



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 21 May 2014

Session 4

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**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**16<sup>th</sup> Meeting 2014, Session 4**

**CONVENER**

\*Murdo Fraser (Mid Scotland and Fife) (Con)

**DEPUTY CONVENER**

\*Dennis Robertson (Aberdeenshire West) (SNP)

**COMMITTEE MEMBERS**

\*Richard Baker (North East Scotland) (Lab)

\*Marco Biagi (Edinburgh Central) (SNP)

\*Chic Brodie (South Scotland) (SNP)

\*Alison Johnstone (Lothian) (Green)

\*Mike MacKenzie (Highlands and Islands) (SNP)

\*Joan McAlpine (South Scotland) (SNP)

\*Margaret McDougall (West Scotland) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Dennis Canavan (Yes Scotland Advisory Board)

Rt Hon Alistair Darling MP (Better Together)

Blair Jenkins (Yes Scotland)

Blair McDougall (Better Together)

**CLERK TO THE COMMITTEE**

Douglas Wands

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Economy, Energy and Tourism Committee

*Wednesday 21 May 2014*

[The Convener *opened the meeting at 09:30*]

### Scotland's Economic Future Post-2014

**The Convener (Murdo Fraser):** Good morning, ladies and gentlemen, and welcome to the Economy, Energy and Tourism Committee's 16th meeting in 2014. I remind everyone to turn off, or at least turn to silent, all mobile phones and other electronic devices, so that they do not interfere with the sound equipment. We have received no apologies.

We have one item on our agenda, which is to continue our inquiry into Scotland's economic future post-2014. We will have two panels of witnesses. I welcome our first panel, who are the Rt Hon Alistair Darling MP, the chair of the Better Together campaign, and Blair McDougall, the campaign's director.

We have about 90 minutes for the session, so we have some time in hand, but I remind members to keep their questions as short and to the point as possible. Answers that are short and to the point would help in getting through the topics in the time available.

I am sure that the witnesses have followed our committee inquiry and are aware of the issues that are likely to come up. I start by asking Mr Darling to say, in no more than two or three minutes, why he believes that it is in the interests of Scotland's economy that there is a no vote in the referendum in September.

**Rt Hon Alistair Darling MP (Better Together):** Good morning and thank you for inviting us to appear before the committee.

The main economic argument for Scotland remaining part of the United Kingdom is that we have unimpeded access to a market of more than 60 million people. That is important for Scottish firms, large and small, because we sell more to the rest of the UK than to the rest of the world put together. That opportunity and the strength that comes from it are important, because those firms create the wealth that Scotland needs to look after its people and ensure that we enjoy an increasing standard of living.

That access is also important for jobs. Especially at a time such as this, when we are just

emerging from one of the deepest and most profound economic downturns that the world has seen—and certainly that this country has seen—it is important that we capitalise on the fact that the economy appears to be growing and that we have the job opportunities that come with that.

Another reason why the larger United Kingdom is important is the security that it provides us with—for example, in relation to pensions. In Scotland, our population is ageing rather more quickly than the population of the UK as a whole, so being able to share that burden among a population of more than 60 million is of immense help to us. There is also security if we are hit by an unexpected shock to the system, as we were six years ago in relation to the banking system.

My view is that we have the best of both worlds. We have the Scottish Parliament, which is responsible for many of the things that affect us in our day-to-day lives, such as education, transport and health. We are also part of something bigger, which benefits us as individual Scots. That is important. Although other arguments—including emotional ones—are equally important, the economic arguments are the ones that drive me and, I believe, the majority of people to the view that we are better and stronger as part of the UK.

**The Convener:** Thank you for briefly setting the scene. I am sure that many of the issues that you mention will be explored further in our questioning.

I have a follow-up question. You mentioned the banking crisis six years ago, which happened when you were the Chancellor of the Exchequer. What difference would it have made to your position if, instead of being chancellor of the UK, you had been the finance secretary in an independent Scotland?

**Alistair Darling:** I suppose that the big difference is that we had the firepower to prevent the banking system from collapsing. As I have said on many occasions, on 7 October 2008, I was phoned by the then chairman of the Royal Bank of Scotland. On that morning, there had been a run on the bank and its shares, which the stock exchange had suspended twice. We had a plan for recapitalising RBS and other banks, but it was not yet quite ready to go.

When I asked Sir Tom McKillop, "How long can you last?"; he said, "Well, maybe until the early afternoon." At that time, RBS was probably the biggest bank in the world. It had a balance sheet of about £1.4 trillion, which is roughly the size of the UK's gross domestic product. It is in that context that credibility is important. When we announced, the next day, that we would recapitalise RBS and HBOS and make money available to other banks, people believed that we

were big enough to do it, because we had sufficient credibility.

I contrast that with the situation of my Irish counterpart at that time, with whom I had a telephone conversation in which he told me that, in effect, the Irish Government had just underwritten the deposits in three Irish banks. I remember saying to him, "But they're much bigger than you are," and he said, "I hope no one notices." People did notice quite shortly after that and, unfortunately, Ireland, along with Iceland, was brought down by the weight of its collapsing banks.

I hope that we will not get into such a situation again, but the lesson that I drew from it—leaving aside how it arose in the first place—is that, if we want to stop such a crisis, we have to do more than people expect and do it more quickly than people expect. The eurozone has conspicuously failed to do that, because it does not have the necessary firepower available in relation to Greece.

Being a larger country provides strength. On the day in question, the governor of the Bank of England said to the chairman of the US Federal Reserve, "Please make sure, by making temporary funds available, that RBS doesn't collapse during the course of the day." He did that; the temporary funds had to be repaid, of course. At no point did he ask, "Can you afford to do it?" If we had been not the UK but just Scotland, the size of Scottish GDP in relation to the size of RBS would have meant that the whole country was brought down. That would have been catastrophic—we would have ended up having to go to the International Monetary Fund, as Ireland had to.

**The Convener:** When you hear people on the other side of the debate saying that, in the event of a bank failure, other countries' Governments would come in and support the banks, do you think that that response is credible?

**Alistair Darling:** No—it is not. I was there at the time and I do not remember lots of people phoning up to say, "Can we come and help bail out your banks?"

The recapitalisation of the banks of any country falls on the country where the brass plate happens to be. Temporary funding—it is called liquidity funding—is available to keep a bank going on a particular day, but central banks can provide such liquidity only if the bank concerned is solvent and a going concern.

I mentioned the US Fed. All that it needed to know was that we intended to recapitalise RBS overnight. There was not a problem in relation to that. I have read that people said, "Oh, but the Americans paid." They did not. They did no more

than we did. Banks in London can access the Bank of England's special liquidity scheme, but they access it at some cost. To use the banking jargon, they take a haircut for doing it; it is quite an expensive thing to do.

Nearly £50 billion was put into the capitalisation of RBS. That came from the UK taxpayer and it forms part of the debt that we have at the moment. No one was clamouring to recapitalise the banks.

The argument that you cite is made in Europe at present. In the absence of a proper banking union, a big argument is going on. Germany wants to know why it should put money into the banks of southern Mediterranean countries. Not having the ability to recapitalise the banks leads to inherent instability. That is why people are a bit concerned about the state of the eurozone, because the sort of efficient system that sovereign states have is not available.

**The Convener:** Thank you. Chic Brodie has a follow-up question.

**Chic Brodie (South Scotland) (SNP):** Good morning.

**Alistair Darling:** Hello.

**Chic Brodie:** You made an interesting point that the problem falls very much on the country where the brass plate happens to be. Who bailed out Barclays Bank?

**Alistair Darling:** Barclays did not go to any Government; it raised money mainly in the Gulf.

You ask a perfectly reasonable question. Under the scheme that we put in place on 8 October 2008, the Financial Services Authority, which was the regulator, had to assess how much capital each bank needed. If a bank needed more capital, the first place to go to was the private market. If it could not access the private market, the Government would provide the necessary capital.

HSBC did not need very much at all and raised it itself. Barclays decided that, as a matter of principle, it would not take money from the British Government, for various reasons—

**Chic Brodie:** I am sorry to interrupt, but Barclays was bailed out by the Qatari and American Governments, which flies in the face of what you said about the responsibility falling very much on the country where the company plaque is.

**Alistair Darling:** That is not quite true. Barclays raised money in the Gulf from sovereign wealth funds, not from the Qatari Government per se, although such wealth funds are heavily influenced by Governments. Equally, the money that was raised in America came not from the US Government as such but from American institutions.

That is different from the situation with RBS and HBOS—or Lloyds HBOS, as it was about to become. They had to come to the UK Government, because no one else would lend them money as, to put it bluntly, they were bust. Barclays was not bust; it was solvent and able to raise money in the way that any other financial institution or company could.

**Chic Brodie:** I suppose that we can all put a different slant on that.

**The Convener:** I say to Blair McDougall that, if you want to come in on any point, you should catch my eye. This discussion is probably above your pay grade—it certainly feels as though it is above mine.

**Blair McDougall (Better Together):** Alistair Darling wrote the book on this—literally. [*Laughter.*]

**Dennis Robertson (Aberdeenshire West) (SNP):** My pay grade is probably lower than Murdo Fraser's.

The Prime Minister, David Cameron, said that yes supporters will always be able to come up with examples of small, independent, economically successful countries, such as Finland, Switzerland and Norway. Then he said that of course Scotland could be a “successful, independent country”. Do the witnesses agree with him?

**Alistair Darling:** I do not think that size determines a country's economic success—

**Dennis Robertson:** Do you agree with David Cameron that Scotland could be a “successful, independent country”? He did not say “small”.

**Alistair Darling:** In the preamble to your question, you talked about small countries.

My position is clear. It is not a country's size that determines what it does. The evidence tends to suggest that a smaller country has to run a tighter fiscal policy than a larger country might do. For example, Denmark has higher tax rates than we do and shadows the euro as a matter of policy.

In relation to Scotland, as long as you are prepared to cut your cloth according to your means, and as long as you understand that there might be things that you cannot do—

**Dennis Robertson:** Are you saying no, then?

**Alistair Darling:** I am answering the question in my way, rather than—

**Dennis Robertson:** It is a simple question.

**Alistair Darling:** It is, and I hope that my answer is relatively simple, too. I have never taken the position that somehow it cannot be done; I have said that, if it is done, people need to be straightforward about the consequences in terms

of the tax and spend policy, the risks that are taken on and what cannot be done. Size is not the issue; the issue is how the country is run—and I suppose, in this day and age, how it is perceived to be run, in terms of credit risk and so on.

**Dennis Robertson:** You are putting caveats on what David Cameron said, which was that of course Scotland can be a “successful, independent country”.

**Alistair Darling:** Any country can be successful and, as I said, size does not matter. However, as you know, in the past 20 years, Scotland has run a deficit in every year bar one. If Scotland became independent, it would have to do something about that.

You will be aware of the Institute for Fiscal Studies report that was published in November, which pointed out that we have a rising ageing population and a relatively falling working-age population and that, to reduce the deficit that Scotland would inherit as part of any settlement and ensure that it ran a credible fiscal policy, there would have to be changes.

If you take that position as a matter of principle, as I assume that you do, that is fine, as long as you tell people what the consequences are.

**Dennis Robertson:** The white paper, “Scotland's Future: Your Guide to an Independent Scotland”, sets out the aims that the Scottish Government would take forward.

You talked about exports and so on. You will be aware that we in Scotland punch well above our weight in some respects. There was some question as to whether investment in Scotland might dry up if we went ahead with the referendum. Are you aware that Scotland has had one of its most successful years for investment into the country?

09:45

**Alistair Darling:** I am sure that you and I will disagree about whether we accept the white paper that was published last November as being the gospel. Some things in it are open to dispute.

In relation to investment, we have indeed done well in Scotland for some time. The whole UK has been one of the world's top destinations—in fact, it has been the number 1 destination—for foreign direct investment for some considerable time. Scotland has benefited from that.

The problem in relation to investment would arise, first, from any uncertainty arising from a yes vote in September about our arrangements for the currency, debt, how we allocate responsibility for pensions and our membership of the European

Union. Wherever there is uncertainty, as members of the committee will accept—

**Dennis Robertson:** I say with respect that people who are investing in Scotland are well aware that there will be a referendum. They have been aware of that for some time and they are still investing.

**Alistair Darling:** That was not the point that I was making. I was talking about what would happen if there was a yes vote. Consequences naturally follow from that: if that happened, independence would be inevitable, rather than a possibility.

**Dennis Robertson:** Are you saying that investors know that there will be a no vote or a yes vote? Surely they have invested regardless.

**Alistair Darling:** I am not saying that. You asked me about uncertainty. I was saying that the uncertainty that would be likely to hit investment would arise in the event of a yes vote, when there would be a range of uncertainties.

If, as a matter of principle, you believe in an independent Scotland—

**Dennis Robertson:** Absolutely.

**Alistair Darling:** I got that one right.

**Dennis Robertson:** Well done. We agree on something already.

**Alistair Darling:** Yes—but, for the sake of completeness, I say that I do not believe in it, so there you are.

When uncertainty and risks exist, there are costs, which would be damaging. Investment in the longer term all depends on fundamental questions such as what currency we would use, our membership of the European Union, the terms and conditions of that and so on.

**Dennis Robertson:** I return to my original point. What do you suggest that all the companies that have been investing in Scotland—there has been record investment in Scotland—are thinking? They are investing for five, 10 or 15 years ahead; they are not just investing for tomorrow or for the outcome of the referendum on 18 September. They are investing because they know that Scotland will be an economically successful—and perhaps independent—country.

**Alistair Darling:** Nobody knows, because we do not know the outcome of the referendum. The—

**Dennis Robertson:** I am sorry to interrupt, but I am saying that they have invested regardless.

**Alistair Darling:** They have been investing. I will not repeat everything that I said about where the uncertainty comes in, but they have invested in

Scotland for the past few years in the knowledge that Scotland is part of the United Kingdom and that, if they invest in a Scottish firm, that firm has unimpeded access to sell to a market of 60 million, as opposed to 5 million. They also know exactly the terms and conditions under which the UK is a member of the European Union.

If Scotland voted to become independent in September, many of those certainties would become uncertainties, which is where the risk to investment comes in.

**Dennis Robertson:** Okay, Mr Darling, thank you—I will come back to you.

**Richard Baker (North East Scotland) (Lab):** I declare an interest as a member of the board of Better Together.

Over the course of the inquiry, we have taken a great deal of evidence on financial regulation. A separate Scotland would of course have to establish its own financial regulator. What challenges would that bring?

To look back as well as forward, some people have said that, if a separate Scotland had had its own financial regulation prior to the banking crisis, that crisis would never have happened. Do you have any views on that?

