

Why Scotland's dire economy is falling further behind the UK



ALLISTER HEATH

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Edinburgh's Royal Mile CREDIT: ALAMY

Scotland has a big problem, and it has nothing to do with the Tories, with Brexit or with any of the other issues that the nationalist establishment is obsessed with. Scotland's problem is that, largely as a result of Labour and SNP socialist policies, its economy is performing appallingly, and has been doing so for ages.

Year after year and quarter after quarter, Scotland has been growing more slowly than the overall UK economy and England in particular. The catastrophic decline of the North Sea oil and gas industry, combined with a collapse in energy prices compared to their historic peaks, has also crippled growth, of course.

But there is far, far more to Scotland's economic woes than merely the downturn affecting the extractive industries: all parts of the economy are in a rut. It pains me

deeply to say so, but the Scottish economy now more closely resembles a struggling eurozone periphery economy than it does that of England.



Scotland's economic woes are not limited to the long-term decline of North Sea oil and gas CREDIT: OWSKI / TOTAL PETROCHEMICALS

As an excellent analysis by David Owen, of Jefferies, reminds us, social-democratic Scotland continues to be addicted to government spending.

Spending per person in Scotland was £12,800 in 2015-16, compared with £11,500 for the UK as a whole. The problem is that Scotland's tax base is too small to pay for this, which means that it is racking up a massive budget deficit (funded by English taxpayers).

For the UK as a whole, the shortfall between revenues and expenditures was 4pc of GDP in 2015-16, far too high for this stage of the cycle; but for Scotland, even with a geographical share of oil (now some 78.5pc of output), it was a disastrous 9.5pc of GDP. An independent Scotland would have to slash expenditures massively not to go bankrupt immediately, and dump its socialist public sector model. This would be a good thing, of course, but is the opposite of what the SNP advocates.

Whereas just 44pc of UK exports go to the EU, Scotland is far more dependent on the rest of the UK. Excluding oil, as Owen explains in his paper, Scottish exports of goods and services to the rest of the UK were worth 31.8pc of Scottish onshore GDP in the third quarter of last year. By contrast, exports to all other countries were worth just 17.8pc of its GDP.

Any country can succeed if it decides to go it alone as long as it adopts the right policies and is willing to cut tax and spend to the right level, but the SNP's narrative that it wants to stay in the single market but be outside of the post-EU UK market is

ridiculous. Using its own logic, which is that one needs to be in a single economic regulatory zone to survive, it ought to want to stay in the UK, not the single market. Gary Gillespie, the Scottish government's chief economist, notes in his most recent State of the Economy report that in 2015 Scotland's exports to the EU grew by 4.4pc to a still paltry £12.3bn.

Exports to the rest of the UK grew at exactly the same rate to stand at a much larger £49.8bn. Even more depressingly for Scotland's prospects, its overall non-UK exports grew more slowly at just 3.6pc.

The overall growth numbers are especially frightening and confirm that Scotland's woes have actually little to do with the North Sea. UK GDP grew by 3.1pc in 2014, 2.2pc in 2015 and 1.8pc in 2016; onshore Scottish GDP (thus stripping out oil and gas) grew by 2.7pc in 2014, 2.1pc in 2015 and a maximum of 0.7pc last year.

The analysis of official figures by Jefferies investment bank shows that Scottish growth was 0.2pc in the second quarter of 2015, against 0.5pc for the UK; zero in the third, against 0.3pc for the UK; 0.3pc in the fourth, against 0.7pc; zero in the first quarter of 2016, against 0.2pc; 0.2pc in the second, compared with 0.6pc; 0.2pc in the third, against 0.6pc; and almost certainly another disappointing figure in the fourth, against a strong 0.7pc for the UK.

Breaking the figures down makes one want to truly despair: manufacturing output collapsed by some 5.5pc last year, and despite Edinburgh's famously skilled financial services sector, Scotland's professional services sector is also lagging behind the rest of Britain's.



The SNP wants to stay in the single market but be outside of the post-EU UK marketCREDIT: ANDY BUCHANAN

The jobs performance in Scotland has been equally dire: its population is growing less quickly than the UK's and its latest employment rate among 16 to 64-year-olds is 73.6pc, down from a peak of 74.8pc in 2014, and less than the 74.6pc for the UK as a whole. In the year to the fourth quarter of last year, Scottish employment dropped 1pc, against a 0.5pc rise for the UK as a whole.

Scotland's biggest problem is its bloated state (reliant on transfers from the rest of the UK), its unreformed welfare, its elite's cultural dislike of capitalism and free markets, and the hard-Left policies pursued by its government.

Instead of wasting time trying to force through yet another referendum which will ultimately be defeated, the Scottish establishment needs to perform an intellectual U-turn and embrace tried and tested policies to boost growth. Scotland needs more markets, less tax, less red tape and an injection of market forces in public services.