

## It's time for GERS to go

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If I presume my Twitter timeline to be a reflection of what is happening in some areas of debate, then dispute on the usefulness of the Scottish government's GERS statement is raging again. GERS stands for [Government Expenditure and Revenue Scotland](#). It is also the nickname of Rangers Football Club which is, of course, traditionally supported by unionists. I have commented before that I do not think this a coincidence. It betrays the original Conservative government objective for this statement when it was first created in the 1990s, which was to undermine the case for independence.

The GERS statement has been redefined since then. And I recognise that the methodology did improve.

And it is entirely true that the statement is now produced by the Scottish government itself. Unionists do as a result claim that if a nationalist government produced this data it has to be true.

No one does this more so than a blogger called Kevin Hague, who I see (because it's been drawn to my attention) [has been having one of his periodic goes at me](#), whilst simultaneously producing great quantities of data which he suggests proves his case that Scotland is going to hell in a handcart, with or without independence.

I am not writing now to knock Kevin Hague. I have little taste for his style of debate. And I can't be much bothered to engage with a man who has stated (correctly) that GERS provides no indication of what the financial state of an independent Scotland might be, and then proceeds to base all his argument on the fact that it does. No one can win in direct argument against someone capable of being quite so illogical: they will persist with their illogicality come what may.

Nor am I writing now to address, yet again, the obvious failings in GERS as it stands. I have already done that on many occasions and nothing has, as yet, changed. So I suggest starting [here](#), and [here](#), and searching for more or following the links in those pieces if you want to know why GERS:

- a) Understates Scottish income, by design;
- b) Overstates Scottish expenditure, by design;
- c) Is prepared on an accounting basis that preaches fundamental rules of accounting;
- d) Is based very heavily on non-Scottish data that was not designed to facilitate GERS;
- e) Could not be made more accurate without there being a political will in Westminster, to produce better quality Scottish data, which political will does not exist. Go back to my opening comment on the name to see why.

Instead I want to make clear why the arguments that Kevin Hague, and those with similar mindset promote are so irrelevant to this debate. This requires a little explanation.

The first thing to note is that Hague et al are technicians. They take data they are given and process it. They do not question it. They look for a seal of approval - in this case that of the Scottish government - and declare that is good enough for them and that anything that they might do as a result is sound analysis. I regret to say that this shows remarkably little understanding of almost any aspect of accounting or economics, although I admit that the economics profession is dominated by those who are similarly uncritical.

To be clear, no data has the objective quality that Hague et al apparently presume GERS has. All data is deeply subjective. What data we collect, how we collect it, how we process it and how we then publish it are all matters determined by subjective judgement. So, as I have pointed out, a decision has been made to not collect data on all the income attributable to Scotland. And expenditure that no one in Scotland has decided should be incurred has been attributed to it. These are subjective decisions. They distort the reporting. I stress, I am not arguing subjective decision making is wrong: it is a necessary fact of life. But when reviewing any data we have, then, to remember why it was collected; what the constraints are and what use it was intended to serve.

In this context the current political setup in Scotland has to be born in mind. The reality is that whilst Scotland has a parliament and has devolved responsibility for some issues, such as education and health, it has limited real revenue raising powers. In particular, some taxes are wholly outside the scope of devolved powers e.g. taxes on companies and wealth as well as national insurance and VAT (for now). Even the tax powers that are devolved are largely confined to making variation to rates, rather than to making any significant changes to tax base. Scotland is, then, very largely (by which I mean, for almost all practical purposes, entirely) dependent on funding supposedly supplied to it by the Westminster parliament, whatever the appearance might be.

What I am suggesting in that case is that whatever the veneer might look like, the Scottish government is for all practical purposes actually a devolved spending authority at present. Its ability to alter its revenue is simply too limited to alter that fact. And the constraints on its powers to intervene in the economy are so tight that it has little real chance to alter the economic well-being of the country if UK national economic policy is set to harm it, as it has been for many years.

And this fact (for fact it is, even if the SNP like to play along with the idea of limited devolved powers on revenue) means that the truth is that the Scottish government has about as much economic autonomy at present as an English country council. Indeed, given that English local authorities might raise more of their revenues themselves (albeit, again within heavy centrally imposed constraints) Scotland may have less autonomy.

In that case what is GERS for? It's essentially about showing three things. One is, by implication, the fact that the Scottish government is required to balance its budget. That is a legal requirement. Second, it is about then suggesting that Scotland does raise some taxes, although the actual figure is deliberately understated. And then, thirdly and most importantly for some (who happen to effectively control the process), it is about suggesting that Scotland is a burden on the rest of the UK and should be immensely grateful to England in particular for subsidising it so heavily.

In other words, GERS indicates that a management obligation - a supposedly balanced budget, that is designed to very largely remove all fiscal power from Holyrood - has been delivered. And it is designed to show that there is a deficit in Scotland on the basis of the arbitrary estimation of income and revenue arising in Scotland that is used, that is then intended to feed directly into the political narrative that Hague et al use.