**Alistair Darling:** The obvious challenge for Scotland in setting up its own regulatory regime would come from setting up something brand new in an environment that is still pretty turbulent. There would also be a major and formidable challenge in having a financial sector that is about 12 times the size of Scotland's GDP. One of the big decisions would be on the extent to which the regime here would be different from that in the rest of the United Kingdom. Given the relative size of the sector in Scotland, the banks might need to be told to hold more capital than otherwise, and that would affect their ability to lend.

Scotland might well want to have a different regime. Indeed, I know that the committee has taken evidence and that many people have given evidence to various committees and other hearings that the regime might have to be rather tighter than it is south of the border. That would be one of the biggest challenges.

Another issue is that, at the moment, the UK is one of the world's leading regulators, under the FSA and now under the auspices of the Bank of England, which gives us a lot of influence. The main regulators are the Americans, ourselves and the Europeans and, although the situation is rather fragmented at the moment, they have in the past been hugely influential in the overall regime. That matters for Scotland, because one of our strengths is that we are the fourth or fifth biggest financial centre in Europe. We are also one of the few



financial centres, outside the really big ones, that have a lot of asset management in addition to banking, pensions and insurance, so what the regime looks like is important for us.

We can see how that has a direct bearing in Scotland when we consider how the regime would affect firms that are based here such as Standard Life, which sells about 90 per cent of what it does to south of the border. If there was a different regulatory regime, there would be a cost in trading across the border, and we must ask what that would mean for asset management, banking and so on. Nothing in this life is impossible, but there would be additional costs and uncertainty, and I suspect that it would also knock into negotiations with the European Union.

It is difficult to say what would have happened if there had been a Scottish regulator, although I know that the First Minister, writing in *The Times* just before the 2007 election, said:

“We are pledging a light-touch regulation suitable to a Scottish financial sector with its outstanding reputation for probity”.

That was in 2007, and let me say now, before the rest of you get stuck in, that many mistakes were made in relation to the regulatory system, in the UK, America and Europe—you name it—because too often the regulators simply accepted the word of the banks and other institutions that they were regulating that everything was okay.

As I have said on many occasions, regulators—and therefore the Governments responsible—must shoulder their share of the blame, but the primary responsibility for the conduct of any firm lies with the board of directors and, unfortunately, the decisions that led to the collapse of the Royal Bank of Scotland were made by RBS here in Edinburgh, just as HBOS's decisions were made here in Edinburgh. Both those banks were brought to their knees and collapsed because of bad decisions. If you look at what was being said at the time, in 2007, you find that the term “light touch” was being used all over the place by all the political parties, and we are now paying a heavy price for that approach.

**Richard Baker:** We all accept that we need tighter financial regulation, but you said that it would be particularly stringent in the context of a new financial regulator in Scotland, because we have a big financial services sector. Is it your argument that that would make access to lending even more difficult in Scotland, where many businesses already say that it is difficult to get access to the lending that they need?

**Alistair Darling:** It is true that the more capital a bank has to hold, the less capital it has for lending. Do not misunderstand me—we must ensure that our banks are better capitalised than they were. In

2008, RBS was running on today's equivalent of about 2 per cent capital, when it ought to have been between 10 and 12 per cent. That is why it was so vulnerable when it bought ABN AMRO, which eventually brought the thing crashing down. That will have an impact across the UK as a whole, because people now see that banks have to hold more capital.

If Scotland was independent, there is no way that we would not have to run a pretty strict regime, because we could not peril the entire country on the possible folly of a financial sector that is 12 times bigger than we are. Look at what happened to Ireland and Iceland. They were completely done over by the fact that they did not have proper control over their financial institutions. We would have to run a far tighter regime.

The other point is that, when most of those institutions raise money internationally, particularly in the United States, the people who will lend them money increasingly look at not just who they are but who stands behind them, and I suspect that that will be true for the next 100 years or so. They ask who the central bank is and what it is worth. Frankly, the central bank is worth only as much as the country. The Bank of England does not have very much money of its own—it is really just routine stuff. Every recipient of the support that was given through the Bank of England, either through capital or support, had a letter signed by me guaranteeing the Bank of England every last penny that it spent. That is why it is the creditworthiness of the Government that often determines the creditworthiness of an institution.

So, I think that the regulatory regime would have to be much tougher and, obviously, the more cost that is added in the regulatory regime, the less money there is to go elsewhere.

**Richard Baker:** Finally, on the Bank of England potentially being Scotland's lender of last resort and the proposal for a currency union, many people have questioned the wisdom of the Scottish Government's approach, not least the Nobel laureate Paul Krugman, who has made the same point as you have about the size of Scotland's financial sector compared to the rest of its economy. Even people in Yes Scotland have questioned the wisdom of the Scottish Government's proposal. On the proposal for currency union and a sterling zone, is it your view that it is simply not politically acceptable to the rest of the UK and not in its interests? Do you think that it would not be in Scotland's interests either if we were to be a separate nation?

**Alistair Darling:** That is a big question, but I will try to do what Mr Fraser asked me to do and give an answer that is as succinct as possible. The first thing to keep in the front of our minds is that, when we talk about the Bank of England being the

lender of last resort, which technically it is, it is actually the Government that is the lender of last resort. Whether it was for Northern Rock, RBS or any of the other banks, or for the special liquidity scheme and the various other schemes that the Bank of England operated, the lender of last resort was the UK Government. Similarly, in America at the moment, the US Fed is the lender of last resort, but it is actually Uncle Sam—the US Government—that people look at.

It would therefore not be up to the Bank of England to say yea or nay to the Scottish Government's proposal; it would be up to the Government that stood behind the Bank of England as to whether it would do what is proposed. I look at a currency union from the economic point of view, although we cannot ignore the politics, because politics enters into most things in life.

Looking at it from Scotland's point of view, even if a currency union was on offer, which it is not, in order to guarantee a currency union, Scotland would really have to sign up to anything that the other partner in the enterprise insisted on, because otherwise there would not be a deal. As someone who is Scottish, I would be disturbed if the vote was for independence but the country in which I lived basically had to sign up to a whole bunch of conditions on tax, spending, borrowing, undertakings not to compete on tax or whatever else might be thrown into the works. That would be very bad for Scotland.

Equally, from the rest of the UK's point of view, a currency union would work only if there was a substantial degree of economic co-operation. As Mark Carney said earlier this year, there would need to be the ability to transfer funds from the better-off parts to the poorer parts—he said maybe 25 per cent of GDP—and, critically, there would need to be a banking union. Scotland would be saying to the rest of the UK that it would have to underwrite Scottish banks. In theory, both countries would have to underwrite both sets of banks, but it would be a very asymmetrical relationship, because of the size of the Scottish financial sector.

For those economic reasons, the whole thing does not stack up. There is also the political overlay, because politics would enter into it if the two countries were to break apart, just as politics enters into every aspect of life. However, I think that the currency union proposal fails the economic test, which is why I do not think that it would work.

**The Convener:** Mr MacKenzie has a follow-up question.

**Mike MacKenzie (Highlands and Islands) (SNP):** Mr Darling, do you not feel a tiny bit of

shame coming to Scotland and lecturing us about banking? You were the chancellor who allowed the banking crisis to happen—it happened on your watch. Do you not feel that you owe an apology to the people of Scotland and, indeed, the UK?

**Alistair Darling:** On the first point, I live in Scotland. It is my home and my family has been brought up here, so I am not “coming to Scotland”, as you put it. I understand the sincerity with which you hold your views, but I ask you to please understand that some of us on the other side of the argument are equally sincere.

On your points about the banks, as I said in response to Mr Baker, I was the chancellor at the time. As a member of the Labour Government for 13 years, I accept responsibility for everything that we did or did not do during that time. I have also said that the regulatory regime at the time was found wanting, although I must say that, in the clamour for light-touch regulation, every party advocated that, including your party—

**Mike MacKenzie:** Yes, but you were the chancellor, Mr Darling. Do you not think that there is a deep irony that you of all people should lecture the people of Scotland about banking?

10:00

**Alistair Darling:** First, I am simply answering the questions that you and your colleagues are putting to me. A lot of that turns on what happened at the time. I am more than happy to be judged on what I did or did not do. My concern as we look forward is that we do not repeat the mistakes that were made. As I said, I accept my responsibility, but your party leader was advocating light-touch regulation. Heavens, he even wrote to Fred Goodwin at RBS—you will remember him—commending him on his takeover of ABN AMRO, which proved to be absolutely calamitous. All politicians make mistakes.

On this particular problem, I am seeking to point out that, were Scotland to have a financial services sector of the size that it has now, that would have consequences so far as the regulatory regime is concerned, and we must accept those consequences. You and your colleagues will say that you want independence, so you will accept those consequences but, for goodness' sake, we need to tell people what those consequences are rather than pretend that they do not exist.

**Dennis Robertson:** I was interested in your answer to Mr Baker. Did you not say that it was “logical” to enter into a currency union?

**Alistair Darling:** No. What you will find from your party's various press releases is the use of two words which were separated by a number of paragraphs. That is never a great thing to do,

although I know that all political parties do it from time to time.

As I do not want to take up too much of the committee's time on the issue, I suggest that you read my entire reply to Gordon Brewer on "Newsnight Scotland", which I think was in January 2013. Nobody listening to that interview could have been in the slightest doubt that I was advocating what we have at the moment, which is a currency union that works because we have political, economic and banking unions that stand behind it.

I made the point at some length about the difficulty with a currency union in which there would be an asymmetric relationship with one very large partner and one much smaller one, and terms and conditions that I thought would be objectionable to nationalists, never mind anyone else. I ask you to read the whole transcript. It is not often that I commend to someone answers that I have given on a late night television programme but, if you look at that, you will see that the words "logical" and "desirable" do not appear together.

**Alison Johnstone (Lothian) (Green):** Better Together has suggested, as you have done this morning, that there are benefits for us all as individual Scots in remaining part of a larger UK, but it does not feel like that for far too many people. I am Edinburgh born and bred. The areas of multiple deprivation remain markedly and disappointingly unchanged under the current regime. As I say, too many Scots are not seeing the benefits, despite the fact that *The Times*, in its rich list, has reported that it has never seen such fast growth at the top end. What about all those people that we continue to let down at the bottom end?

There is no written submission from Better Together for this morning, so what do you have to offer? What guarantee is there under the current UK settlement that we will see change for those who have been ignored for far too long? The evidence leads me to believe that the issue is not given enough attention and that people are constantly failed by Westminster policies.

**Alistair Darling:** I disagree, in that it is not the constitution that determines action to alleviate poverty or disadvantage—or, better still, to stop it in the first place—but the political actions of the Government of the day, whether in Edinburgh or in London. Where you and I would disagree is on the point that having access to part of something bigger and having a bigger economy better equips us—if we are willing to take the political decision—to alleviate poverty.

During the 13 years when we were in Government, we took 1 million children out of

poverty in the UK as a whole. The proportion of children living in absolute poverty fell from 28 per cent to 12 per cent during that period and the figure for relative poverty fell from 28 per cent to 12 per cent. That is because the Government of the day took a decision to increase child benefit, and it also took action through childcare provision and tax credits. The present Government takes a rather different view, as it has been quite hostile to a lot of those things, but that action shows how we can reduce child poverty. That was through alleviating the symptoms, if you wish to put it that way.

In addition, surely it is important to ensure that we stop poverty arising in the first place. That means improving educational attainment, for example. That is why I would not have cut more than 100,000 college places in Scotland—a decision that was taken here and not in London.

Health is another determinant of poverty. I noticed last week that a Scottish minister was comparing health outcomes in Glasgow and Harrow. Why not compare the outcomes in the east end of Glasgow with those in Lenzie, about 10 miles away? You will find that there is a 10-year difference in life expectancy.

I mention education and health because they are totally devolved at the moment. It is up to the Government of the day, whichever Government happens to be in the Scottish Parliament, to decide what to do. It is not the constitution that determines those things; it is the political decisions taken by the Administration, wherever it happens to be.

**Alison Johnstone:** The constitution clearly has a part to play. Thankfully, some issues are devolved, and they allow the Scottish Parliament to mitigate the worst impacts of welfare reform. However, we are having to spend money that we could be spending on other things to address the bedroom tax, for example. The Joseph Rowntree Foundation has suggested that the gains and improvements that we have made to children's lives will be lost if things continue as they are. The constitutional settlement is key. Who is to say that, after the election in May next year, we will not have a Conservative-UK Independence Party coalition? There are no guarantees under the current system.

**Alistair Darling:** In any political system, choices will always have to be made. Looking at Scotland's overall position, we have unfortunately had a deficit in every year bar one of the last 20. You would have to do something about that. You cannot just live with that.

Considering the decisions that the Scottish Government has taken on college places, it has a choice as to whether to do that or to continue to

give free prescriptions to everybody. We can argue for as long as we want about which choices it makes, but I just disagree with you on the idea that Scotland would not at some stage be confronted with difficult decisions—that happens under any constitutional settlement anywhere in the world.

**Alison Johnstone:** I am not here to defend the Scottish Government's position on college places, which I disagree with, but I still do not feel that I have had a response to my question. Things have not changed in our peripheral housing schemes for decades. What is Better Together going to do about it?

**Alistair Darling:** To make a narrow point, Better Together is not a political party. We are fighting the referendum campaign.

**Alison Johnstone:** Indeed, but what do the parties of Better Together offer?

**Alistair Darling:** On housing, I agree with you that, for a long time, Scotland has had far too many houses that are not up to the standard that we would want. In addition, we have not been building as many houses as we would want. That is a political decision to be taken by successive Governments. The Scottish Government has taken its decisions, and it is entitled to take them, but it is not the constitution that determines those things.

Two things determine them. One is how much money there is to spend in the first place. I have said what I had to say about the economy and our economic prospects, and that is very important. As someone who will be living in Scotland regardless of the result, I would be very concerned if the IFS is right and, in six or seven years' time, we were faced with having to make greater cuts or with increasing taxation simply to keep going. That means that there would not be the money to do the things that you and I would perhaps agree on. Secondly, there needs to be the political will to tackle those things.

**Alison Johnstone:** Sometimes when we have the political will to do something, we are hamstrung and are prevented from doing it. With Westminster's policy on renewables, for example, we are not seeing the investment that Scotland needs. Instead, we have a Government that is determinedly investing in nuclear power stations. A recent report from five experts has pointed out that electricity would actually be cheaper in an independent Scotland, because the UK will be paying for the Hinkley Point reactor for 30 years or more.

**Alistair Darling:** Again, you and I might disagree on this. I think that we all benefit from having a mix of energy provision, but I know that your party does not believe that. As you know, a

lot of Scotland's base-load electricity comes from two nuclear power stations at the moment. As for their future, we have yet to hear what will happen to them.

The renewable energy industry, particularly in Scotland, benefits from the fact that the subsidy effectively comes from all UK consumers, because we all pay into it. I know that because I set it up. That is very beneficial to Scotland. As you know, we have proportionally more investment here than the population share would suggest. If you lost the UK energy market, it would be very damaging to the renewables industry in Scotland.

