The failing English elite can't get its head around Sco...

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The FT says in an editorial today that:

The die is cast. Parliament has backed Boris Johnson's withdrawal agreement, putting Britain on course to leave the EU on January 31. It is now clear that the future of the UK union itself will move centre stage next year. The Scottish National party, armed with electoral gains this month and the argument that Brexit is a material change to the UK's constitutional make-up, wants a new vote on independence. Supporters of the union must make the case for its survival.

All the usual arguments are rolled out, including this:

The economic case for independence has, however, weakened further. Brent crude was at $100-plus a barrel before the 2014 referendum. Today it is $65. That makes it all the harder for Scotland to fund itself without the sizeable net budgetary transfer it receives from the UK. The annual Government Expenditure and Revenue in Scotland review found Scotland ran a notional budget deficit of 7 per cent of output in 2018-19, even after including a share of North Sea revenues. The type of Brexit Mr Johnson is targeting would reduce the future UK-EU relationship to a trade deal. If Scotland then broke away but remained in the EU this would create a hard border between it and England, causing further economic harm.

First of all, it's hard to see how harm could be caused by being in the EU when the FT considers that to be to the benefit of the UK as a whole. Second if, as is inevitable, rules to handle Northern Ireland being outside the rest of the UK for trade purposes can be developed and functional there is no reason why they could not also be applied to Scotland.

Second, though is the more important question of selecting inappropriate evidence. It is well known that I have long been a critic of GERS. There are numerous reasons for being so. As I wrote in August this year:

It is important to remember that this data is now published by the Scottish government.

It was not always. It began life in the early 1990s as a deliberate exercise to supposedly prove that Scotland was not a viable independent state. Now the Scottish government says of it:

The aim of GERS is to enhance public understanding of fiscal issues in Scotland. The primary objective is to estimate a set of public sector accounts for Scotland through detailed analysis of official UK and Scottish Government finance statistics. GERS estimates the contribution of revenue raised in Scotland toward the goods and services provided for the benefit of the people of Scotland. The report is designed to allow users to understand and analyse Scotland's fiscal position under different scenarios.

GERS captures the entire public sector in Scotland and includes activity by each of the constituent sub-sectors of the public sector: central government, local government and public corporations. In addition to providing an analysis of aggregate expenditure and revenue, the report contains a detailed breakdown according to individual expenditure and revenue components.

That, in my opinion, is a generous interpretation, and in some respects just wrong. I have not seen the data as yet, but I have no doubt that I was right to have created the term CRAp to describe it. That means ‘Completely Rubbish Approximations’. And that is what GERS is.

So, before we see anything let me remind those who will get excited by this (and I am sure some graphs will be coming our way) of just why I think this.

First, this was and to some extent remains a Unionist exercise. The short name says it all, and is not, I am sure coincidence. No one puts expenditure ahead of revenue in the name of an accounting document. It was done here for a reason, and it was to make a point that is still repeated. I will treat it with more respect when it is renamed.

Second, this is very largely UK based data. It is simply an extrapolation of that data to Scotland in most cases. And UK data is prepared for UK purposes. The result is that the inherent reporting bias in it, recently referred to by the Tax Justice Network, for example, is not removed. Large amounts of economic value created in Scotland is not reported there as a result.

Third, GERS is not intended to show how an independent Scotland would perform, and does not. For the sake of the independence debate it is almost irrelevant.

Fourth, GERS reflects a lot of spending Scotland would not incur. It would not have a nuclear deterrent, for example.

Fifth, as I have argued many times, the accounting is biased and theoretically utterly flawed. When accounting it is vital that all estimates are prepared consistently and on the same basis. GERS has not been. Income is estimated on the basis of that arising IN Scotland but spending is estimated on the basis of that arising FOR Scotland. So, only taxes paid in Scotland are included. But expenditure in England (mainly), Wales and Northern Ireland is also charged to Scotland when Scotland is deemed to benefit from it. But the tax paid to generate that expenditure is not taken into account. The system is, then, inherently designed to show a deficit. This is why the Scottish government claim about it is wrong.

