

Tax Research

Would Scotland owe the rest of the UK any part of the national debt if it were to leave the Union in 2020?

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I am aware of much debate of late on the scale of the debt that Scotland would have to inherit if it became a country independent of England. The issue usually runs along the Unionist political divide. Unionists are usually those who were adamant that Scotland must take its share of the debt, and that it could not afford it. Others, more independence inclined, are not convinced. So let me offer some rational comment on this situation. To do so let me specify the issues to be decided upon here.

The first is whether Scotland might be liable for the debt?

The second is how much debt is there?

Third, the question is what part of that total might be attributable to Scotland?

Fourth is the question of when any repayment might be due?

Fifth is the question of what interest might be due if the debt is not repayable now.

I will deal with each of these in turn.

1. Would Scotland be liable for English debt if it became independent?

It is an odd claim that is made by Unionists that Scotland is liable for debt due by the UK. The oddness comes from the fact that this recognises that Scotland's sovereignty is real and divisible from the UK as a whole. It is therefore in existence now. If so, the point has been conceded that Scotland is already an economic as well as national entity separate from the UK, and has been during the existence of UK.

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This then concedes a second argument, which is that English identity is also separate, divisible from the UK and continuing as well. This must be so. The very fact that there are two separate countries (of which England is the representative of one) that might assume this debt is, in that case, common ground.

There should also be common ground on another issue. And that is that there is actually already agreement that Scotland will have no liability for any of the debt of England, Wales or Northern Ireland (although for all practical purposes, this is English debt) if it chooses to become independent. We know this because the UK government issued a publication on this issue in 2014 under the title²:

UK debt and the Scotland independence referendum

In this the UK government, based in London, said:

In the event of Scottish independence from the United Kingdom (UK), the continuing UK Government would in all circumstances honour the contractual terms of the debt issued by the UK Government. An independent Scottish state would become responsible for a fair and proportionate share of the UK's current liabilities, but a share of the outstanding stock of debt instruments that have been issued by the UK would not be transferred to Scotland. For example, there would be no change in counterparty for holders of UK gilts. Instead, an independent Scotland would need to raise funds in order to reimburse the continuing UK for this share.

They added:

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.

In addition they said:

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.

I think this really rather helpful because much of it summarises what appears to be legally, practically and politically both true, and necessary. In the process it resolves the first question. The UK government has said Scotland will not be liable for debts managed by

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/270643/uk_debt_and_the_Scotland_independence_referendum.pdf

London before independence. Instead anything owing is entirely down to negotiation. The idea that in that case Scotland has some fixed share of UK debt that it must assume can be dismissed: this claim has no legal or factual basis.

2. How much debt is there?

I have noted what the UK government has said about debt. It is also appropriate to note that by implication their note suggests that Treasury Bills and gilts are not the only issues to be considered, but let's assume that they are in the first instance as that is what is usually called 'debt'. I will come back to the only other issues of significance later in this note.

It so happens that we have quite a good basis for determining how much UK debt there is. The government has just published its March 2019 Whole of Government Accounts³. They say that the UK debt is as follows:

Note 20. Government borrowings

	2018-19 £bn	2017-18 £bn
Non-current:		
Gilts	1,100.0	1,071.8
Total non-current government borrowings	1,100.0	1,071.8
Current:		
National Savings and Investment products (NS&I)	167.6	156.7
Treasury bills	79.7	68.7
Gilts	59.9	50.2
Total current government borrowings	307.2	275.6
Total government borrowings	1,407.2	1,347.4

Some might be rather surprised by these figures. We're told that UK debt now equates to GDP, although since both figures are represented by pretty poor estimates during the coronavirus crisis it's hard to be sure what that means. Thankfully, the House of Commons Library says two things that provide some clarity to assist interpretation of this issue in a

³ <https://www.gov.uk/government/publications/whole-of-government-accounts-2019-to-2020-guidance-for-preparers>

publication⁴ from June 2020 that referred to government debt as at March 2020. One was that the gross debt was £1,806bn at that date, and the second was that it increased by £56bn during the year then ended, implying it was £1,750 a year beforehand. Many would, in that case be surprised to note that they say otherwise, since they suggest the debt to be £1,773 billion in March 2019. I will simply use the anomaly to note that this is a recurring issue when discussing national debt figures: they're extraordinarily hard to pin down, let alone make sense of. Approximations are always the order of the day.

What we can be sure of is that £1,773bn is not the same as the £1,240 billion of gilts and Treasury bills reported as outstanding at 31 March 2019 as per the Whole of Government Accounts (I have excluded the savings accounts balance at National Savings and Investments from consideration as part of debt, since it is clearly something quite different). There is an explanation though: the Whole of Government Accounts are stated net of quantitative easing (QE), because those accounts correctly reflect the fact that a government cannot owe itself money and so debt that has been subject to government repurchase through the QE process has to be shown as cancelled. And if the UK government hasn't got that liability at this moment then nor has Scotland got any obligation with regard to it either. I sincerely hope that this is not a point of contention, since factually it is beyond debate.