**Alison Johnstone:** We will probably have to agree to differ on that.

Time and again, you have made the point about how secure pensions will be if we remain part of the UK. However, the Institute of Chartered Accountants of Scotland currently estimates a £300 billion private pension deficit, which does not exactly suggest prudential management by the UK. Moreover, the University of Stirling has shown that the extra costs in Scotland can be offset by levels of immigration that have been the norm for the past decade. Do you not agree that an independent Scotland—a wealthy country—can create a system that will provide well for people in their old age?

**Alistair Darling:** There are three things to say about pensions—and I will also ask Blair McDougall to say something, otherwise he will wonder why he has come here.

First, as you know, the state pension is not funded; it is paid on a pay-as-you-go basis. You are right that the IFS and others have highlighted our ageing population and the relative fall in our working-age population, and you will have to correct that either by making people pay more tax, which is what actually funds the state pension, or by increasing the level of migration. I am unaware of the Scottish Government or anyone else on that side of the argument saying how much more immigration would be needed. If you cannot replace your working-age population through increasing the birth rate, you have to do it through migration—and if you do not do that, you will have the problem that Japan currently has, with very little migration, an ageing population and debt at 200 per cent of GDP. [*Interruption.*] I will allow you to come back in, Ms Johnstone, but let me first make my other two points.

With regard to ICAS and funded occupational pensions, the fact is that too many of those pensions have not been properly funded for many years now. At the moment, they are UK-wide. Under EU law, if Scotland became independent, those pensions would split, and you would have to ensure that both sides were funded. The only

people who could ensure that would be either the pension members through increased contributions or reduced drawings out, or, I suppose, the Scottish Government, if it felt that it had enough cash around to top pensions up.

I am concerned both by our ability to fund—and, as most people would want, increase—the state pension and by the problem with funded pensions. With the latter, you would have to take on a whole bunch of risks and expenditure that you do not have to take on at the moment, as the pensions do not have to be funded separately.

I am sorry—you were going to come back in.

**Alison Johnstone:** In Ireland, there was a transition period. That is perfectly possible here.

The immigration issue is key. Again, I return to the point that if a Conservative-UKIP coalition were to be elected next May, that would surely be a greater threat to the stability of Scots' pensions than anything else.

**Alistair Darling:** It will not surprise you to know that I am not enthusiastic about either a Conservative or a UKIP Government, let alone a coalition—and it would be some coalition, given that those in UKIP seem to have difficulty working with themselves, never mind anybody else. The point is that, as we all know, pensions by their very nature span several Governments. Whatever Government introduces a reform, we only know whether or not it has worked several Governments later.

As for the immigration issue that you have rightly raised, if the working-age population is falling and the retired population is rising, there are only two ways to get the money: either it comes out of something else that you would otherwise be doing or you encourage more migration. If that is your policy, it is, like so much else, a policy decision that you are entitled to take, but you had better be up front about it, because people want to know.

**Alison Johnstone:** If we are part of a larger UK with an immigration policy that does not match our country's needs, that is a real challenge.

**Alistair Darling:** There are other consequences. I suspect that, if there are two different immigration policies across a landless border, an obvious issue is going to arise at some point. If an independent Scotland needs to boost its working-age population by X—I do not know what the number is, and it might be useful to know that between now and 18 September—and decides to increase immigration to fill the gap, that is a policy decision that the Scottish Government is entitled to make. So far, however, it has been coy about whether it would do that and, if it did, how many people we would be talking about. After

all, such a move would have a knock-on effect on housing, schools, health and other services.

10:15

**Blair McDougall:** Alistair Darling has covered most of the points that I would have made. As far as immigration is concerned, Scotland has an ageing population, with the number of over-65s set to grow significantly in the coming decades and the working-age population set to shrink in comparison. In the rest of the UK, all sections of the population, broadly speaking, are set to grow. The question of the immigration policy that we need from a pensions point of view arises from the decision on independence.

As Alistair Darling said, if the affordability of pensions is predicated on interventions in the population through immigration, you have to question whether such a policy is credible. Two independent researchers have now suggested that 1 million immigrants would be needed to make pensions affordable at a rate equivalent to that of the UK. To my knowledge, the Scottish Government has not put a figure on that, so it is difficult to judge whether the promise to make pensions affordable through immigration is credible. Until we see what the Scottish Government's figure is, it is difficult to tell whether or not pensions are safe in an independent Scotland.

**Alison Johnstone:** Could I ask one more tiny question, convener?

**The Convener:** No. You have had six.

**Chic Brodie:** I would like to talk about forecasting, but before I do so, I would like you to explain something that you said in answer to Dennis Robertson's question on foreign direct investment. Until 2008, Scotland had about 8 per cent of the UK jobs that came from foreign direct investment. In 2010, the figure rose to 19 per cent; in 2011, it was 20 per cent; in 2012, it was 18 per cent; and the latest forecast for 2013 is 20 per cent. To what do you attribute that dramatic change in direct investment in Scotland as opposed to the rest of the UK?

**Alistair Darling:** I seem to remember from the figures that came out last year that Wales has also benefited. As I have said, Scotland benefits to a large extent, not just because of what we offer in Scotland but because we are part of the UK and therefore part of a bigger market. In the same way, we benefit hugely from overseas investment—

**Chic Brodie:** With all due respect—

**Alistair Darling:** Let me finish.

**The Convener:** Let Mr Darling finish, please.

**Alistair Darling:** A lot of investment that we get here—for example, in the motor industry—comes purely and simply from being part of the European Union. People like getting into a market where they can get into not only the immediate market but a bigger market as well. It has a big benefit.

**Chic Brodie:** As I recall, Scotland was also part of the UK before 2008. You have not really explained the difference.

However, let me ask about forecasting. In 2010, in the *Financial Times*, you said of the Office for Budget Responsibility:

“Right from the start the Tories used the OBR not just as part of the government but as part of the Conservative Party.”

The first chairman of the OBR, Sir Alan Budd, was an adviser to Mrs Thatcher, and a look at the current board suggests that you might have been right. Have you changed your view?

**Alistair Darling:** I remember that comment. If I remember rightly, it was about the OBR’s first report, which was published about three weeks after the general election, prior to George Osborne’s first budget. There was a fuss at the time and I remember discussing the matter with Alan Budd, who said that matters had perhaps not been handled in an ideal way. Since then, the OBR has moved on, and Robert Chote, the current chair, is doing an excellent job.

There is a broader point about forecasting, and I dare say that you will come on to it. It is incredibly difficult to produce forecasts at a time of economic crisis, because so many unknown things are happening. If you look at the time when I was forecasting, which was an extremely turbulent period, you will see that in 2008 my forecasts were broadly in line with others but that, by the end of that year, it was quite clear that the world had changed dramatically. Equally, you will see the difference in the forecasting that the OBR has carried out post-2010. As you know, things were considerably worse in the first two years than people had anticipated, and we are now in a situation where the Bank of England and other forecasters think that things are getting better. It is a difficult thing to do.

I remember the situation to which you refer. Just after the 2010 general election, there was a general feeling that the OBR had got off to a bad start. That has been put behind it. The facts have changed, and when the facts change, I change my mind. Perhaps I should acknowledge that someone else originally said that.

**Chic Brodie:** Thank you for that. That is very welcome.

You say that we are in better times. You also say that the OBR has improved, but its

“Forecasting Scottish taxes” report contains the statement:

“We are therefore not able to produce a Scottish macroeconomic forecast to drive the Scottish tax forecast.”

It says that that is because of the methodologies, explaining that

“we consider these methodologies work-in-progress.”

Why are we putting so much emphasis on the OBR’s work when it has not established meaningful methodologies and, indeed, says that its methodologies are “work-in-progress”?

**Alistair Darling:** The OBR provides forecasts for the whole of the UK and operates on the basis of the data that we have. What it has not done—and this is more difficult to do—is disaggregate the tax take from the different parts of the UK. It is relatively easy to do that with income tax, but it is much more difficult to do it with other taxes. Even with corporation tax, it is not always clear where the money has been made. It becomes more difficult still with indirect taxation.

The OBR was not set up to carry out that sort of study. As you know, bodies such as the Institute for Fiscal Studies—which has a record in this area—and the National Institute of Economic and Social Research have done quite a lot of work on that. As with forecasting growth and so on, forecasting tax take will never be an exact science, but it can provide pointers to the sort of environment that a country is likely to be operating in.

**Blair McDougall:** Your first question was about the politicisation of forecasting and your second illustrated the need to be cautious with forecasts.

In the projections for North Sea oil revenues that the Scottish Government published, John Swinney identified five scenarios, with scenario 1 as the most pessimistic and scenario 5 the most optimistic. For 2012-13, even the most pessimistic scenario—scenario 1—was out by about £1 billion. I think that that reinforces your initial point about the need not to be too political with forecasting. The problem with those oil forecasts is that they underpin the sole page of economic forecasting in the white paper, which is page 75. That has already been shown to be too optimistic.

**Chic Brodie:** The Scottish Government is depressing its forecasts for oil revenue. I will come to that in a minute.

**Blair McDougall:** It was with the actual tax take that the forecast proved to be out of kilter.

**Chic Brodie:** It is also regrettable that in its report, “Economic and fiscal outlook—Scottish tax forecasts”, the OBR said:

“Due to the confidentiality of the measures we were unable to involve the Scottish Government in this stage of the process.”

Another statement that we have often heard made is that businesses will move from Scotland in the event of independence. I have a copy of *The Herald* from the day after Mr Darling’s budget in 2010, which contains the headline:

“Large companies may ask: why stay in UK?”

Large companies were said to be talking about relocation because of the level of corporation tax and were quoted as making various comments about moving their headquarters.

Why is there so much scaremongering? It is understandable that there is uncertainty when things change. Those of us who have run businesses understand that, but why is so much emphasis being placed on uncertainty when only a select few individuals in organisations say that they might not stay in Scotland? The evidence suggests that exactly the same situation arose following your budget in 2010.

**Alistair Darling:** I will make two observations. Larger organisations make choices—not as an immediate reaction to a particular event, but over a longer timescale—about the jurisdictions in which they want to operate. Those choices relate to the regulatory regime, the tax regime and what a place is like to do business in. Such considerations are influential and cannot be ignored, particularly in a world in which there is a highly globalised economy. People do not just choose between Scotland and England; they choose between the far east, Europe and South America.

As for the companies themselves, I will give you two examples. Standard Life, which competes with other big insurance and pension companies south of the border, said—it made the point, not me; it did not discuss the issue with us beforehand—that it might have to move not everything but some of its operations south of the border if it was faced with a different tax or regulatory regime. As you know, the pensions industry is largely driven by the tax and pensions regime.

The other example is a smaller company that I visited in Port Glasgow that makes mechanical pumps. Most of its customers and indeed most of the component parts that it needs come from south of the border. The guy who owns the company pointed out that he would have to deal with two separate regimes for tax, accounting and so on, and he said, “It would make a difference to me and I don’t think I could carry on doing that.”

Obviously, each firm and each individual will have a different view on how it would affect them. What we—the whole population of Scotland—have to decide is what, on the balance of

probabilities, is likely to be best for an economy in which we have a thriving business sector that employs people, pays its taxes and contributes to the wealth of the country. You will understand which side of that argument I am on, and I quite understand that you are firmly on the other side.

**Chic Brodie:** I hear what you say, but the list of companies that were said to be talking about relocation at that time included Diageo and Unilever—HSBC had, in fact, already moved. It is time that we start being realistic and stop a lot of the scaremongering that goes on.

I have one last question. You made a comment about my First Minister speaking in support of the Royal Bank of Scotland’s Fred Goodwin. On page 62 of your autobiography, you indicate that Mr Goodwin came to you on 23 December 2007—with, I believe, a panettone—and told you that there was a problem with the liquidity of the banks. Why did you not do something about that immediately?

**Alistair Darling:** First, thank you for the plug for my book, which is still available from all good booksellers.

**Chic Brodie:** I just stood in a bookshop and read it.

**Alistair Darling:** I hope that you got beyond page 62 and were not just standing in WHSmith looking at it.

Fred Goodwin came to my house in—I think—December 2007 to raise two concerns. First, he was concerned about the lack of liquidity in the system, which is something that the Bank of England addressed a short time later. You might remember that, in a co-ordinated action, the Bank of England, the US Federal Reserve, the Bank of Japan, the Swiss National Bank and the European Central Bank all said that they would have a combined scheme, and that provided liquidity.

The problem was that it was always RBS’s view—it was certainly Fred Goodwin’s view—that it simply had a cash-flow problem. RBS certainly had a lack of day-to-day money, but what Fred Goodwin did not accept at that stage, and which is also recorded in that chapter, was that RBS had a capital problem. I said to him, “Why does everybody think that you have a capital problem?” He said that he did not have a capital problem, but the markets at that time thought that RBS did, principally because of the takeover of ABN AMRO—to which, as you said, your First Minister added his blessing. ABN AMRO was an absolute basket case. However, the takeover was not the sole thing that brought down RBS; it lost money in conventional lending and, spectacularly, in some of its trading in derivative instruments, particularly in the United States, which I think started in 2006.

The long and the short of it is that a once-great bank that had been one of the biggest if not the biggest bank in the world was brought to its knees. I come back to Murdo Fraser's point that at least RBS is still here, and it still employs a lot of people in this city. That is the case only because I was in a position to do something about the matter. If we had trusted Mr Goodwin and the board of RBS and had done nothing, a lot more jobs would have gone and the consequences for the Scottish economy, never mind the UK economy, would have been catastrophic.

**Chic Brodie:** I am grateful. Just let me—

**The Convener:** Thank you. We will move on.

**Joan McAlpine (South Scotland) (SNP):** Thank you, convener. I will ask about the permanent secretary to the Treasury, Nicholas Macpherson. There were raised eyebrows when his advice to the chancellor was published on the same day as George Osborne made the speech in which he emphatically ruled out a currency union. Following a freedom of information request in November 2012, the Treasury stated that Sir Nicholas occasionally met you socially from time to time. When did you and Sir Nicholas last meet?

**Alistair Darling:** I think that I bumped into him in March.

**Joan McAlpine:** Right. How many times have you met him since the referendum campaign began?

10:30

**Alistair Darling:** I do not know. I do not want to give you an inaccurate answer.

Obviously, I worked very closely with Nick Macpherson for three years—and I did so previously, when I was Chief Secretary to the Treasury in the late 1990s. For the sake of completeness, I should mention that I also keep up with a number of other permanent secretaries in the departments where I worked and with other civil servants. That is not abnormal.

I make it very clear that every single civil servant with whom I have contact is absolutely scrupulous about not discussing their advice to the current Government. That is one of the strengths of the civil service in this country. I would not read too much into the fact that I know Nick Macpherson. I saw him nearly every day of my life for three years, during some quite interesting times.

**Joan McAlpine:** Have you discussed aspects of the independence referendum with him?

**Alistair Darling:** All the contact that Better Together has with the UK Government is made through political channels, not through the civil service.