Sixth, no one really has a clue about the level of Scottish imports and exports, including services, because as yet the data to check these does not exist. And since this data might significantly impact GERS, and any other debate on the Scottish economy, that leaves a gaping hole in the estimates that nothing can fill.

Seventh, even now Scotland has a tax authority we know it is having difficulty identifying Scottish resident people and their tax liabilities. And that is for easy taxes. On VAT, corporation tax and many other taxes the figures are stabs in the dark, especially as much Scottish added value is recorded elsewhere.

To base an argument for or against independence on data that was not intended to show the financial position of Scotland if it was independent makes little or no sense.

But let me suggest too that the FT should consider the Tax Justice Network paper noted above. Written by Nick Shaxson and John Christensen it looks at how UK regional accounting data (i.e. that for all regions and not just Scotland, but of which GERS is really an abstract) is likely to be seriously wrong. As they note:

A 2017 article in the Financial Times, entitled "Why London deserves a thank you note from the rest of Britain," argued:

London "is definitively the cash cow that allows [politicians] to promise the high quality public services all parts of the country crave.... Official estimates show that "In 2015-16, average Londoners paid £3,070 more in tax than they received in public spending . . . if London was a nation state, it would have a budget surplus of 7 per cent of gross domestic product, better than Norway. . . . the idea that London sucks the life out of other parts of Britain is absurd."

Supporting this view, the Office for National Statistics (ONS) presents regional data for Gross Value Added (GVA,) showing London's per-capita productivity at 179 percent of the UK average, while West Wales & the Valleys are at just 63 percent. While other studies suggest that the true picture is less stark after adjusting for workforce, housing, industry mix and other factors, this has not dented the conventional view.

They then argue, convincingly, that this is wrong. Their argument is that the financial power of London extracts talent, investment, and most importantly income through the extraction of rents in the firm of excessive interest and literal rent charges that are recorded in the south-east of England as income and which are shown as deficits in the regions, including Scotland for these purposes. As they conclude:

A simplistic approach to addressing Britain's regional economic imbalances, on the above analysis, would identify parts of the financial sector as extractive, then seek to shrink such parts, in the name of regional rebalancing. It may indeed be possible to consider how and which parts of the financial sector may usefully be made smaller, and regional and national cost-benefit analyses conducted of various strategies for doing this.

However, a more nuanced approach would recognise that many of the more extractive sectors, and more broadly those forces that represent the 'gravitational pull' of investment and resources and effort and talent away from the regions (and from poorer parts of London) towards the parts of London and its hinterlands that represent the 'winners', are frequently inseparable from one another. Useful and productive lending and investment, for instance, are entangled with leverage techniques and securitisation, which contributed to the global financial crisis and may do so again.

Measuring these effects will be difficult, requiring innovative new ways for identifying financial extractive mechanisms, or other gravitational effects. For instance, might one estimate the scale of wealth extraction via excess market power and put this in a regional context?

If this were done a very different view might emerge. I believe that they are right.

Nonetheless the FT concludes:

The UK prime minister is right to refuse Ms Sturgeon's calls for a new referendum in 2020.

It adds:

This newspaper firmly supports the United Kingdom as one of the most successful political marriages in history. But the argument that Britain's departure from the EU changes the constitutional situation is legitimate. If parties that unequivocally support a new independence referendum win a majority under Scotland's proportional system in the 2021 election, the case to grant one may become unanswerable. Before then, if it is to preserve the UK, the government must do all it can to persuade Scots once again to vote No.

Let me assure the FT economic argument will not do that: the data does not make the case.

More important though is the fact that the FT does not understand that Scotland thinks like another country. And that is what will be insurmountable.

What is remarkable is that sometime soon England will really face the end of its Empire. Northern Ireland and Scotland, at least, will leave the Union. As a political economist it's impossible not to be fascinated by this. As an observer of the failing English elite it's as fascinating to watch their failure to come to terms with it, as the FT evidences. For Scotland, at least, it brings hope. For Ireland it's more complicated. But I believe it too will get there. We live in interesting times.