This just needs the question to be asked as to what has happened since March 2019? Two things. The first is that there was a deficit if supposedly £56 billion to March 2020. This was not covered by QE. So what is called debt bet of QE must have risen to near enough £1.3 trillion at 31 March 2020. And then there has been Covid 19. But what we do know is that every single penny of UK government spending on coronavirus has so far been covered by QE. That means that the UK national debt has not risen as a result. In which case it is still at about £1.3 trillion for the purposes of this discussion. This then determines our start point. A share if £1.3 trillion is, at this moment, what we're talking about. Any greater sum would be wholly inappropriate as a basis for negotiation.

3. How much debt might be attributable to Scotland?

That then brings me to the third issue, which is when things get more interesting. How much of this so-called debt is due by Scotland? Those of simple minds simply suggest that the liability be split on the basis of the respective populations of the countries. So if the UK has a population of about 66.8 million according to the Office for National Statistics at present, and Scotland makes up 5.46 million of that total then those pursuing this argument would say Scotland owes £106 billion. I do not agree.

My argument is that such a simple calculation would be wrong in almost any circumstance. The population could, and should, be weighted. That might be by age, for example: I would argue an older population should not be required to assume so much debt. It could be weighted by wealth as well: why should a poorer population be expected to assume as large a part of the debt as a richer one? Apportionment on the

⁴ <https://commonslibrary.parliament.uk/research-briefings/sn05745/>

basis of average income would obviously be another factor since debt outstanding does represent tax uncollected despite government spending having arisen, and we supposedly have a progressive tax system, meaning that the richer country should be liable for more of the debt as a result. GDP could be another basis, excepting the fact that there is no reliable estimate for Scottish GDP. I am not doing those calculations here. I am just suggesting they could be done: I do not think there is the remotest chance that a simple apportionment could get accepted as fair.

Then there is the more important question as to whether Scotland has actually generated this debt. Let's be blunt about what this question means. The question comes down to oil. Given the phenomenal contribution North Sea oil made to the UK as a whole, which it can reasonable be argued was squandered outside Scotland, does Scotland have any liability for the debt, come what may? I am aware that Business for Scotland argue very strongly that it does not. It argues Scotland is owed money⁵.

I am equally aware that Channel 4's Factcheck found the case hard to call, albeit it could not find a case for money being owed for the oil years⁶ (let's call them 1980 to 2014).

I do however think that Channel 4 ignored something Business for Scotland did not when undertaking their estimate. This is that if there was no deficit in that period Scotland should not have been charged any part of the interest paid to service that deficit in that period. What is however very clear is that such interest costs were apportioned to Scotland in GERS, the already doubtfully calculated and dubiously named Government Expenditure and Revenue Statement for Scotland. Business for Scotland suggests that £126 billion of interest has been charged to Scotland through that statement. I share it's doubt that very much of that should have been included in the account when it did not arise in Scotland.

However, if Channel 4 are right and no debt arose between 1980 and 2014, and this 'no debt' approximation might be the best estimate that can be achieved for this period, then interest charges during that time cannot be eliminated again. But that still leaves the possibility that an adjustment is required. Interest has been charged to Scotland since 2014. The UK as a whole had an interest charge from April 2014 to March 2020 of about £260 billion (based on HM Treasury budget estimates). Of this sum approximately 8%, or £21 billion, will have been allocated to Scotland through GERS. That, however, is inappropriate. If there was net debt of no more than £98bn that could have even been used as a basis of apportionment to Scotland up to 2014 (see sources noted below) then the interest charges made to Scotland since 2014 are based on a cumulative debt that Scotland could simply not have owed. I have not worked through a detailed calculation of how much of the debt charge from 2014 on should have been cancelled as a result, but I suggest that it is likely that 75% of it should be eliminated from any apportionment to Scotland when this is taken into account i.e. any debt apportionment for 2014 onwards should be reduced by about £15 billion for this reason.