**Joan McAlpine:** I asked whether you had discussed aspects of the independence referendum with your friend Nicholas Macpherson.

**Alistair Darling:** I discuss many things—I am not going to go into private conversations.

**Joan McAlpine:** So you have discussed aspects of it.

**Alistair Darling:** As I said to you, I am not going to go into private discussions that I have with him or with anybody else. What I can tell you is that I have not discussed whatever advice he happened to give to the current Government.

**Joan McAlpine:** I am asking about what he said to you. Did you discuss aspects of the independence referendum with your friend Nick Macpherson?

**Alistair Darling:** I am not going to discuss any private conversations with him, any more than I would discuss a private conversation with anybody.

**Joan McAlpine:** Did you discuss the currency union with Nick Macpherson?

**The Convener:** I think that Mr Darling has made his position very clear.

**Alistair Darling:** I cannot really add to what I have said, Ms McAlpine.

What I can say to you, however, is that I am not aware of what advice Nick Macpherson and his colleagues give to the current chancellor and chief secretary. If we have contact with the Government, we do it through political channels, not through the civil service.

**Joan McAlpine:** I was asking about your conversations with your friend Nick Macpherson. However, we will move on.

**Alistair Darling:** I know exactly what you are up to—I understand that.

**Joan McAlpine:** I will move on to a report in *The Guardian* by its chief political correspondent, Nicholas Watt, on 29 March this year. It quoted a Treasury source as saying:

"Alistair and Andrew are running the show – we just did what they said".

That was referring to Andrew Dunlop, the Prime Minister's special adviser for Scotland, who also advised Margaret Thatcher and you. When did you and Mr Dunlop first discuss ruling out a currency union?

**Alistair Darling:** We did not. It is news to me that I am "running the show" as far as the Treasury was concerned. I did, but I do not now.

**Joan McAlpine:** Are you saying that *The Guardian* was wrong?



**Alistair Darling:** It is a matter of fact that I do not run the show, as it was put. Of course I have discussed the currency union issue with Ed Balls, George Osborne and Danny Alexander. It would be extraordinary if I had not done so.

You want to know what people were thinking about those things. You may recall that it was last summer when George Osborne first spoke on the subject. He said what he said—they were his own words and his own thoughts. He said that he thought that a currency union would be very difficult. That was prior to him saying that he would not do it. It would be extraordinary if I had not discussed the merits of those things with Ed Balls, the shadow chancellor and a member of my own party. For the sake of completeness, I should mention that I have also discussed the issue with Danny Alexander.

It will not surprise you to know that, on that particular issue, in relation to currency, we have a common view.

**Joan McAlpine:** I am glad that you mentioned Ed Balls. When he appeared on Iain Dale's LBC radio show on 12 February 2012, the day before George Osborne made his speech about currency, Ed Balls revealed that he had not read the Treasury paper that day. Of course, however, he immediately came out to back up George Osborne the next day.

As a very senior member of the Labour Party, can you say whether the Labour Party carried out its own analysis before ruling out a currency union, or did it just adopt George Osborne's analysis?

**Alistair Darling:** You may recall that, when he was a special adviser in the Treasury, Ed Balls was very largely instrumental in determining the then Government's policy response to the euro. He is well versed with the problems associated with a currency union. You seem to have been reading quite a lot of press clippings and so on, so you might recall that on both occasions when he came up—I think during the Dunfermline by-election campaign and again at the end of last year—he expressed extreme scepticism about a currency union.

The Government papers are published by the Government, so Ed Balls would not have seen them. However, the idea that he was coming fresh to the issue is just not right. He has a lot of experience.

**Joan McAlpine:** But it was a co-ordinated, stage-managed event, in which he was wheeled out to support the chancellor. Is it usual practice for the Labour Party to follow the policy of a Tory chancellor without scrutiny?

**Alistair Darling:** It is surely not surprising that the principal finance spokesmen for all three

parties would have looked at a currency union and what would happen post-independence and that they would have taken a view on that. The view that the economics do not add up was universal.

The production and preparation of the Treasury paper that you referred to is obviously a matter for the UK Government—that is what Governments do—but the fact that there is a common view should not surprise anyone. Although the process is fascinating to some, the substance of a currency union is more interesting. As I said in reply to earlier questions, I think that that would be bad for Scotland, never mind the rest of the UK.

**Joan McAlpine:** I would like to ask Mr McDougall a question.

**The Convener:** You can ask one more.

**Joan McAlpine:** Better Together published a dossier immediately after Osborne's announcement that claimed that the currency union was not possible. Were you told what the UK Government would announce?

**Blair McDougall:** Yes—a matter of days before it happened.

**Joan McAlpine:** So you had discussions with the UK Government on the chancellor's announcement.

**Alistair Darling:** As I told you, through the political—

**Joan McAlpine:** No, I asked Mr McDougall that question.

**Alistair Darling:** He can answer as well, but—

**Joan McAlpine:** No, I am asking Mr McDougall, who has just admitted that Better Together had discussions with the UK Government before Mr Osborne's speech.

**Blair McDougall:** Not about whether the decision should be made, but about the fact that the decision was coming.

**Joan McAlpine:** Okay. Thank you.

**Margaret McDougall (West Scotland) (Lab):** Good morning, panel.

Throughout the inquiry, we have heard from witnesses that taxation and the welfare state would be much better if we were independent. What is your view on what the income tax levels would be? The people whom we talk to when we are out and about are worried about how much independence will cost them. We have heard from various witnesses that income tax levels are likely to be higher if the aspiration of the yes campaign and the Scottish National Party leads to welfare benefits, for example, being more akin to those in the Nordic states.

**Alistair Darling:** I suppose that that goes back to the point about tax and welfare that I made right at the start. If we are part of something bigger—the United Kingdom as a whole—we have around 31 million taxpayers as well as business taxpayers. The burden of the money that we need to raise can be spread over them to pay for pensions, the welfare state, health, education and so on. Scotland has a taxable population of around 2.5 million people, I think, so that is a lot smaller.

It is often said that we can have what the Nordic states have. We can, as long as we accept the taxes that go with that. In all the Nordic states, taxes are higher than ours—typically 25 per cent. Their top rate of tax is higher than what is currently paid here. Therefore, I always say to people that, if they want to advocate that Nordic settlement, which says that there are better public services in some cases—although not everywhere—and higher taxation to go with them, they should by all means advocate that, but they should tell people what they will do. People might vote for that, but they want to know in advance what it will cost them and how much more they will have to pay in individual taxation.

There is another consideration that I think that I referred to earlier in relation to the IFS report, which no one has seriously challenged. The IFS is one of the few organisations that I am aware of whose statements it is very difficult for parties in government to say that they do not believe, possibly because it is very good and possibly because every political party at one stage or another—usually in opposition—has endorsed it. The IFS made the point that, in around five or six years' time, Scotland will have a very big gap between what it spends and what it gets in, which will have to be filled. It estimated that to be around £6 billion.

If there is a gap of that size, there is a limited number of higher-rate taxpayers in Scotland. The Scottish Government has already said that it will cut corporation tax by 3p. That means that somebody else will have to pay, and that somebody else is the rest. It is ordinary people who will have to pay through income tax or increased VAT. At the moment, VAT is at 20 per cent. I think that people would be extremely concerned if it went up to 25 per cent, because that would be a big hit.

It is possible to make comparisons with any country you want to, but it is important to remember, as I am sure everyone appreciates, that there is no country in the world where everything is perfect. All countries have problems. Sweden has big social problems, as have some of the other Nordic countries. It is open to anyone to

advocate higher taxation but, if they do so, they must remember to tell people first.

**Margaret McDougall:** I am trying to get a figure out of you. At what level do you think that income tax would be in an independent Scotland?

**Alistair Darling:** That would depend. At the moment, we are running a fiscal deficit—we are spending more than we get in. According to the latest figures, this year alone we lost £4.5 billion-worth of revenue from North Sea oil, which is roughly what we spend on schools in Scotland. That gap would have to be plugged in an independent Scotland; it has to be plugged at the moment.

The amount of money that is raised in tax is driven by two things: what services and so on the money is spent on; and how much would have to be spent on servicing debt. The best estimate that I have seen is the one from the IFS, which looked at the demographic pressures that Scotland faces and at the fact that, regardless of what is happening with North Sea oil, by definition it is not renewable and every day there is less than there was the day before. It is very difficult to put a precise number on the gap that would exist. The IFS has done that; the figure that it has come up with is £6 billion. That would mean increased taxes or reduced spending.

**Margaret McDougall:** If there was an independent Scotland, how difficult would it be to set up a separate tax system, given the intricacies of the present UK system? What would the cost implications be? I think that we have all seen this week's ICAS report.

**Alistair Darling:** I think that ICAS quoted a figure of about £750 million.

There are two issues. The Scottish Government's view is that HM Revenue and Customs, as it is presently constituted, would continue to collect taxes and that the Department for Work and Pensions would continue to pay out benefits for five years or so, which limits the scope of what could be done. I know from my experience that, although the DWP can pay out universal benefits, it is very bad at chopping and changing. Those bodies would have to be replicated, which would mean money being spent on a new bureaucracy that is not needed. I would rather see that money being spent on some of the things that Ms Johnstone mentioned. [*Interruption.*]

**The Convener:** Order. Someone has a phone that is on.

**Alistair Darling:** I thought that I had switched the thing off; I am very sorry about that.

I agree with the point that Alison Johnstone made. If there was £750 million available to spend, I would rather not spend it on replicating what

already exists. I think that ICAS also made the point that it would expect there to be fewer civil servants administering the system in an independent Scotland—I think that it put the figure at 2,500. If that is the intention, people should be told.

**Margaret McDougall:** That is my point. People in the street want to know what independence would cost them. It is okay to look at the bigger picture and talk about what independence would mean for the economy, but people's greatest concern is about how independence would affect them personally. They are looking at how realistic the views of both sides are.

In reality, how long would it take to set up the new institutions in Scotland post the referendum?

**Alistair Darling:** I have some experience in that area. When Jobcentre Plus was set up for the whole of the UK about 10 years ago, it took about two or three years to set it up. The more problematic issue is not so much the people but the computer systems that go with the setting up of a new body. We are not the only country to have had problems with that. There is a long and unhappy history of brand new computers that are supposed to do all sorts of things not doing them once they are unpacked.

10:45

You must remember that Scotland would presumably be changing the tax code at the same time. There are issues relating to tax, such as who is a Scottish taxpayer and who is a UK taxpayer.

To be honest, no one knows how long these things would take, but we are kidding ourselves if we say that we can do them quickly because they always take longer than we think. Where there is delay or uncertainty, there are costs and risks, and there is blight, frankly—the blight that would come when decisions have yet to be made. ICAS, which knows about the tax system, makes all sorts of points about that.

These are all issues where we could greatly benefit with far more information now, rather than find out on 19 September that it would have been a good idea if we had known it all.

**Margaret McDougall:** So that will add to the uncertainty and turmoil that would follow if Scotland became independent.

**Alistair Darling:** Yes. There would undoubtedly be uncertainty. The idea that you could fix all this by March 2016 is for the birds. My experience in the European Union is that nothing—that I am aware of—has ever been fixed in 18 months, even when there is agreement.

**Blair McDougall:** There are perhaps two pertinent sources for your last two questions.

On the cost of setting up the tax system, I think that John Swinney was in the media yesterday saying that he believed that setting up a tax system could save Scotland money. In the leaked Cabinet paper of 2012, he predicted that the cost of a separate taxation system could be in the region of £625 million for Scotland, which I think is about £300 million more than the share that we pay in to maintain the UK tax system. I am not quite sure how what was written in private squares with what was said in public yesterday.

On the point about the length of time to set up institutions, the Scottish Government's own expert group on welfare, in its first report, looked at some of the issues relating to setting up systems for the payment of benefits and pensions. I think that I am right in saying that its conclusion was that we are looking at around a decade to get institutions set up, and that any attempt to move to separate systems before that would present

“serious risks to the continuity of payments to people”.

Obviously, those are the things that would be rolled into any negotiations after independence, but we are looking at 10 years and a lot of cost.

**The Convener:** We need to move on because we have two members to bring in before 11 o'clock.

**Marco Biagi (Edinburgh Central) (SNP):** In response to Alison Johnstone's questions, Mr Darling, you were keen to talk about poverty rather than inequality. You also said that it is very difficult for parties in government to say that they do not believe what the Institute for Fiscal Studies says.

The IFS's report, “Poverty and Inequality in the UK: 2011”, found that

“Income inequality rose during the 13 years of Labour government across a range of potential measures.”

What guarantees are there for any kind of change in the event of a no vote, given the record of Labour?

**Alistair Darling:** The reason why income inequality rose was largely because of a very rapid increase in the top decile of the population, which is something that you see right across the Organisation for Economic Co-operation and Development. We see it in this country, particularly because in the past 20 years we have had an influx of people who are on the high end of the income scale.

If you want to do something about that, the question is what your top rate of tax is. As you know, I put the top rate of tax up to 50p in my last budget. It is now coming back down again but, again, that is a political decision. Equally, in

Scotland, if you wanted to narrow that inequality—I do not think that Scotland has anything like the same number of very high earners—it is open to a Scottish Government to say that it is going to have a top rate of more than 50p, if it wants. However, if that is your intention, you should tell people beforehand rather than after.

**Marco Biagi:** Your first response was to refer to the issue about the increase in the top decile as the reason for inequality. I draw your attention to the final Prime Minister's question time by Margaret Thatcher, when I believe that that was her exact defence. I assume that you were there.

For the past 55 years, Scotland has voted Labour in every general election. Do you think that inequality would be higher or lower in Scotland if we had had Labour Governments every time that we voted for them?

**Alistair Darling:** That is an impossible question to answer.

**Marco Biagi:** So Labour Governments would not reduce inequality.

**Alistair Darling:** No, I am not saying that at all. The Labour Government of which I was a member reduced poverty, particularly among people at the lower income levels, and it increased income levels. There is a very good study by the London School of Economics and Political Science—it is not our study; it was written by Professor John Hills and others—that is a report card, if you like. Yes, some things were not right but we did get a lot of things right, and if we are elected again we would like to continue to do that.

**Marco Biagi:** Would 55 years of Labour Governments—or Scotland getting a Labour Government whenever it voted for one—have reduced poverty more than it has been reduced in the past 55 years?

**Alistair Darling:** It is impossible to say. If you look—

**Marco Biagi:** Are you honestly saying that Labour Governments would not have reduced poverty?

**Alistair Darling:** No. I hope that it would be the objective of every Labour Government to reduce poverty. That is one of the central planks of what we stood on in 1997, and we will be standing on it next year. Do not misunderstand me—I want to see Labour Governments.

I rather got the impression that you are in favour of independence regardless of whether there is a Labour Government, because you did not like us when we were in government any more than you like the Tories.

