

John Swinney (Cabinet Secretary for Finance and Sustainable Growth, Scottish Government), “Scotland’s Financial Future”, 16 April 2009

Since the full text of Mr Swinney’s presentation is available elsewhere on the David Hume Institute website –

<http://www.davidhumeinstitute.com/DHI%20Website/Events,%20transcripts%20&%20presentations/Events%202009/Swinney%2016%20April.pdf>

- this report will not attempt more than a brief summary of the thrust of the lecture. More attention will be given to the stimulating debate which followed Mr Swinney’s talk.

In essence, Mr Swinney was concerned to do two things: (1) to refute the view that an independent Scotland could not have withstood the impact of the credit crunch and provided the support needed to prop up the country’s two main banking institutions (RBS and HBOS); (2) to argue that an independent Scottish Government would be better placed to provide the economic support and stimulus to take the Scottish economy out of recession. Mr Swinney argued that the downturn affected all countries irrespective of size, and that a number of smaller countries – he instanced Canada and Norway - had been better placed to withstand the economic shock of recent events, and would come out of the downturn before larger ones. Mr Swinney analysed the undoubtedly parlous state of the UK’s public finances, which he attributed to long-term economic and financial mis-management by the UK Government, exacerbated by the financial crisis and global recession, and regulatory failure. He pointed out that the problems would persist far into the future, highlighting in particular the negative impact for Scotland involved in the twin effects of cuts in UK public spending automatically reducing the Scottish block grant under the Barnett formula while PFI commitments made by the previous Scottish Government took up an increasing proportion of the money still available. In general Mr Swinney argued that the forthcoming UK Budget should seek above all to provide economic stimulus, and he proposed that the Scottish Government should be given greater borrowing powers and access to the fossil fuels levy to enable it in turn to stimulate the Scottish economy.

The debate began by focusing on PFI and the Scottish Government’s replacement body, the Scottish Futures Trust (apparently stuck in the starting blocks). Mr Swinney responded that the SFT had a work programme concentrating on infrastructure and schools, with the overall aim of maximising the use of available resources in the pursuit of economic stimulus. Asked whether the SFT needed additional borrowing powers too, Mr Swinney commented that this might be a good thing if exercised responsibly but for the moment the SFT was concentrating on maximising *currently* available resources. It was suggested from the floor that the SFT, like PFI before it, suffered from politicisation, and that the way forward was to grant the SFT independence. Mr Swinney agreed with this proposition, saying that the body’s focus should be value and impact.

Discussion shifted to regulation, and how the financial sector might be regulated in an independent Scotland. Mr Swinney said that the first question was the desired outcome,

which for him was discipline and responsibility in the sector. The location of the regulation need not be national; indeed, that might hamper regulation by giving it too limited a picture. (Your reporter was reminded in this discussion of the debate triggered at John Kay's David Hume seminar in October 2008.) What then would be the institutional structure of an independent Scottish Government, it was asked? Would there be a Treasury and a Chancellor to control the spending departments? Mr Swinney accepted this, noting that it was also supported by Labour's Tom McCabe and that he found tensions of role within his own ministerial position at present. He also accepted the proposition that if the Scottish Government had borrowing powers there was a need to have fiscal rules to prevent governments being burdened with debts incurred by their predecessors. Mr Swinney suggested that the rules would have to be based on a culture of responsibility and be credible in the way they dealt, through historical analysis, with the probabilities of economic peaks and troughs.

Two other questions arose. Mr Swinney confirmed that the Scottish Government would seek to hold a multi-option referendum on the future governance of Scotland, quoting the lesson of the Institute's recently deceased and much missed President, leading SNP activist Sir Neil MacCormick, that in these matters it was necessary to go at the pace of the people; accordingly you needed to know what the people thought they needed by giving them choices. Finally Mr Swinney accepted that the success or strength of a nation was not necessarily to be gauged only with economic factors, and pointed to the Scottish Government's national performance framework on sustainability and ensuring equity across the country's regions. The indicators used might be debated, but a framework existed.

At the conclusion of an interesting if gloomy evening, the thought remained that if independence were achieved at any time over the next few years, the new Scottish Government would start with a very heavy burden on its finances, even if successful beforehand in arguments about how the United Kingdom balances and revenues were to be divvied up. It seems impossible to avoid the conclusion that the tax burden on individuals would increase, at least to begin with; and that observation may draw some support from Mr Swinney's later support for the Chancellor's announcement in the Budget of a new income tax rate of 50% for high earners. The attraction of business through lower corporation taxes, mentioned in Mr Swinney's lecture, does not mean that those employed in such businesses would also enjoy lower income taxes. Of course, given the Budget, that may be what we get in the United Kingdom anyway, so what's the difference? There is a long way to go in the independence argument; but the *damnosa hereditas* so eloquently outlined by Mr Swinney may actually mean for many Scots that we cannot cut away to a fresh start but are instead forced to make the best of what, for good or ill, we already have.

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