

My thanks to the Fraser of Allander for agreeing I am r...

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The [Fraser of Allander](#) Institute at the University of Strathclyde says of itself:

Fraser of Allander Institute is Scotland's leading independent economic research institute with over 40 years of experience in real-world policy analysis.

Since 1975, the Fraser has developed an unrivalled knowledge and understanding of the Scottish economy and is Scotland's expert authority on economic policy issues.

Whether this is true or not is something I am not qualified to comment upon. What I do know is that In a [blog published late last week](#), David Comerford of that Institute noted that:

On the back of this, we have been asked about the significance of the 'for' vs. 'in' methodology GERS uses to calculate public spending.

He then added:

Some have argued that Scotland is short-changed — be that via spending on Defence or Whitehall civil servants — and that too much of what is allocated to Scotland in GERS is actually spent elsewhere in the UK.

The purpose of this blog is not to address that particular argument directly but instead to simply ask — if true — what could the potential impacts be on the net Scottish fiscal position?

I am amused by the post. It is very obviously a response to my [commentary on this issue](#), but, [not for the first time](#), the Fraser of Allander has published a blog in response to my suggestions without acknowledging my work or referencing my piece. I could speculate on why this is, and won't bother doing so. Instead I will note that this is not an adequate or even appropriate response to my latest criticism of [Government Expenditure and Revenue Scotland](#) (to which the Institute is particularly attached since its director was previously responsible for the production of GERS for seven years). There are three reasons why this is the case.

First, my criticism was that GERS did not apply the accruals principle correctly. I used the arguments to which The Fraser refers as examples of this, but to illustrate a point.

Second, as a result I suggested that this meant that GERS was inherently unreliable since its methodology was fundamentally flawed.

Third, I suggested it needed reform as a result.

The Fraser has, in a fashion quite peculiar to some in Scotland, sought to suggest that even if it is wrong GERS must still be retained. I won't quote at length from a piece, largely because it obfuscates from the moment it sets out to ignore the real issue raised. Instead I will draw the conclusions that it actually reaches, but does not state.

First it agrees that income is omitted from the GERS statement as a result of failing to account of expenditure for Scotland spent elsewhere which is recognised as Scottish spending in GERS but for which no credit is currently given in the income side of the account.

Second, it admits there would be a multiplier effect on this in economies outside Scotland.

Third it admits that Scottish GDP is understated as a result.

Fourth it admits that the Scottish deficit would be reduced if proper taxation account was taken of this issue.

In other words, it agrees that all that I claimed is right. I thank them for that.

That's not how they put it, however. Instead their claim is that the impact would be small. Their precise words are:

Changing assumptions about how much spending is allocated 'for' Scotland or spent 'in' Scotland in GERS will change the net fiscal position. But any revisions are relatively small.

They add to that:

The idea is an interesting nuance when linking the GERS figures to the constitutional debate. But the "on behalf of" vs "in the territory of" issue does not explain the Scottish fiscal position vis-à-vis that of the UK as a whole. Of course, it is possible to close this gap by explicitly reducing certain expenditures or by assuming higher tax revenues — either through increased rates or faster growth. Others will argue though, that in the context of independence, there may be additional costs. The debates will no doubt continue.

They certainly will. Let me offer some suggestions as to how that debate should go

now. No doubt it might continue on 19 September when both Graeme Roy, director of The Fraser of Allander and I are giving evidence on this issue in the Scottish parliament.

First, the assumption that the data in GERS is good enough, implicit in this blog and in all the Fraser of Allander commentary is not good enough. As the consultant on GERS to the Scottish parliament [*Economy, Jobs and Fair Work*](#) committee [*has said*](#):

Compared to ONS statisticians, it's more likely that Scottish Government statisticians would describe themselves as more opportunistic, but relatively powerless, statistical scavengers. The economic statistics published by the Scottish Government tend to pick out relevant data from UK wide surveys and administrative data where possible.

It is ludicrous that this is the case, and as ludicrous that GERS is ONS accredited in that case. The data sources have to be reviewed, especially when it comes to income. My evidence to the Committee (which will be published soon) addresses that issue and makes it clear that doing so is possible.

Second, the methodology has to be revised if, as the Fraser of Allander agree, it is wrong. No accountant could use the GERS methodology without risking the allegation of professional misconduct, in my opinion. Comparing two wholly different bases of accounting for income and expenditure, as it does, is simply unacceptable. It should not be in Scottish national accounting in that case.

Third, how the resulting data is to be made more useful needs to be on the agenda. Right now it seems as though GERS is produced as the basis for an annual kick-about on the state of the Scottish economy and not as the basis for economic decision making. The trouble is that economic decision making is now devolved to Scotland but the data it has to use for the task is no better than that which was available when that was not the case.

If the Fraser of Allander really is what it claims to be then I would expect it to address these issues and not waste its time defending the indefensible current state of play, which seems to be its preferred current option as if all it is concerned about is defending its past work, much of which is based on GERS and related data. That may be the core of its current intellectual property and status, to which my response is that it has to get over the fact that what it has done to date may no longer be good enough. What it needs to do is move the debate on and embrace whatever comes with doing so. I look forward to seeing the evidence that this might happen. But it's not available as yet.