**Blair McDougall:** I am not sure that there is any party in any democracy in the world that has been

in power for 55 years, so it is an interesting but hypothetical question.

I will take off my Better Together hat and put on my Labour Party activist hat. Inequality and poverty are tackled through policy decisions that are made by parties, and we are talking not about a hypothetical past but about what we are offering for the future. As Alistair Darling said, the Labour Party is offering a 50p top rate of income tax and a tax on the bankers' bonuses to guarantee—

**Marco Biagi:** I do not like to interrupt, but you are here as a Better Together representative, not a representative of the Labour Party.

**Blair McDougall:** If you let me finish, I am about to segue into the referendum.

Policies are being espoused that are redistributive. However, not a single policy in the white paper, which you stand by, has any redistribution in it. Actually, one of them—the corporation tax cut—is redistributive but it redistributes from the poor to the rich. We can talk about reducing inequality, but there must be a recognition that there is nothing in the white paper, which is being held up as the promise of reduced inequality in Scotland, that is redistributive.

**Marco Biagi:** I disagree with your interpretation of the white paper. My question remains: what is the offer from the no side to reduce poverty and inequality? Are people being asked to continue voting for the Labour Party, which has not worked for the past 55 years?

**Alistair Darling:** You criticised Blair McDougall for talking about the Labour Party, but your questions appear to be more about the Labour Party than about Better Together. I repeat what I said earlier. Better Together is not standing in the general election next year; our purpose is to fight in the referendum campaign.

I return to the broader point that our ability to tackle inequality and ensure that we live in a fairer and better society is far greater with Scotland as part of the UK—because of the resource, the potential and the opportunities—than it would be if we were to break off and go it alone. We obviously disagree on that, but that is my position.

**Marco Biagi:** I have a final question. You believe that there are benefits to Scotland from being in the union. I disagree with you on that—we have had quite a few honest disagreements here. What number of years of Conservative government that Scotland did not vote for do you think is a price worth paying for what you consider to be the benefits of union?

**Alistair Darling:** Let me make a general point. Although I did not approve of it, at the last general election more people voted for the coalition Government than voted for the SNP. The Tories

were in last place, and then came the SNP, the Liberals and us. Over the years, people in England have also not got the Government that—in inverted commas—they voted for. Your argument is not a strong argument for breaking up the UK and everything that goes with it.

You and I will not agree on the Government that we want to see in May next year, as I do not think that you liked past Labour Governments either. However, I think that the potential that would accompany Scotland's remaining part of the United Kingdom would make it far more likely that you would have the ability to deal with the inequalities and injustices that you and I agree need to be tackled, although we disagree on the way in which we should achieve that.

**Mike MacKenzie:** My questions are for Mr Darling. You are currently running a poster campaign with the message that more powers for Scotland are guaranteed. I assume that you are not talking about the powers that will be conferred by the Scotland Act 2012 because they will come in regardless of the outcome of the referendum. What are the powers that you are guaranteeing?

**Alistair Darling:** They have not come in yet, but I am glad that you agree that they will, because the last couple of times that I crossed swords with nationalists, they have been busy asserting that the Scotland Act 2012 is not going to come into force or has not been agreed.

**Mike MacKenzie:** I am just asking you what more powers you are guaranteeing.

**Alistair Darling:** There are the taxation powers that will come with the 2012 act. All three non-nationalist parties are promising that there will be additional powers. They are not all the same, but no doubt they will want to agree between them.

The additional taxation powers that are coming to the Scottish Parliament on stamp duty and in relation to borrowing all come in under the 2012 act, and they are guaranteed, but there will be more beyond that.

**Mike MacKenzie:** You have talked a lot this morning, and during the past year or two, about the need for certainty. Do you not think that the people of Scotland need some certainty from the no campaign, specifically about the extra powers that you are guaranteeing if there is a no vote?

**Alistair Darling:** The Labour Party and the Liberal Democrats have announced their plans. I understand that the Tories will do so shortly. Before the referendum, you will see what all three are offering. It might well be that, as presaged in the Scotland Act 1998, all three parties will come together. There might be a fourth party that was not there for Calman or the Scottish Constitutional Convention. It is the case that more powers are

guaranteed. They are not just the ones that are already coming through; they are in relation to what the three non-nationalist parties are saying.

**Mike MacKenzie:** I assume that you are able to speak to the Labour Party offering. Reform Scotland's analysis suggests that it is offering a further 4 per cent in terms of tax-raising powers and ability. What do you think that that 4 per cent is going to do to deal with the inequality that Marco Biagi and Alison Johnstone have talked about? I am sorry to have heard you attempt to deny that Scotland has these problems—

**Alistair Darling:** Hold on; I did nothing of the sort.

**Mike MacKenzie:** What can Better Together offer the people who have made up the 400 per cent increase in the use of food banks? What can it offer to the 50 per cent of people who are experiencing fuel poverty in Scotland's islands? How will that extra 4 per cent tackle those problems in any way?

**Alistair Darling:** I do not know where you got the 4 per cent from.

**Mike MacKenzie:** That is Reform Scotland's analysis.

**Alistair Darling:** You said something that was not quite right. At no point have I ever said that Scotland does not have huge social and economic problems that are still to be tackled. Of course it does. I mentioned health inequality and the fact that the health outcomes in a large part of Scotland compare very badly, and some of them are a disgrace for a country of our status and maturity. Look at the life expectancy of some of our citizens: people are dying 10 years before their counterparts who live in other parts of Scotland, as well as in other parts of the UK. In relation to our educational attainment, we do very well by a lot of our pupils but a lot of people still leave school without the qualifications that you would expect.

Nobody is going to tell me that the job is done or anything like it. The thing that I come back to again and again is that I do not believe that constitutional arrangements determine people's success, life expectancy or wellbeing. It is about the political decisions that the Government of the day either here in Edinburgh or in London takes in relation to any of the matters that you have referred to.

The Scottish Labour Party proposes to give the Scottish Government more power and responsibility for raising the money that it spends, which is all to the good. However, at the end of the day, whatever Government is elected here in 2016 or in Westminster in 2015, it is the political decisions that that Government makes that will determine many of the things that we have been

discussing today, not the constitutional arrangements. It is almost as if you are saying that, if only we change the constitution, we will have all the money and everything we need to do these things, but it is not like that.

**Mike MacKenzie:** Could you please explain to me how this 4 per cent extra powers—this tinkering at the edges—will help to deal with the problems that we have heard described this morning?

**Alistair Darling:** As I said, I do not know where you get your 4 per cent from. It seems to me that some of the things that the Scottish Labour Party and the Liberal Democrats are proposing—we will wait and see what the Conservatives have to say—are additional powers that most people will welcome.

What I think people in Scotland want above all else is to know what the best way is of achieving the ends that we all want to achieve. There is a competing vision: do we build on the strengths and opportunities that we get from being part of the UK and making our decisions here in Scotland, or do we achieve them by breaking away? You know which side I am on, but I think that that is the question that is likely to be foremost in people's minds when they go to the polls in September.

**The Convener:** It has been a long session and we have covered a lot of ground. I am grateful to you for coming along and answering our questions this morning.

11:00

*Meeting suspended.*

11:07

*On resuming—*

**The Convener:** I welcome our second panel of witnesses. We are joined by Blair Jenkins, chief executive of Yes Scotland, and Dennis Canavan, chair of the Yes Scotland advisory board. We have about 90 minutes for the session, but I remind members to keep their questions short and to the point, and if we could have answers that are equally concise, that would be helpful, because I dare say that we will want to cover a broad range of issues in the time that is available to us.

I will start by asking a similar question to the first one that I put to the previous panel. In your view, what would be the advantages to the Scottish economy of a yes vote in the referendum? It would be helpful if you could try to answer that in two to three minutes.

**Dennis Canavan (Yes Scotland Advisory Board):** I am a convert to the cause of independence, and my conversion was based not

on any emotional experience but mainly on my parliamentary experience. I spent 26 years as a member of Parliament at Westminster, followed by eight years here in the Scottish Parliament. I have been retired for seven years now, which has given me time to think, and I have come to the conclusion that Westminster is increasingly out of touch with the people of Scotland on economic as well as political matters, whereas the Scottish Parliament, although not perfect, responds far more readily and positively to the values, needs, wishes, aspirations and economic priorities of the people of Scotland.

I will give just a few examples of that: radical land reform, the absence of tuition fees for university students, free care for the elderly and no prescription charges for national health service patients. However, the powers of the Scottish Parliament are very limited, and most of the big decisions—political and economic—are still taken at Westminster. I believe that, with independence, the Scottish Parliament could do so much more, economically and politically.

I ask myself, and you, as distinguished members of the Scottish Parliament, why it is that if the Scottish Parliament can be responsible for important services such as education and the national health service, it should not be responsible for taking decisions on whether we should be involved in illegal warfare or have nuclear weapons. Similarly, if the Scottish Parliament had powers over the regulation of financial institutions, to my mind, we would be able to have a better regime and to stop bankers filling their pockets with big fat bonuses while bringing the country to the brink of economic disaster. If we had powers over tax and national insurance, we would be able to introduce a fairer and more progressive system of taxation. We could also have a fairer system of benefits, including the abolition of the iniquitous bedroom tax, which would never have seen the light of day if our Parliament had had complete independence.

In conclusion, I see independence not as an end in itself but as a means to building a better, more prosperous and fairer Scotland that will play its full part in the international community to help to build a better world.

**The Convener:** Thank you. Mr Jenkins, do you want to add anything?

**Blair Jenkins (Yes Scotland):** If I may, I will add a brief thought to what Dennis Canavan said.

I am not a politician, but I know quite a few, and it seems to me that all the politicians I know, whichever party they are in, came into politics to make a difference. If we think about 2016 and the first elections to an independent Scottish Parliament, we can imagine how exciting it would

be for every party and politician in the Parliament that, for the first time, you would be able to devise, propose and then implement a fully co-ordinated and integrated set of proposals to develop the Scottish economy. You would be able to do the kind of things that Dennis Canavan talked about—to achieve a fairer distribution of wealth, to grow our economy and to make the kind of changes that we would all like to see in Scotland.

I believe that there are lots of reasons why Scotland would benefit economically from independence. We know that the Westminster system is not working for Scotland and that we need to address huge issues around inequality of wealth and opportunity. I firmly believe—I know that we will get into the detail of this—that the compelling arguments for Scottish independence are nowhere more compelling than they are in the areas to do with the economy.

**The Convener:** Thank you. I will follow up on a couple of issues and then bring in other members.

I will start with Dennis Canavan, who talked passionately about the need to have full independence, to extend the powers of Holyrood and to control the levers of power. The committee has spent quite a lot of time considering the question of currency. It has always seemed to me that, if we want to have an independent country, to have proper control over the levers of power, such as the power to set interest rates, we want to have our own currency, not somebody else's. Do you agree?

**Dennis Canavan:** As you might remember, at an earlier stage in the debate, before the Scottish Government issued its white paper, I gave a personal view expressing support for the principle of an independent Scottish currency. However, I do not think that my personal views are of paramount importance in this great debate. Since I made that statement in public—I do not retract it—the Scottish Government has published its white paper and made it clear that its preference is for a sterling currency union. Bearing in mind that the Scottish Government received a mandate from the people of Scotland to have the referendum and to negotiate on the terms in the aftermath of a yes result in that referendum, as a good democrat, I accept that the Scottish Government has the democratic right to proceed and to try to get negotiations going on a sterling currency union.

**The Convener:** You clearly believe, as I do, that if we were to be an independent country, we should have our own currency, because that would give us the maximum economic freedom. If that is the optimum outcome, why does the Scottish Government not propose that in its white paper? Is it because the Scottish Government is trying not to scare the horses before the vote in September?

11:15

**Dennis Canavan:** No. The independent commission that the Scottish Government set up included distinguished Nobel laureates, who know far more than I do about economics. There are pros and cons to each option. The commission said that any of the four options that it considered would be workable in an independent Scotland.

In its white paper, the Scottish Government outlined why it prefers a sterling currency union. It intends to pursue that, despite the opposition that the UK Government has expressed. In my humble opinion, the UK Government would be cutting off its nose to spite its face by not negotiating on the matter, as that would bring disadvantages to the rest of the UK's economy—not just the transaction costs but, more important, a growing trade deficit, which would arise from the loss of oil and gas revenues.

**Blair Jenkins:** Courtesy of *The Guardian*, we have a much clearer idea of the UK Government's real position on a currency union, as opposed to what politicians say in public.

**The Convener:** You should not believe all you read in *The Guardian*.

**Blair Jenkins:** In your opening question, convener, you suggested that an absolute prerequisite of being an independent country is that the country sets its own interest rates. If that was the case, we would have to say to an awful lot of countries in Europe, "By the way—do you realise you're not independent?" We would have to tell Austria, France and Germany that, because the European Central Bank determines interest rates across the eurozone, they are not really independent. I am not sure that what you said fully stacks up.

An interesting thing about the debate is that lots of economists—the list of names is long, and some of them have given evidence to the committee—who have no skin in the game because they have no view on Scottish independence or who are against Scottish independence have said that the best option for Scotland and the rest of the UK is to have a formal currency union, if Scotland votes in September to be an independent country, as I believe that we will. Professor Anton Muscatelli said that in his evidence to the committee.

Recently, the distinguished Beijing-based economist Professor Leslie Young—who seemed to indicate that he is not in favour of independence, although he did not say so in terms—said that, if Scotland votes for independence, it will clearly be in the best interests of the rest of the UK and Scotland to have a currency union. When he described

George Osborne's publicly declared position of rejecting a currency union as

"a subterfuge to frighten Scottish"

voters, he was pretty close to the mark.

**The Convener:** I seem to remember that, when Anton Muscatelli gave that evidence, he was outnumbered by four to one on a panel of esteemed economists who took a different view. If we are bandying around esteemed economists, the Nobel laureate Paul Krugman has described the white paper's monetary proposals as "deeply muddle-headed".

I will raise one more issue to follow up something that Dennis Canavan said about the Scottish Government's white paper. What is Yes Scotland's position on the white paper? Do you endorse it?

**Dennis Canavan:** We endorse the white paper in so far as it will be the starting point of negotiations. The overriding principle of Yes Scotland is that we believe in the democratic right of the people of Scotland to determine their own destiny. That is what sovereignty in an independent Scotland means.

Yes Scotland is not a political party; we do not set out a manifesto. We accept that the Scottish Government got the democratic mandate from the people of Scotland to have the referendum, so it had a right and a duty to set out in the white paper its proposals for what I presume it hopes will be not just the Scottish Government during the interim negotiations but the Scottish Government after the elections to the first independent Scottish Parliament in 2016, when I dare say that the present Scottish Government hopes that it will continue to be in government, although that remains to be seen. It will be up to each of the parties contesting the first elections to an independent Scottish Parliament in 2016 to set out their stall and seek the approval of the people of Scotland.

