**The economics of independence**A costly solitude**An independent Scotland would be a rich country with terrible prospects**

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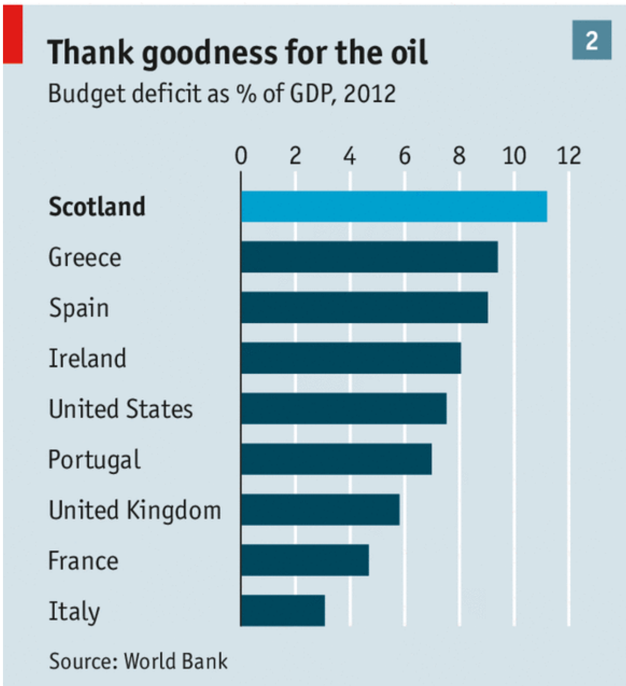
**IF SCOTLAND becomes independent the early going will be good. The new country will be a wealthy one: at over £20,000 ($33,000), within Britain its output per person was only behind London and the South East in 2012 (see chart 1). Edinburgh, the new capital, and its oil hub, Aberdeen, are both cities where wages are growing fast, a rarity in Britain. But trouble would soon strike. Scotland's long-term economic prospects are dire: it would be a rich country, set to get poorer quickly.**


The biggest problem would be demography. Too few people work, an imbalance that will soon deteriorate. In 2012 there were 3.2 working-age people for every Scottish pensioner, according to the Office for National Statistics (ONS). By 2037 there will be just 2.6. In a recent paper Michael Amior, Rowena Crawford and Gemma Tetlow of the Institute for Fiscal Studies, a think-tank, examined ageing, migration and the birth rate. The trends they observed suggest that, over the next 50 years, the Scottish workforce will actually shrink (the rest of Britain's will grow). The number of pensioners will rise.

As well as being old, Scotland's population is unhealthy. A 2014 study by the ONS examined life expectancy across 404 local authority areas in Britain. Of the bottom ten, eight were in Scotland. Glaswegian men can expect to live to just 69. International comparisons are worrying: a recent "well-being" study by the OECD, a club of rich countries, put Scotland in the bottom third, based on health outcomes. The people of eastern Slovenia are healthier.

All this would test an independent Scotland. As the population gets older and sicker the cost of pensions and generous health-care provision will increase. This would add pressure to an already profligate public sector—and jeopardise the plans of Alex Salmond, leader of the Scottish National Party (SNP) and currently first minister of the devolved government, to squirrel away oil revenues in a Norwegian-style fund.




Excluding oil, Scotland ran a public-sector deficit of £14 billion in 2012-13. At 11% of GDP that is a bigger gap than in crisis-stricken Greece and Ireland (see chart 2). The SNP's plan to increase public expenditure by 3% a year means that, even if Scotland's rulers spend all its oil revenues, the hole in its finances will grow.

**Crude and single malt**

Whatever its uses, oil could prove a slippery elixir. From a peak of £12.4 billion in 2008-09 Britain's tax revenues from oil fell to around £6.5 billion in 2012-13. Still, Mr Salmond is confident things will improve. Since 1979-80 around two-thirds of Britain's estimated 60 billion barrels of oil-equivalent have been extracted from the North Sea, yielding revenue of £183 billion. There is a lot left, and, as the inheritor of most of it, the independent Scottish government would reap revenues of £7.3 billion by 2017-18—according to the SNP.

That projection, however, rests on rosy forecasts of both oil prices and the quantity firms will be able to extract. In fact, output is struggling, due to unplanned shutdowns. And even if prices rally and production improves, the industry's best days are behind it. The Office for Budget Responsibility, an independent fiscal watchdog, reckons that revenues from oil taxes will dwindle to just £3.4 billion by 2017-18.

Moreover Scotland will face huge clean-up costs after the oil has gone. An estimated 45,000 kilometres of pipes and cables span Scottish waters, pumping oil from rigs to the mainland; decommissioning them will cost around £10 billion between 2013 and 2022, according to Oil and Gas UK, a trade body. Estimates of the overall cost of the operation are currently running at £40 billion, and keep rising. Since the new government would honour a British commitment to fund around half of this, a large portion of tax revenues would have to flow back into the industry.

With the end of oil in sight, a newly independent Scotland would have to rely on other industries. Oil and gas accounted for £14 billion out of £40 billion in Scottish exports in 2012, according to data compiled by the Scottish government. As these numbers imply, Scotland has some big earners apart from oil. The more lucrative single product was whisky, with exports of £3.9 billion. Other big sellers include banking, insurance and business services.

The destination of Scotland's exports is also encouraging. America is the biggest buyer: as its economy recovers, exports should rise. The growth of China's luxury-loving middle class could give sales of whisky and salmon a boost.


**But Scotland's non-oil firms are a palliative, not a solution. In 2012 Scottish exports were £4,800 per head or 21% of GDP; for Britain as a whole, they were £7,800 or 32% of GDP. A new study by Richard Harris and John Moffat of Durham University finds that Scottish productivity is 11% lower than the rest of Britain's; anaemic exporting, together with a shortage of innovative firms and low R & D investment, helps to explain this lag.** These relative weaknesses could create a big trade deficit with what remained of Britain, on which Scotland's economy would overwhelmingly depend (see chart 3).

All this means the warm glow of independence would be brief. The SNP is offering Scotland a vision of its economic future in which oil solves most ills, and innovative policy spurs rapid growth. In truth, with its twin budget and current-account deficits, the new nation would face much the same challenges as Britain, only more acutely. **Add in a parlous demographic outlook and a nationalist party intent on over-spending, and Scotland's economic prospects would be bleak.**