providing transport, healthcare, welfare, crime prevention in these areas.

For example in the City of London a single police officer could cover [2691](#) people within one square kilometer. In Lochaber (because I know it well) to reach that many people the officer would need to cover an area of 625 square kilometers! That spread of people over such a wide area adds costs and brings inefficiencies to the provision of public services. So to maintain the same level of public services Scotland needs to spend more than England.



Scotland : 67 per person km²

UK : 265 per person km²

Scotland has a consistently larger deficit per head than the UK because Scottish public services cost more than the UK average due to our sparse population.
We're not too wee, too poor. If anything we're too big.

It's this premium on our sparse population (which is one of the benefits of Scotland compared to the densely populated London) which results in the deficit gap between an independent Scotland and a Scotland within the UK.

The difference between the position of the UK and Scotland is illustrated above.

With just 67 people per squared kilometer Scotland is way behind the UK average of 265 people.

The situation is worse for Scotland as our population is largely concentrated in the [central belt](#), this means that large parts of the country contain very few people all of which need a basic levels of service (power, roads, water etc) all of which cost a large amount of money on a per head basis. One startling statistic for Scotland (albeit from 2001) is that 9.2% of the population lived in areas with a population density of [0.1 people per hectare](#) (that's 100 square kilometers).

More recent [data](#) shows that 4.3% of the Scottish population live in "Very remote" parts of Scotland covering a staggering 47.3% of the entire landmass of the nation!

This sparse population has great economic costs to Scotland as well as the benefits of not living cheek by jowl compared to our

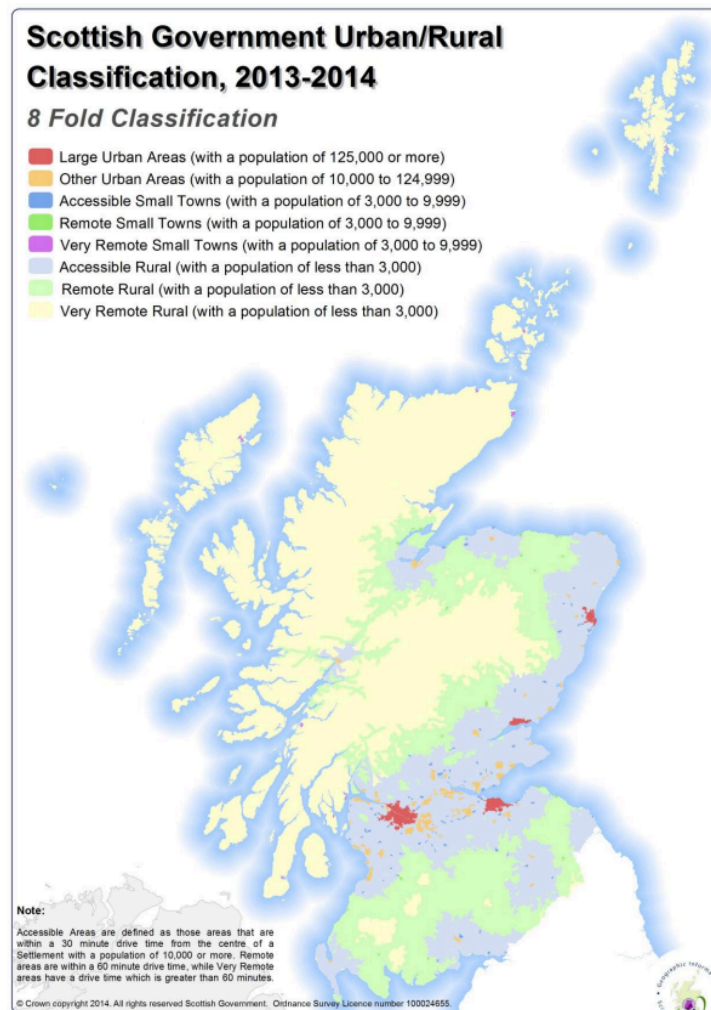


Table 11 **Key population figures: by Scottish Government Urban Rural Classification area type, 2009**

Wider area type	Narrower area type	Mid-2009 population, thousands	Percentage of total population	Percentage of total land area	Percentage change in population since 2001
Urban	Large Urban Areas	2,023	38.9	1.2	1.9
	Other Urban Areas	1,583	30.5	2.0	1.0
	Accessible Small Towns	438	8.4	1.5	0.3
	Remote Small Towns	130	2.5	0.7	- 0.7
	Very Remote Small Towns	65	1.2	0.3	- 3.9
Rural	Accessible Rural Areas	620	11.9	25.4	11.0
	Remote Rural Areas	176	3.4	21.8	7.7
	Very Remote Rural Areas	160	3.1	47.0	3.5
Urban	-	4,238	81.6	5.8	1.2
Rural	-	956	18.4	94.2	9.0
Accessible	-	4,664	89.8	30.2	2.5
Remote	-	305	5.9	22.5	4.0
Very remote	-	225	4.3	47.3	1.3
Total	-	5,194	100.0	100.0	2.6

Source: 2009 Data zone Mid-Year Population Estimates, National Records of Scotland

neighbours down south. Right now those costs are pooled and shared currently with the UK but it is those cost which largely lie at the root of the deficit gap between independence and remaining in the UK.