**Blair Jenkins:** It is worth saying that there are two types of content in "Scotland's Future". Dennis Canavan is absolutely right that the stuff that is to do with the initial framework of an independent Scotland—the arrangements that we put in place for an independent Scotland—is what we agree would be the starting point for an independent country. Obviously, the white paper also contains a great deal of content that is related to policies that an SNP Government would pursue in an independent Scotland. Those are quite rightly a matter for the SNP.

**The Convener:** Were either of you involved in discussions about the content of the white paper before it was published?

**Dennis Canavan:** Not formally, no. We have conversations rather than formal discussions.

**The Convener:** Conversations with whom? With civil servants? With Scottish Government ministers?

**Dennis Canavan:** I chair the Yes Scotland advisory board. Included on that board are representatives of various parties and people such as me who are not members of any party at all. Nicola Sturgeon, the Deputy First Minister, is a member of our advisory board; she attends most of our meetings and we sometimes have very frank conversations—

**The Convener:** Okay, but there were no discussions with civil servants prior to the publication of the white paper.

**Dennis Canavan:** No.

**Blair Jenkins:** That is also true in my case. There were no discussions with civil servants and there was no prior sight of the white paper.

**The Convener:** Neither of you saw the white paper before it was published.

**Blair Jenkins:** No.

**Dennis Canavan:** No.

**The Convener:** Thank you. I call Dennis Robertson.

**Dennis Robertson:** Thank you, convener, and good morning again, gentlemen. Earlier this morning, we had Better Together in. I think it was a Labour Party political broadcast more than anything else to be perfectly honest. The Prime Minister has said that of course Scotland can be a successful independent country. There is no disputing that, is there, gentlemen?

**Dennis Canavan:** No there is no disputing it at all. I believe that the leader of the Scottish Conservatives has said something similar. Indeed, there seems to be almost a welcome, but rather belated, recognition on the part of many of our opponents now that an independent Scotland would be very viable.

**Dennis Robertson:** And in fact, some of the opponents are actually supportive of yes. There is Labour for yes, for instance, and we have Liberal Democrats for yes. I have even met a few Conservatives for yes. I will maybe give their names to Murdo Fraser later, so that he can pay them a visit. It really goes across all parties and none, does it not? Blair Jenkins is not a member of a political party, but he believes in the route and pathway that we are taking towards the referendum for an independent Scotland.

**Blair Jenkins:** I absolutely do. As you say, I have no view on party matters, but I certainly



believe that the right future for Scotland is as an independent country. One of the enormously enjoyable things about the yes campaign—it is a privilege to be in this job—is the number of people who are actively involved who have no previous connection with any form of political activity or any political party. What we have formed is a very exciting grass-roots national movement, which encompasses all political views and people who simply think that this is the right thing to do. The benefits to Scotland from this campaign—apart from a yes vote in September—will be a re-energised and re-engaged population and a much more active and interested electorate right around Scotland. A lot of people have got interested in stuff in the past year or two who will not just go back to being passive citizens but will be very active citizens, including a lot of our young people. We will all get the benefit of that.

**Dennis Robertson:** Perhaps I can come to Dennis Canavan on this, more on the basis of his experience as a Westminster parliamentarian and as an MSP here in Holyrood. We have just witnessed record investment in Scotland from a variety of companies. We are also seeing extremely healthy exports. We are seeing higher employment and lower unemployment than the rest of the UK. We are seeing a fantastic and successful apprenticeship programme. Do you put that down to the policies of the Scottish Government?

**Dennis Canavan:** Partly, yes, but I believe that, if the Scottish Government, accountable to the Scottish Parliament, had all the economic and fiscal levers available to it, it would be able to do so much more to regenerate and grow the Scottish economy and to create more jobs.

**Dennis Robertson:** External companies, which perhaps do not have any political axe to grind, are continuing to invest in Scotland, regardless of the referendum. They have the confidence that, regardless of outcomes, success is on the horizon.

**Dennis Canavan:** That is fair comment. There is a good story to be told about inward investment in particular. Many potential investors do not seem to be put off by the prospect of a referendum.

I recall the previous referendum in 1997, and the one previous to that, way back in 1979, when there were all sorts of scare stories about potential investors being put off in the event of even a devolved Scottish parliament. The Scottish Parliament has now been up and running successfully for 15 years, and most of those scare stories seem to be unfounded.

**Dennis Robertson:** I, too, remember the referendums to which you refer. I also remember that promises were made of additional powers to

Scotland. Those were not forthcoming at the time, were they?

**Dennis Canavan:** There was the famous case of the former Conservative Prime Minister who indicated that, in the event of the Labour Government's proposed devolved parliament or assembly, as it was called, not coming into existence, a future Conservative Government would make better proposals for an assembly or devolved parliament. We all know what happened then. As a result, the creation of the Scottish Parliament was postponed for 20 years. It was a missed opportunity for the people of Scotland.

**Blair Jenkins:** On the point about investment coming into Scotland in the current context, the best, most independent and most objective interpretation that I have seen was from the Ernst & Young UK attractiveness survey last year. It said:

"the possibility of independence and its potential knock-on impacts on areas such as corporate taxation appear to be having little effect on FDI (foreign direct investment) decisions.

There's certainly no sign of investors being deterred from coming to Scotland, if anything, the reverse appears to be true."

**Dennis Robertson:** Why do you think that Better Together seems to be promoting the idea that it would be a threat to Scotland's investment, first, if the referendum were to happen and, secondly, given that it is happening, if we became independent—and that companies would up sticks and go?

**Dennis Canavan:** That is a question that you would be better putting to representatives of Better Together, but—

**Dennis Robertson:** I am not sure that they would have answered.

**Dennis Canavan:** Looking at the political situation, I think that most of the leading lights in Better Together have a vested political interest in keeping the status quo and keeping power at Westminster.

**Blair Jenkins:** I will make a general observation on your question, Mr Robertson. Because there is so little that people can find fault with and so little that is negative in the current and historic data relating to the Scottish economy—the published data is pretty hard to refute—in order to deter people from voting yes, it is necessary to project all sorts of fanciful and fearful notions into the future.

**Margaret McDougall:** Good morning, gentlemen. Dennis Canavan, you mentioned in your introductory remarks that fairer taxation and welfare services would be one of the benefits of having an independent Scotland. How would that

be funded? How much of it would come from taxpayers in Scotland?

**Dennis Canavan:** We would have full fiscal autonomy, obviously. The total tax take would come from the people living in Scotland, and of course from companies based in Scotland. That is how our public services would be funded in an independent Scotland.

**Margaret McDougall:** So it is without doubt that there would be increases in taxation for everyone.

11:30

**Dennis Canavan:** It is not without doubt. It would depend on which party won the 2016 general election—and, indeed, subsequent elections—in an independent Scotland. As I said, it would be up to each party, including the Scottish Labour Party, to lay out its proposals. I indicated that my preferred option would be to have a much fairer, more progressive system of taxation. For me, that means that the rich would pay a bit more, the not so rich would pay less and the very poor would not pay anything at all.

**Margaret McDougall:** We heard from the first panel of witnesses and from previous witnesses that there are far fewer higher-rate taxpayers in Scotland than there are in the rest of the United Kingdom and that, with a tax base of about 2.4 million people, Scotland has a much smaller base to start from. Surely, if we are going to try to better the welfare system, there will have to be increases in tax if we are to balance the books.

**Dennis Canavan:** I listened to some of what Alistair Darling said. He indicated that size is not of paramount importance and that even a relatively small country can bring about a degree of redistribution of wealth. Of course, we must consider the creation of wealth as well as its redistribution and I have every confidence that, in an independent Scotland, we would elect Governments that would get a balance between creating wealth and ensuring that the wealth that is created is more equitably distributed among the people.

**Margaret McDougall:** How long do you think that it would realistically take to set up a new tax system and all the relevant institutions around it?

**Dennis Canavan:** The present Scottish Government has indicated that there would be a transitional stage in which it would use Her Majesty's Revenue and Customs at least in part. Shortly after the first elections to the Scottish Parliament in 2016, we could get things moving fairly quickly. I would not like to put an exact figure on it, but I am sure that we are capable of responding to such challenges. If and when the Calman proposals become a reality, even they will

require certain changes in the Scottish taxation system, so I do not consider the problems to be insurmountable.

**Margaret McDougall:** I suppose that we can call them challenges if you like, but it is a huge undertaking to set up a new tax and welfare system.

**Dennis Canavan:** It is a big challenge, but it is certainly not insurmountable. Look at the poverty that existed in the Irish Free State when it had to start all these things off from scratch. Ireland managed it and if a wee country like that can do it with the poverty that existed there in the 1920s then—heavens above—surely, with our expertise and relative wealth in Scotland, we could rise to the occasion.

**Margaret McDougall:** You say that we could perhaps do it in less than two years but, in fact, it could take a lot longer than that for the system to benefit the people of Scotland.

**Dennis Canavan:** I do not envisage it lasting a long time, but I expect that, in the transition stage, HMRC would be accommodating and we could share some of its expertise and facilities. However, those would be points for negotiation. The basic principle for which Yes Scotland stands is that Scotland, as a sovereign country, should be independent, and that means having our own tax system.

**Margaret McDougall:** We have heard from ICAS this week that it would cost at least £750 million to set up the system. Who would bear the cost of all that?

**Dennis Canavan:** Obviously, the Scottish Exchequer would bear the cost of that. However, in the interim, if we were sharing resources with HMRC, there would be a sharing of the burden.

**Blair Jenkins:** Whatever the challenges—there are always challenges—in developing a distinctive Scottish tax system, one of the great opportunities of Scottish independence is the chance to escape from a UK tax system that is widely regarded as unwieldy and inefficient, with its high incidence of evasion and avoidance. The tax system in the UK has not proved to be an adequate or successful regime for this country. The chance to do something better and transform that position should be regarded as one of the great opportunities of independence.

On your broader point about taxation, any party going into the Scottish Parliament elections in 2016 and seeking to raise taxes would face the problem that there has been a general loss of public trust and confidence in politicians. I have to say that that is not particularly to do with the politicians in this Parliament and is much more to do with the politicians in the Westminster

Parliament. However, one of the jobs of this Parliament, once Scotland becomes independent, as it will in a couple of years, will be to rebuild that sense of trust and confidence with the electorate to the point at which, if a party has a sensible and balanced set of proposals that might include an adjustment to the taxation rate, people are willing to place their trust and confidence in it.

**Margaret McDougall:** But if you are to pay for good services, there has to be a balance. You cannot just say, "Idealistically, we would like to start from scratch and have a much better tax system." You have to be realistic and accept that there is a cost to that and that, no matter which political party was in power, the books would have to be balanced. If you want to have a better welfare system, you have to pay for it.

**Blair Jenkins:** We know from all sorts of people—and, recently, from the bible of the City of London, the *Financial Times*—that an independent Scotland would begin life with a stronger set of public finances than the rest of the UK, and we also have the benefit now of more than 30 years of official data to demonstrate that, relatively, the Scottish economy and Scottish public finances have been in a better and healthier state than those of the UK as a whole.

We ought not to be afraid of any challenges in this. This is the stuff that independent countries do, and the opportunities far outweigh the challenges.

**Alison Johnstone:** Dennis Canavan, you said earlier that Westminster is increasingly out of touch with the wishes of the Scottish people. Do you think that that is, in part, because the Scottish people did not vote for the Westminster Government, and the Westminster Government is all too aware that it does not need the votes of the Scottish people to stay in power? The representatives of Better Together to whom we spoke this morning were determined that constitutional change is not the answer to the challenges that Scotland faces and that it is not required to enable us to maximise the opportunities that Scotland has. Do you think that that is a credible view?

**Dennis Canavan:** There is a massive democratic deficit in Scotland. The most obvious illustration of that at present is that we have a Tory-led coalition Government in Westminster whose lead party has the magnificent total of one out of 59 Westminster parliamentary constituencies in Scotland, yet, under the existing constitution, it can impose policies on the people of Scotland that we did not vote for and we do not want. It is that kind of alienation of people from Government that has led to a situation whereby Westminster is completely out of touch with the people of Scotland.

As I said earlier, the Scottish Parliament, like every Parliament, is not perfect. It is made up of human beings, and human beings sometimes make mistakes. However, in its 15 years of existence, the Scottish Parliament has shown that it responds much more readily to the democratic will of the people of Scotland than Westminster does.

**Alison Johnstone:** I have yet to understand what steps those who maintain that we are better together would take to address growing inequality and poverty in Scotland. The evidence suggests a complete failure to do so and Better Together has no vision of how it intends to bring about the necessary change. What opportunities would a yes vote provide?

**Dennis Canavan:** I will comment briefly on the Better Together statements. It claims that being in a bigger pool gives more opportunity for the sharing of resources; indeed, the terms that it uses are "better together" and

"pooling and sharing of resources".

However, that approach has not worked. The UK has the fourth most unequal society in the developed world. In Scotland, with the advantages of an independent Scottish Parliament, we would have all the economic levers at our disposal to bring about a fairer distribution of wealth. A will exists among the people of Scotland to accept a fairer and more sharing society than what we have at present, where the gap between the rich and the poor is widening instead of narrowing.

**Blair Jenkins:** I will add a little bit to that. Alison Johnstone is absolutely right about the inequality levels, but it is worth saying that that is not just a feature of life in recent years in the UK or under the current UK Government. The OECD has said that, since 1975, UK income inequality levels have risen faster than those in any other country. Therefore, the phenomenon is not recent; the rise of inequality and the loss of opportunity for so many of our people go back years and years.

Scotland needs to do two things to address that. First, we need to grow the economy and, secondly, within that, we need growth to achieve a fairer distribution of wealth and opportunity. When this Parliament has all the economic levers at its disposal, it will do more to bring in more investment. Investment drives growth and there are many opportunities through devising the right package of incentives to secure more investment not just by foreign ventures and enterprises but by indigenous companies. It is for politicians in this Parliament to devise imaginative and creative sets of policies and packages to do that.

As you know, you have very little power in the area of redistribution because you have no control of the tax system or the welfare system. It is only

by having those levers and, as I say, offering the right measures to attract investment that you can begin to get to grips with the long-term endemic problems that we have in the Scottish economy.

**Marco Biagi:** You highlighted in your submission the geographic dimension of inequality in the UK and the fact that the UK has not converged in a way similar to other quasi-federal states of the same size. What difference would a yes vote make to that situation? How would you go about tackling that?

**Blair Jenkins:** You are right—it is an absolutely valid point that the regional imbalances in the UK are huge. I would hope that any elected independent Scottish Government from 2016 onwards would rebalance our economy and revitalise manufacturing in Scotland. There are great opportunities to grow the Scottish economy and to ensure that we not only grow the long-standing sectors—we know where we have great resources and success, such as the oil industry—but develop the opportunities in the sunrise industries, such as renewables.