⁵ <https://www.businessforScotland.com/revealed-the-accounting-trick-that-hides-scotlands-wealth/>

⁶ <https://www.channel4.com/news/factcheck/factcheck-has-scotland-subsidised-the-rest-of-the-uk>

Let's pull this together then. Using House of Commons Library data, and not allowing for inflation (and it's arguable whether that is relevant, but overall I suggest not as most of UK debt is not index linked) then UK debt in 1980 was £98bn. In 2014 it was £1,442bn. I argue the latter figure does not need QE adjustment since that QE adjustment still exists, and the debt and QE are independent factors. The amount of gross debt that falls out of consideration in that case is £1,344bn. The net debt to take out of consideration is then the gross current debt of £1,806bn less the debt to which Scotland could not have contributed of £1,344bn, leaving debt of £462 billion for apportionment at most, from which the £506 billion QE adjustment previously noted must be deducted, leaving a gross apportionable sum for Scotland of £44bn being owed to it. This means that on a pure population apportioned basis (which I am using solely for example, and not because it is necessarily appropriate) a net sum of just under £4 billion is owed to Scotland, to which the interest charge adjustment already noted should be added, leaving Scotland being owed maybe £19 billion in all.

4. When might any repayment be due?

I would also suggest that this is by no means the end of the argument, either. Let me pursue this point in another quite different way. Suppose for a moment that none of these adjustments for oil were agreed. I can see no equitable reason why they should not be, but let us just suppose an impasse was reached on them. And let us suppose a crude population weighted debt apportionment was accepted, which I would suggest no Scottish negotiator would go near as a basis of settlement, but again, let us again just suppose. And then note that the UK statement on debt issued in 2014 says:

Instead, an independent Scotland would need to raise funds in order to reimburse the continuing UK for this share.

This is, to be very polite, nonsense. The reality is that, as the note says, legally Scotland does not owe the debt that England would have to assume on Scotland becoming independent. So, what Scotland would be making payment of to England would be a compensation payment for the cost of that debt since the UK government has already conceded Scotland cannot legally owe this money. And when it comes to compensation payments there is a very simple legal principle that comes into play, and that is that the aggrieved party (i.e. the one who is being compensated) may not profit from the compensation payment; the aim is that they simply be left no worse off than they might have been but for the compensation being due.

This is very important in this case, for two reasons. The first is that England cannot ask Scotland to repay to it a debt when it has no intention of actually repaying. As my research has shown⁷, since World War 2 there has been total government borrowing of £1,744bn. And there have been net repayments of that borrowing of £37.6 billion, none of which

⁷ <https://www.taxresearch.org.uk/Blog/2020/05/14/the-tories-are-the-biggest-government-borrowers-since-1946/>

have been made in the last nineteen years. To put it another way, repayment of government debt was always rare, and has now ceased. And if the UK government is not repaying debt then there is no reason why Scotland should compensate it for the cost of repaying debt it has no intention of redeeming. In other words, even if a debt was due now nothing at all with regard to the capital sum owing would actually be repayable by Scotland. I cannot state it more bluntly than that. Even if it could be shown there was a nominal liability for a share of debt - and it is not at all clear that is the case - precisely because it is a compensation payment that is due and there is nothing to compensate England for if - as seems inevitable - it has no intention of repaying any of the capital sum due on its national debt to those to whom it is notionally owed the Scotland has no capital debt repayment to make, at all.

5. What interest rate is owing?

That still leaves the issue of interest rates though. After all, if the debt is not to be repaid what matters is the interest due on it.

Yet again, it is worth noting that England may not profit from this compensation payment from Scotland. And recall that this is not existing debt that is being discussed. It is a new obligation being created, if that were to prove to be necessary. And it is going to be long term debt because the UK debt to which it is related is not being repaid, and nor is it likely to be. Right now⁸ the UK is borrowing long term (30 years or more) at 0.6%. That is the maximum rate Scotland might owe then.

6. Conclusions

These arguments lead to at least three conclusions.

The first is that Scotland does not have any obligation to compensate England any part of the so-called UK national debt as agent for the rest of the UK because no part of that debt can at present be attributed to Scotland.

The second conclusion is that even if Scotland did have a notional liability owing to the rest of the UK the capital balance on the loan would not need repayment because there is no indication that the remaining UK will be repaying any of its debt, and therefore there is no reason for Scotland to make payment to the rest of the UK for something that they will not be doing.

Third, even if debt was due right now it would be the case that around £19bn was due to Scotland.

And fourth, if interest is due it would be at a maximum of 0.6% per annum.

⁸ <https://www.dmo.gov.uk/media/16571/jan-mar20.pdf>

Pulling these conclusions together does however lead to the necessary statement to be made that as 0.6% of near enough nothing (in these terms) is not a lot. In that case this rate is slightly academic. But even if it was (quite absurdly) agreed that Scotland owed the maximum possible liability of £106bn the interest due would be just over £600 million a year. This is not insignificant, but then, it is not due either. But if it was, this sum has to be kept in proportion. This sum would be less than one percent of a likely total Scottish government budget and this is an exceptionally low interest cost., not least compared to the UKL over recent years where in percentage terms have been very much more than that. However looked at then, this is not going to make or break an independent Scotland. And that means that debt is not in that case going to be a big deal in the independence debate, however it is looked at.