The challenge for the nationalist movement is in recognising that as a problem and proposing a solution rather than shouting a slogan that makes no sense and running off.

Even without oil is Scotland better off independent than the UK?

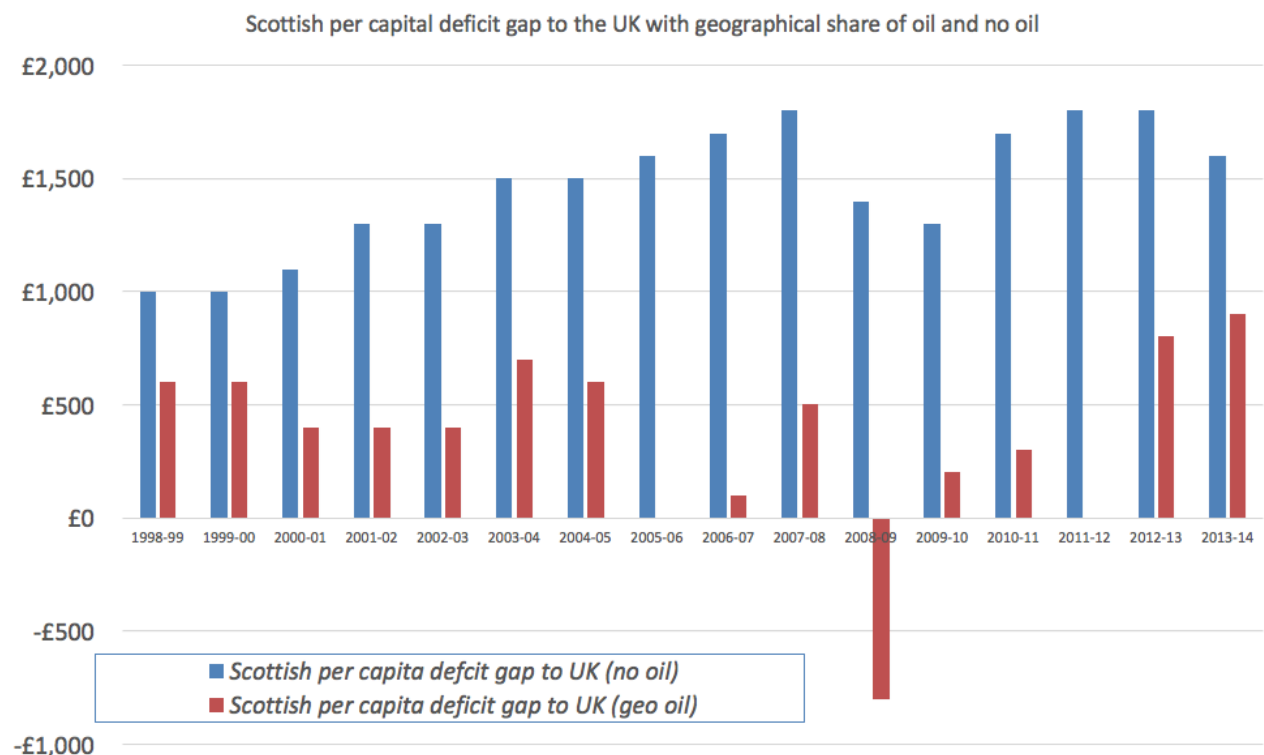
The simple way of putting this particular nat meme is “[Oil is just a bonus](#)”. The implication from this tagline is that Scotland is financially equivalent of the UK even without oil.

As ever with this kind of meme there is something to it, but it falls apart under any detailed scrutiny.

The *something to this* is Scottish GDP per capita. When you measure Scottish GDP per capita without oil and compare it to the UK then it is remarkably similar to that of the UK. Including oil it is greater (on a per head) basis than that of the UK. Here the nat will hope the conversation can stop, case closed, job done.

However when you start to combine per head population statistics with the issues noted about the [sparse Scottish population](#) (relative to the UK) you notice that it starts to flatter per head calculations when compared to the UK and this becomes obvious when you look at the tax and spend calculations with and without oil.

I’ve covered this in greater detail [here](#) where I look at a population share of oil. However if you look at the Scottish deficit gap (the extent according to the Scottish Government that Scotland is worse off or better off than the UK) you can see that without oil (in blue) Scotland has a



remarkably consistent deficit gap of over £1500 per head over the past few years. Remember a positive figure here is not good as it is measuring the extent to which each person in Scotland would be worse off under independence.

When you add in oil (in red) the picture changes and whilst you continue to get a deficit in all but one year the position is far better.

If oil was just a bonus then the blue lines above would be hovering around the zero mark. The addition of the oil bonus would plunge the lines into negative territory showing that Scotland with its bonus of oil would be better off outside of the UK. Of course the reality is exactly the opposite of the rhetoric.

Oil is not a bonus. Scotland depends on it to fund vital public services and stave off very difficult personal tax increases, oil was and is a great natural gift to the Scottish people. It helps to keep our deficit gap down as well as justifying our higher than UK public spending. Without oil that will be harder to justify whilst also making independence extremely unpalatable. With falling oil revenues (which look likely to be negative in the current fiscal year) the position of oil not as a bonus will be more obvious than ever.