**Dennis Canavan:** Part of the problem in the UK is the overcentralisation of political and economic decision making. If we had an independent Scotland, that would act as a counterbalance to the pull of London, because the economies and the economic spread are imbalanced, and London and the south-east seem to get huge economic benefits compared not just with Scotland but with other English regions.

11:45

**The Convener:** Richard Baker has a supplementary.

**Richard Baker:** Mr Jenkins mentioned the OECD figures, but it seems to me that the situation with regard to levels of inequality is more complicated than he has described. The OECD figures show that, since the 1980s, the levels of inequality in some of the Nordic countries that those supporting independence often refer to such as Sweden and Finland have been rising far more than those in the UK.

**Blair Jenkins:** But those societies start from a much more equal position. The spread of wealth is much more even in those countries than it is in the UK.

**Richard Baker:** I accept that we are still behind them in that respect, but inequality there is rising far more than it is in this country.

**Blair Jenkins:** Relatively speaking. The fact is that those societies are much fairer and more equal. The Nordic countries demonstrate very well that you can have strong economic growth as well as beneficial societal outcomes.

**The Convener:** Before I bring in Chic Brodie, I want to ask a follow-up question. Where are the redistributive measures in the Scottish Government's white paper?

**Blair Jenkins:** I am not sure that I am the best person to answer a question about policy offers from the Scottish National Party. I would have thought that the commitment to increase the minimum wage and to introduce the living wage would be important in that respect, but it is not really for me to comment on the policy aspects of the white paper.

**The Convener:** I understand that, but you and Mr Canavan have talked a lot about independence as a route to a more equal society and a redistribution of income. I am interested in hearing more about that, because the white paper does not contain a lot in that respect. There is nothing about increased taxation on higher earners and, indeed, the major tax proposal in the white paper is a reduction in corporation tax, which one might argue, as the earlier panel did, goes in the other direction. I am not sure whether the white paper contains anything to suggest that there will be a more redistributive programme after independence.

**Dennis Canavan:** To be fair, I think that that question should be put to the members of the Scottish Government.

**The Convener:** We will ask them when we see them in a couple of weeks.

**Dennis Canavan:** But I would emphasise that the powers proposed in the white paper as distinct from the policy preferences expressed by the SNP Government certainly give huge potential for an independent Scottish Government of whatever complexion to bring about a radical redistribution of wealth. At present, the Scottish Parliament has very limited economic powers.

**The Convener:** Where is the evidence that people in Scotland have any more interest in voting for higher taxes than people elsewhere in the UK? The Scottish Parliament has had the power to vary taxes since 1999. Only one party has ever proposed increasing taxes; that was in 1999, and it was not a great success.

**Dennis Canavan:** That is an interesting question. If you look at the voting patterns of the people of Scotland over the past half century or more, you will see that most of the parliamentary representatives whom they have elected have been left of centre on the UK political spectrum, and a potential left-of-centre Government of Scotland would be more inclined to use the economic levers to bring about greater standards of fairness.

**The Convener:** With respect, no one stands for the Scottish Parliament proposing to increase taxation. The only ones to do so were the SNP in 1999, and that, it is accepted, was a complete failure. Where is the evidence that people want higher taxes?

**Dennis Canavan:** The powers that are at present vested in the Scottish Parliament are very limited if we want to bring about the kind of radical redistribution of wealth that I would like to see. We would need the full range of economic levers to bring about that fairer society.

**Blair Jenkins:** Perhaps I can add a little more to that. It comes back to my earlier point that if you want to increase taxation, you will need the very high level of trust that the Nordic countries have succeeded in establishing between the electorate and the politicians who serve them. Where such trust exists, people are more willing to believe that what they pay in taxation will be wisely invested and provide them with better public services. The tax differentials between the UK and the Nordic countries are not as high as is sometimes represented but such differences as there are—and there are differences—are based on a different relationship of trust and confidence between the people and the politicians.

**Chic Brodie:** Perhaps I can help the convener by walking him through “Scotland’s Future”. By dwelling on higher taxes, the old traditional London parties give no consideration to the elements in the white paper that relate to developing higher incomes, more revenue and more economic growth. The creation of a high-productivity, high-wage economy is a thread that runs quite clearly through the white paper.

On the issue of higher wages, I asked Alistair Darling about sharing Christmas cake with Fred Goodwin and why he did not react any sooner.

**The Convener:** I thought that it was panettone.

**Chic Brodie:** That is Italian Christmas cake. It seems that I will have to walk the convener through not only “Scotland’s Future” but Mary Berry’s cookbook.

On 2 May 2012, the then governor of the Bank of England, Mervyn King, said that the action taken during Alistair Darling’s tenure as chancellor had come “too late” and that

“bold action in October 2008 could have happened sooner.”

I wonder whether, having been involved in politics in Westminster—and I should say that I worked in the City of London for a while myself—Dennis Canavan can give us an illustration of the relationship between the Westminster Government and the City of London.

**Dennis Canavan:** Even Alistair Darling hinted in his earlier remarks that, in retrospect, he and other Government ministers adopted too light a touch with financial regulation and that, as a result, the City of London was able to do what it did and the country was brought to the brink of economic disaster. It is all very well being wise after the event but, as I indicated earlier, I would hope that an independent Scottish Government would learn lessons from the past and that we would have better regulation of banks and other financial institutions that would include, for example, ending the culture of bonuses, having a better system of monitoring potential takeovers and ending the encouragement of the culture of debt, which seemed to give many businesses and individuals problems.

**Chic Brodie:** Alistair Darling has written that he was responsible for the architecture of the UK’s financial regulation. The governor of the Bank of England has just cautioned the Government about what some of us might call a housing bubble and the impact that it might have. We do not want to destroy the future by just looking at the present, but the present looks pretty precarious and we seem to be facing not an impending financial crisis but impending financial problems. Is it not the case that with fundamental and proper regulation and its meaningful application the banking regime in an independent Scotland would be a lot stricter?

**Dennis Canavan:** It probably would be. It is always difficult to say with absolute certainty what would happen in a particular situation, but there is a feeling in Scotland that the people down at Westminster mishandled the economy. Lessons have been learned and I think that there is a consensus in Scotland that there should be better regulation of banks and financial institutions.

**Blair Jenkins:** I agree. There is no doubt that the failings of politicians were partly responsible for the financial crisis that happened some years ago. The primary responsibility lies with the behaviour of the banks and their weak governance, but it ripples through the entire system. The credit agencies, the regulator and the politicians all played a part in what happened.

It is good that the people who were in charge politically at that time should acknowledge some of the blame. It seemed for some years that those people, while they wished to take credit for having launched some of the lifeboats, were not quite so willing to take responsibility for the fact that they were not just on the bridge but at the wheel at the point when we hit the rocks. It is encouraging that there is some recognition of political failures, not only in the UK but in other countries.

**Chic Brodie:** I have one last question with regard to Alistair Darling, who was at the committee earlier as head of the Better Together

campaign. When he was chancellor in 2008, he cut corporation tax further—going beyond what Gordon Brown did when he was chancellor—from 30 to 28 per cent. At the time, Alistair Darling stated:

“Our goal is, and will continue to be, to maintain the most competitive corporation tax rate of any major economy. We already have the lowest corporation tax rate in the G7 and a competitive and simplified tax regime is essential”.— [*Official Report, House of Commons*, 12 Mar 2008; Vol 473, c 291.]

If we want to achieve a high-wage, high-productivity economy, corporation tax might be one vehicle that we can use. Do you think that Alistair Darling has changed his mind? Do you think that he was right then and wrong now?

**Blair Jenkins:** Chic Brodie is right to say that the Labour Government did that, and I know that it is a policy that the Scottish National Party has proposed in its white paper. However, when you implement a cut in corporation tax, you do not look at corporation tax in isolation. You would obviously hope that such a reduction would encourage investment and the growth of assets in the economy.

However, as Chic Brodie said, we would feel the benefits in other parts of the economy. You would hope that the revenue from income tax would increase on the back of the investment that the lower corporation tax rate would bring about. The economy would also benefit from indirect taxation expenditure. The receipts that any Treasury would get from a cut in corporation tax should be considered not in isolation, just by looking at that tax alone, but in the context of the potential benefits throughout the economy.

It will be up to political parties, in the first elections to an independent Scottish Parliament in 2016, to set out a fully integrated set of proposals that they wish to implement in the area of taxation. We can then see to what extent any proposals achieve the twin goals of economic growth and a fairer redistribution of wealth and opportunity.

**Dennis Canavan:** I must say, speaking personally, that I am not an enthusiastic cutter of corporation tax for the sake of handing back more money to big corporations. I would have to be convinced that there would be economic benefits from any such cut, particularly in creating more job opportunities for people.

I think that it was Gordon Brown, and not Alistair Darling, who first introduced that policy in the Labour Government—

**Chic Brodie:** That is right: Gordon Brown cut the rate first, and Alistair Darling followed on.

**Dennis Canavan:** Anyway, Gordon Brown reduced corporation tax, and I am therefore a bit

surprised by the utter hostility that I now hear coming from some Labour people, who say that any cut in corporation tax is evil. As I said, I would have to be convinced of whether there would be other economic benefits, particularly with regard to employment opportunities.

**Mike MacKenzie:** The witnesses may have heard me ask Mr Darling earlier this morning about what was on the table in terms of more powers for Scotland in the event of a no vote.

Do you agree that there seems to be a sort of bribe of jam tomorrow from UK politicians if the electorate does what those politicians tell them? The jam seems pretty thin and watery to me.

Irrespective of what the exact percentage increase in tax powers and so on may be, do you feel that what the Lib Dems and the Labour Party are offering—we have not heard from the Tories yet—will make any real difference to Scotland's ability to deal with the big problems and challenges that we have heard about? Will it enable us to take advantage of opportunities of the type that we would have with independence?

12:00

**Dennis Canavan:** There is, of course, no way in which any of the Westminster-based parties can guarantee more powers. The three major Westminster parties seem to differ in their approach. The Tory party has still to come out with any proposals; Lord Strathclyde is currently considering the matter and will no doubt come out with a statement fairly soon, but we will have to see that before we pass judgment on it.

The Lib Dems have come out with something, and the Scottish Labour Party has come out with its proposals, but there is no consensus among the three Westminster parties on their exact proposals with regard to additional powers for the Scottish Parliament.

I am a bit suspicious because, when the referendum was first mooted, there was a suggestion—to which the current Scottish Government was fairly receptive—that we should have an additional question about devo max, as I think it was called, although what that meant was never clearly defined. The unionist parties ruled out any additional question on devo max in the referendum and, as a result, we have an element of uncertainty around what their proposals are and whether they can deliver.

If people seriously want more powers for the Scottish Parliament, the only guarantee of getting them will be to vote yes in this year's referendum, because heaven knows what will happen in any subsequent general election at Westminster.

Of course, there is the basic point that—as Enoch Powell said—power devolved is power retained. Ultimately, under the existing constitution, sovereignty is based at Westminster. The Westminster Parliament could, if it wanted to, abolish the Scottish Parliament completely. This Parliament is currently a creature of the Westminster Parliament, and that, to my mind, underlines the basic democratic deficit that exists in Scotland at present.

**Blair Jenkins:** On the economy, which is this committee's remit, it seems that there is no set of proposals from any of the anti-independence parties that would give this Parliament control over all the potential tax sources and revenues that an independent nation would have, or over the crucial area of welfare and social protection. In the absence of those things, we are talking about something that is very far short of what Scotland needs.

**Mike MacKenzie:** Do you agree that it would be a very exciting opportunity for Scotland to have the full economic powers to shape economic and industrial policy and to build the sort of high-wage economy that we have talked about? Do you agree that that is the real prize, and the real opportunity in economic terms? That in itself would result in a higher tax take without raising levels of taxation. Even if we continued with similar levels of taxation, building that high-wage, fairer economy would, in itself, give rise to a higher tax take.

**Dennis Canavan:** I agree that we would not be dependent on increasing tax rates to get a bigger amount of revenue in through the tax take. If we have greater economic growth and more people in employment, we would, even with existing tax rates, have a larger amount of tax revenue and therefore be able to afford a higher rate of public expenditure.

With regard to the debate in this morning's previous session about the so-called Scandinavian model and what happens in certain Scandinavian countries, the idea that a country must have punitive levels of taxation does not necessarily follow. If a country has sufficient economic growth, it will be able to get more income tax, corporation tax and other company taxation income to enable it to pay for public services.

**Mike MacKenzie:** Do you feel that the white paper commitment to increase childcare to a proper level offers an opportunity, not only by reducing gender inequality but, in an economic sense, by creating jobs through increasing participation in the workforce?

**Dennis Canavan:** Of course—yes. Childcare and pre-school education are very important. Principally, I would argue that the commitment creates not only educational opportunity for

children, but economic benefits for women who want to get into or return to the workplace before their children start school.

**Blair Jenkins:** I said earlier that Yes Scotland did not necessarily take a view on the policy aspects of "Scotland's Future". I have to say that, among all the many people whom I talk to in the broad yes movement and the different political traditions that they represent, I have found universal welcome for the proposals on the availability of free and universal childcare, for the very reasons that Dennis Canavan mentions. We have a key strategic need to grow the tax base and the working population—to increase participation in the labour force—and providing childcare seems to be one of the best ways of doing that, so it has broad support.

**Mike MacKenzie:** Do you agree that, in the zero-sum game that the Scottish Government has to work with at the moment on a fixed budget, it is impossible to make those game-changing policies, because increasing expenditure significantly—for instance, on childcare—implies taking expenditure away from somewhere else, which could be difficult to do under current circumstances?

**Dennis Canavan:** Yes, indeed. I remember speaking about that in the Scottish Parliament when it was first set up. I also spoke about it during earlier debates at the Scottish Constitutional Convention, which led to the creation of the Scottish Parliament. At the time, I thought that one of the biggest weaknesses in the proposed Scottish Parliament was that it would be completely dependent on another Parliament—the Westminster Parliament—for every penny that it spent.

As a result, although there are those who argue, as Murdo Fraser would, that there are taxation powers that have never yet been used, the fact is that the Scottish Parliament's budget comes almost entirely from the block grant. If John Swinney or any other finance minister wanted to spend more money on, say, education, he would have to look around for something else to cut, because he has a fixed sum of money to deal with, and that leads to difficult choices. If you want to increase investment in education, are you going to cut investment in the national health service? That is the unhappy choice facing any finance minister. However, if you have all the fiscal levers at your disposal, you can broaden your choices.

**Mike MacKenzie:** Thank you very much, gentlemen.

**Richard Baker:** I am interested in the comment that was made about a zero-sum game. It seems to me that the authors of the white paper and others who argue for an independent Scotland are also going to play a zero-sum game. They say that

there will be more generous provision on welfare, pensions and a whole range of areas, yet they do not say how those things will be paid for. I come back to the point about taxation levels. There is no detail about whether taxation levels will go up or down. Do you not think that it would be more honest if those supporting independence said how all that will be paid for, and that if they do not do so their case lacks credibility?