That the outcome is absurd is apparent. As I noted last August, it is simply impossible that X% of the UK national deficit is produced by Scotland. If an accounting system produces such a ludicrous claim then it safe to say that the accounting system is wrong.

My point, then, is to ask why it is so wrong. How can it be that such a misleading statement is still in use?

Firstly, let's be clear, that's because it very much suits the UK government to make the SNP look bad. When there is no foreseeable chance of a Conservative government in Scotland for a long time to come, and every chance that there will be a Conservative government in London for at least five years, it's reasonable to presume that the bias will remain.

Second, it is unfortunate that as yet the SNP has not called GERS out for this reason. Instead of promoting it as reliable, as it has, it should be highlighting all its deficiencies and all the issues that should be reappraised to make it useful, if it is ever to achieve that status. But so far they will not do that.

Third, and worse, the SNP through its Growth Commission, has actually produced an endorsement of both GERS and the role of Holyrood as a devolved government that it imagines continuing well beyond independence as a result of the policy of sterlingisation to which they still seem to adhere, whatever good work Tim Rideout has done.

Fourth, then, it has to be understood that GERS seems to suit a mindset prevalent across the SNP / Tory divide that does, whatever is said in public, still seem to the think that austerity policies, based on externally imposed financial constraints created by London and imposed through the use of sterling will deliver. I can't explain why the SNP wants to subscribe to this view, but it appears it does. It will not only seriously harm the case for independence if it continues with it, by guaranteeing that the SNP will have to play on Hague et al's economic playing field if debate is to take place around such issues with existing SNP policy still in place, but it would also guarantee that Scottish well-being would be seriously harmed by an SNP government committed to such a policy if independence were to be achieved. I hate to say that, but the failure to challenge the culture of economic dependence on London implicit in GERS makes the SNP a massive threat to Scotland post independence right now. I hope for more enlightened times.

That enlightenment would require a number of matters to be appreciated. Let me list them, again.

First, if Scotland was independent - and that is the scenario I am really most interested in - GERS is of absolutely no consequence, even as a starting point.

That's because Scotland should, if it has any sense and any chance of real independence, have its own currency from, in effect, day one of being an independent state.

And it should have its own foreign currency reserves - which it could create by issuing its new currency which people would want to buy with their existing currency - providing Scotland with its reserves in the process.

And then it would want to run a deficit, because a growing currency with a need for currency to keep its economy turning needs a government that is willing to run a deficit to inject funding into the country. The likes of a Scottish Green New Deal will, in any event, require this.

After which, Scotland will both need and have a proper accounting system of its own in place at this time. This would be essential: no country can run without one. And the key fact is that international law not only supports this process, but it is increasingly intended to support its effective delivery.

So Scottish imports and exports would really be tracked, with VAT being accounted for. That is not the case now: there is no real idea what is happening on this issue.

And Scottish residence for tax law would cease to be as arbitrary as it appears to be right now, with Scottish tax authorities still not really in control of this process.

Whilst trade in Scotland will have to be properly recorded as such, with sales, expenses

and profits all being properly locally recorded for declaration to the Scottish tax authority.

And because international tax law would apply, Scotland could challenge the transfer pricing abuse that is not monitored in the flows out of Scotland to England now, where overpriced PFI, loan charges, interest and rents flow south without any control at all.

Instead, rents would be taxed in Scotland, come what may, whilst interest charges might well be as well: those charging interest in Scotland might be required to account for them in the country as well.

The reestablishment of a real Scottish financial services sector - meaning that profits from this activity which are now recorded in London would flow back to Scotland - would also help.

And the result would be that the correction of the current mis-statement of Scottish financial income, noted by [John Christensen and Nick Shaxson](#), would seriously change the balance of payments with the rest of the UK. Scottish finances would look very different as a result. What is now arbitrarily allocated to England will be Scottish again.

I am not saying there will be no deficit: I see no reason to desire anything but a deficit. But the point is that instead of accounting as a local authority, in a currency over which it has no control, and with no powers to really require that Scottish sourced income be recorded in Scotland in some quote crucial areas, Scotland would account as a nation, and have the power of a nation to enforce its own rules. And it would have its own currency.

And that is a scenario so unlike GERS as to make comparison meaningless.

Three final thoughts then as to what this implies.

First, the SNP needs to announce a plan to replace GERS as being no longer fit for purpose, come what may.

Second, the SNP needs to embrace the idea of its own currency and running deficits post-independence.

And third, it needs to make clear that its vision of Scotland post-independence is not as a continuation of what is happening now, or why bother? Playing with GERS suggests that somehow not much will really change, and that is a serious mistake.

Accounting is, then, deeply political. GERS is a statement about Scottish dependence. Of course those who want to belittle the country love it. It's time Scottish nationalist politicians of all allegiances realised that and got rid of it.