**Blair Jenkins:** I think that you are confusing 2014 with 2016. It is for parties in their 2016 manifestos to say exactly what they propose for public services and how they would fund them. The general proposition, which is broadly supported across the independence movement, is that an independent Scotland is likely to place a higher value on having good and widely available public services than has been the case with the general approach taken by the UK in recent years. The preferred method for funding that is what we have been discussing in the past several minutes, which is that we must grow the Scottish economy.

If the Scottish economy was left to its own devices, we would have a far better idea of what will work economically and create a far more balanced economy, using all sorts of incentives and levers, both to attract the investment from abroad that we talked about—we do well there, but we could do better—and to improve our business start-up rate, because we all agree that we need more innovation and a more entrepreneurial society. I will be looking at all the parties' manifestos in 2016 to see exactly what they propose when it comes to incentivising people to start their own businesses. Recent data on the American economy suggests that most of the new jobs created there come not from existing businesses expanding their workforce but from new ventures coming into existence, so let us start bringing some new ventures into existence.

**Richard Baker:** The Institute for Fiscal Studies and other independent experts looking at our economy have said not that any Government of an independent Scotland, of whichever political complexion, will have a growing economy and a great amount of extra resources to spend on all the different pledges that have been made by the various parties that support independence, but that further austerity will be required. In fact, they have said that more difficult choices will be required: either to increase taxes or to cut spending. Why should we believe your analysis rather than those of independent economists and organisations such as the IFS?

**Blair Jenkins:** One thing that we know about economists is that they seldom agree with one another, and one thing that they agree on is that their forecasting is seldom—if ever—accurate.

That is true of other professions as well; I do not put that just against what economists say.

Typically, economists put forward predictive models that deal with a certain number of variables. For the purpose of international comparison, they compare a finite set of things. None of the forward projections for the Scottish economy takes into account the far greater energy—if I can put it that way; it is something that I strongly believe—that will run through Scottish life, society and economy as an independent country: the determination to make this work.

It is hard to measure that and predict what it will do to productivity and economic activity, which is why it is not factored into those economic models. However, I will mention three things that will provide us with an enormously encouraging place to start: the greater determination to succeed; the raising of Scotland's international profile; and the enormous amount of goodwill that there would be towards Scotland as a new independent nation.

I was not the original person to say this, but it is a point that I endorse: it is hard to think of any country—in fact, I would be keen to hear an example—that has become independent in the past 100 years that could have done so in a more benevolent and attractive-looking set of circumstances than will be the case for Scotland.

**Dennis Canavan:** The Institute for Fiscal Studies will not run the Scottish economy in an independent Scotland; it will be the Scottish Government, accountable to the Scottish Parliament, that does so. I can understand Westminster MPs saying that they want to retain power at Westminster, because that is their power base, but I find it difficult to understand MSPs who, when asked whether they want to grow the Scottish economy, create more jobs and eliminate child poverty, say, "Yes," but when asked if they want the tools to do the job, say, "No. We'll just leave that to the guys at Westminster."

There seems to be a lack of confidence on the part of some members of the Scottish Parliament. I would hope that collectively there would be more confidence in the Scottish Parliament and that people who are inclined to vote no would, in the fullness of time, see that the people of Scotland and their elected representatives can form a good team to run the Scottish body politic and the Scottish economy.

**Richard Baker:** You must also respect the fact that there are those of us who believe that we benefit financially and fiscally through being part of the United Kingdom. We have more money to spend on public services by being part of the United Kingdom, and we think that being a separate country would not benefit public services and public sector investment.



I take your point about corporation tax, and I rather think that you and I agree on corporation tax policies. However, a concern has been expressed about a race to the bottom: if one country cuts corporation tax, another will follow, to be more attractive to business investment. Business wins out, but investment in the public sector loses out. Is that not a perfectly coherent economic argument? It is another argument for why we are better working together with the nations on this island.

12:15

**Dennis Canavan:** There are still various rates of personal taxation and company taxation in the European Union, but that does not necessarily lead to a race to the bottom. It is up to each country in the EU to take into account its own economic circumstances and priorities and implement an economic policy that is best suited to its needs. Most people think that Scotland should be a continuing member of the European Union. That is certainly the view that is expressed in the white paper.

It is not as though we will be cutting ourselves off completely from our friends and neighbours in England and Wales. I hope that there would still be a social partnership and an economic partnership. However, the current political partnership puts Scotland in a straitjacket, to be frank, which means that if we want to move in a particular direction we find that our nearest big neighbour vetoes what we can do. Again, that demonstrates the democratic deficit in Scottish political and economic decision making.

**Marco Biagi:** When people on the other side of the debate talk about the cost of transition or setting up new institutions, they always seem to give the impression that Scotland is a desolate moorland, where wolves howl in the distance, as if nothing happens here.

Some time ago now when Danny Alexander came before the committee, he accepted the principle of Scotland inheriting a share in the UK's assets—that is, the part to which we have contributed. How significant will that be for the economics of transition? How much of an opportunity will that present for the newly independent nation that I hope Scotland will be?

**Blair Jenkins:** Are you thinking primarily about the Bank of England and the currency, or are you thinking about other things?

**Marco Biagi:** You name it. I think that we are talking about £1.3 trillion in assets.

**Blair Jenkins:** I certainly take the view, as do many other people, that at the point at which Scotland becomes independent there has to be an

equitable distribution of assets and liabilities. That is the basis on which negotiations would be conducted, I am sure.

You are right, in that large parts of the infrastructure of an independent nation already exist in Scotland. We have two successfully operating pensions administration centres, for example. I cannot remember whether it was the UK Government or Better Together that produced a rather regrettable—and regretted, I am sure—list of institutions that would have to be set up from scratch in an independent Scotland. As I recall, a large number of things on the list turned out to be things that we already have.

I would not pretend to you or anyone else that there will not be a lot of hard work involved in Scotland becoming an independent country—it is important that people in Scotland know that. However, when it comes to September, I think that people will also know and believe that the hard work will be worth it. What we can achieve as an independent country is going to be worth our putting all our shoulders to the wheel and being determined to make it work.

**Dennis Canavan:** There is also the question of foreign-based assets, including our embassies abroad. I say “our embassies”, because currently they are British or UK embassies. I presume that Scotland would be entitled to a share of those buildings and other assets and resources. It might well be that in certain circumstances we will want to continue to share our diplomatic presence with our friends south of the border, or with another European Union country.

The issue is relevant to Scotland's economy, because very often the diplomatic or consular presence involves not just looking after people's social needs but trying to promote the country's economy. I am told by some Scottish businesspeople that sometimes there is not as much emphasis as there should be on promoting Scotland overseas, because the priorities of the UK as a whole in relation to international promotion might be quite different from those of the Scottish business sector.

I hope that we will keep a share of assets and perhaps even share our presence in some embassies, while having a policy on the promotion of Scotland overseas that more reflects the needs and priorities of Scottish business.

**Marco Biagi:** How much of an opportunity is there for the internationalisation of Scottish business so that we continue to export to our major neighbouring market but also increase our global exports and turn our face to the world?

**Blair Jenkins:** I am definitely with you on that 100 per cent. There is a great opportunity there. We know that we already have a much more

export-based economy than the rest of the UK has, and I think that all of us would be determined to improve on that when Scotland becomes independent. I think that 30 per cent of world GDP involves exports. A crucial part of running the economy is that we satisfy not just domestic markets, but international markets.

The Scottish brand is very good. As I said earlier, there is an enormous amount of interest in and good will towards Scotland. If we have the right products at the right prices, there is every opportunity to internationalise our economy.

**Marco Biagi:** Are you worried that the UK currently has a deficit of £72 billion, I think, in imports over exports, whereas the Scottish Parliament information centre has told us that Scotland's trade balance would be at or near a surplus?

**Blair Jenkins:** As I said earlier, we can go back over a number of years. We know that, although both countries have run fiscal deficits for most years, the relative position in Scotland has been better than that in most of the rest of the UK. We can see that evidence stretching back 30 years, not just five years. Overall, we have been in a much stronger position.

I understand that the projected deficit for the first year of an independent Scotland looks likely to be within the range that the European Central Bank, for instance, regards as a balanced budget. Therefore, we have every reason to be confident.

**Joan McAlpine:** All the Westminster unionist parties are committed to the renewal of Trident at a cost of £100 billion, I believe. What are the economic implications of that decision for Scotland in the event of a no vote?

**Blair Jenkins:** I am very confident in saying that people in Scotland would regard that money as not well spent—that they would regard it as spent on something that is not only unnecessary, but highly undesirable and against the wishes of people here. I am sure that I am right in saying that Tony Blair said in his memoirs that the only reason that the UK would not get rid of the Trident system was that it had become an important status symbol for the country, as opposed to there being any defence rationale for it any longer. That would be among the many savings that an independent Scotland would make. I and, I think, most yes supporters would say that the opportunity to stop wasting so much money on a completely unnecessary and immoral weapons system is one of the strongest arguments for independence.

**Dennis Canavan:** In going around the country campaigning for a yes vote, I have found that there is overwhelming support for the removal of Trident. Opinion poll after opinion poll seems to

indicate that that is the majority view of the people of Scotland. Even people who supported the retention of Trident during the cold war have now come to the conclusion that it is rather like a very expensive white elephant. It is unusable—I suppose that we saw that at the time of the Iraq war. Much as everybody disapproved of the Saddam Hussein regime, nobody would dream of using a Trident nuclear weapon in such circumstances because of the massive loss of innocent civilian life that would ensue.

Trident is militarily unusable. There are strong moral arguments against it, due to the almost certain loss of civilian life that there would be if it was ever used and there are economic arguments against it, too. The money that is spent on a Trident nuclear weapon could be used for education, the national health service or job opportunities, for example. For all those reasons, there would be great economic and social benefits from the removal of Trident.

**Joan McAlpine:** On the subject of fear, we understand that, internally, the no campaign calls itself project fear. Since the beginning of the year, when the chancellor made his currency announcement, project fear has also talked about a dambusters strategy.

**The Convener:** Can we have questions on Scotland's economic future, please?

**Joan McAlpine:** Absolutely. I am coming to that.

Some people have criticised the dambusters strategy and the project fear campaigning approach as being very negative. What are the implications of that for Scotland's economy and for your campaign?

**Dennis Canavan:** It certainly does not put across a good image of Scotland. I just hope that there are not too many potential inward investors listening to all the prophets of doom and gloom in the no camp. I hope that they will see the error of their ways.

Our camp is too busy projecting positive messages. We do not scaremonger. I prefer to call our campaign project hope rather than project fear, or the project of optimism rather than the project of pessimism. I think that that message is getting through. I hope that even some of our opponents would realise that there is a danger in downplaying the success of Scotland, in that it could have a detrimental effect on Scotland's economy and other aspects of Scottish life. We keep on being told that we are all working in Scotland's best interests. There might be different concepts of what Scotland's best interests are, but we must be careful in the language that we use because, at present, the eyes of the world are on Scotland. If we project Scotland as a place of no

hope and other negative messages, that could have a detrimental effect on Scotland's economy.

**Blair Jenkins:** On the precise example that Joan McAlpine gave, which was the chancellor's announcement on the currency back in February, as I said earlier, we now know from *The Guardian* that that was a campaigning position rather than a position that the UK Government reached after a prolonged period of internal discussion. The Treasury source that *The Guardian* quoted said that Alistair Darling and Andrew Dunlop were in charge and that

"we just did what they said".

Given that it was a newspaper that is not in any way well disposed towards independence that made it clear that, according to a minister who was a central part of the no campaign and who would have a key role in negotiations following a yes vote, of course there would be a currency union, we know that that came from the heart of Government. Of course there would be a currency union. The Government said otherwise simply for campaign purposes. I think that that tells us a great deal about the nature of the campaign that is currently being waged.

**Joan McAlpine:** I raised that report with Alistair Darling earlier and he denied that he was in charge, but he refused to say whether he had discussed matters of independence such as currency union with his friend Nick Macpherson, who was heavily involved in the announcement that there would be no currency union. Would it concern you if Alistair Darling had discussed such matters with Nick Macpherson?

**Blair Jenkins:** I am not sure that I can say a great deal about that, because I accept that there are friendships that go beyond the roles that people happen to be in at any given time.

I note that the journalist who wrote the story for *The Guardian*, Nick Watt, seems to be very well connected to the Treasury, because he broke the news that George Osborne was to formally rule out a currency union. I am sure that he will pay close attention to what Alistair Darling said this morning and will check with his sources what the origins were of the sudden change of mind at the Treasury, when it stopped saying that a currency union was merely unlikely and formally ruled it out.

**Dennis Canavan:** Sometimes political collaboration can take place as a result of informal conversations between friends or former friends or between civil servants and politicians and so on.

I am very suspicious about the timing of what happened. It seemed rather too coincidental that the three spokespeople for the three major parties at Westminster suddenly came together and said that they were completely ruling out any currency

union. It remains to be seen whether they will stick by that unanimity when they have to face up to the realpolitik and the realeconomik in the immediate aftermath of a yes vote.

12:30

**Richard Baker:** I have a point of information to help Ms McAlpine.

**The Convener:** No. Can we have a question, please?

**Richard Baker:** Do Mr Jenkins and Mr Canavan recognise that Better Together has been in favour of more powers for the Scottish Parliament? No one has ever suggested that the Parliament should be abolished. It could be argued that the raising of that suggestion is scaremongering.

**Dennis Canavan:** I stated a simple fact, which is that the Scottish Parliament is a creature of Westminster and that it is possible for Westminster to abolish it through an act of the Westminster Parliament, in which sovereignty is vested. That is a legal fact; it is not an opinion. I am not saying that, therefore, it is likely that that would happen.

On the point about Better Together asking for more powers for the Scottish Parliament, I referred earlier to the lack of a guarantee that those powers will be delivered. People will obtain a real guarantee that the Scottish Parliament will get more powers only by voting yes in the referendum.

**Blair Jenkins:** I do not doubt the sincerity of the many people in various political parties who wish to see a form of enhanced devolution for Scotland. That is a perfectly reasonable position. What I doubt is the existence of an appetite at Westminster for pursuing that with any enthusiasm after the referendum in September. Regardless of what politicians in the Scottish Parliament wish and hope might follow a no vote—which, luckily, I do not think will happen—I think that people would find that the resistance at Westminster to adding anything to the powers of the Parliament would be considerable and hard to overcome.

**Richard Baker:** The fact that those powers will be in place prior to the no vote addresses Mr Jenkins's concerns. I will leave it there, convener.

**The Convener:** Okay.

We are out of time. I thank Blair Jenkins and Dennis Canavan very much for coming along this morning and helping us with our inquiry by answering our questions.

12:32

*Meeting continued in private until 12:36.*



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