



Northern Ireland  
Assembly

Committee for Finance and Personnel

# OFFICIAL REPORT (Hansard)

Barnett Formula: Dr Graham Gudgin,  
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In some cases, I think that we can understand higher expenditure in Northern Ireland, particularly in education and one or two other things. However, in other programmes, including health, I find it hard to justify the difference in expenditure per head between Northern Ireland and England. For that reason, it may be to Northern Ireland's advantage to keep fairly quiet.

I also point out in the paper that about a third of the money that comes to Northern Ireland from Westminster does not come through the Barnett formula but through mainly demand-led social security and pensions payments, and they are also pretty high. Benefit payments are about 30% above the level in England, particularly for any benefits related to invalidity. That includes disability living allowance (DLA), carer's allowance, attendance allowance, employment and support allowance (ESA) and incapacity benefit. I suggest a few reasons for why those might be higher. Once again, however, any hoking about into that by the Treasury may not help Northern Ireland. The estimate is that Northern Ireland gains about £1 billion a year from having higher benefits levels per head than England. That is a lot of money and far bigger than the cuts to the block being discussed in relation to corporation tax, for instance.

I will make two points. First, there is some evidence, or at least reason, to believe that a high subvention and fairly generous funding of Northern Ireland probably takes pressure away for public sector reforms, which is something that, I think, the Finance and Personnel Committee should reflect on. If those reforms are made, it means that you can spend less money on some programmes, leaving more for others. That, of course, does not follow for social security. Any money that we saved in social security in Northern Ireland would be a loss to Northern Ireland. Therefore, there is a perverse incentive, I think, to have social security spending reasonably high in Northern Ireland.

My final points are on corporation tax, which I have worked on in the past with my colleague Professor Neil Gibson, whom, I think, some of you will know. Deductions to the Barnett formula, consequent on devolving corporation tax, are still to be finally agreed, but I make the point that DFP — I think that the Department would agree — officials are not in a strong position to negotiate a good deal for Northern Ireland. So, really, it is up to the politicians. Of course, we wait to see what happens in the forthcoming election and how strong Northern Ireland's hand will be. However, having been involved in some negotiations with the Treasury over corporation tax, I think that it really does — to use a Northern Ireland term — put its arm in over this. In particular, Treasury has refused to include in the calculation any increase in taxes, such as income tax and VAT, that may rise in Northern Ireland as a result of us getting more activity. Northern Ireland politicians should certainly take that up, when and where they can, with Treasury Ministers.

I think that a figure of something around £300 million is being talked about as the deduction from the block grant. That is pretty much what the windfall gain would be to existing companies in Northern Ireland, including existing small companies that might incorporate as a result to get a lower rate of tax. It has always been my view that Northern Ireland should consider recouping that windfall gain through other taxes, such as business rates. It is really £300 million into the pockets of existing companies and their shareholders. Some of the shareholders of those companies are outside Northern Ireland, of course, but they would all gain from a windfall, even if they do nothing. The point of lower corporation tax is to attract into Northern Ireland new companies, especially new, high-paying companies — the Googles and the Microsofts of this world — and not merely to put money into the pockets of already reasonably affluent people.

I think those are the main points, Chairman. I will take questions.

**The Chairperson (Mr McKay):** Thank you very much. You made reference to the fact that the status quo on the Barnett formula is beneficial to us. Is it the case that, in the next year or two, the status quo is going to be washed away, essentially? The most recent polls show that the SNP and Labour are more likely to form a majority in Westminster. Of course, all that could change in the next few months. There is also the fact that Scotland is getting the Crown Estate and air passenger duty (APD) and we are getting corporation tax. How long can those inconsistencies stay in place before we get APD and Scotland gets corporation tax? All of that will certainly upset the financial apple cart and financial levers status quo that has existed up to now. How can Barnett remain in place, given those facts? You made the point that it does not make sense for us to have corporation tax and not be able to reap the benefits with income tax and VAT. So, perhaps Pandora's box has been opened to a certain degree. Bearing that changing political situation in mind, how do you see things playing out? What risks are there? As well as that, what benefits does the changing situation have? I ask that because reference is often made to the subvention that the North gets, but if we were to have more financial levers to set our own tax rates, would we be in a position to generate more revenue to offset what is referred to as the subvention?

**Dr Gudgin:** Yes, that is a good point. Any answer is a matter of political judgement. Others are in as good a position as I am to comment. I think that we are in a very strange, transitional period. The first thing to say is that part of the agreement with Scotland was that Barnett would be continued. To me, that was a rather unexpected hostage to fortune. I do not know how seriously that will be taken, but it seems to imply that Barnett will continue for the foreseeable future. I think that the Scots will complain bitterly if that is overturned; and we can probably say that, if the Scots are in government, it will not be overturned. We are in a fairly unstable position. It would not be a surprise to me, for instance, if Scotland was to leave the UK within the next 10 years, particularly if the SNP forms part of a coalition. They could negotiate changes to their benefits, and their presence would annoy English voters who, I know from my discussions in England, are already quite annoyed by some of the things that have happened. We are in something of a transitional period; there will be changes.

Of the devolved Governments, Northern Ireland has been the intelligent one over taxes. Scotland has been pushing for more income tax devolution for a long time, but I do not think that helps them in the slightest. They have had some devolution of income tax for quite a long time. They have never used it. It is a very hard thing to use. If you put income tax down, it is going to annoy the English tremendously; if you put it up, it is going to annoy your own voters in Scotland. The easiest thing is to leave it where it is, and that is what an SNP Government have done. Now with more powers on income tax, my expectation would still be that there will probably be only little changes at the margins.

I think that Northern Ireland has come very well out of this as the only devolved region to ask for and get corporation tax powers. It is the tax that really makes the economic difference. It is the one that attracts companies and the tax that multinational companies across the world look at. If they are considering Northern Ireland or the Republic of Ireland, they ask, "What is the corporation tax and what are the tax rules?".

Northern Ireland has been ahead of the game here. However, you are quite right, Chairman, to say that Scotland will be pushing for this, and, indeed, it has been. I gave evidence, a couple of years ago, to the Scottish Parliament's Finance Committee, similar to today. I said that, in my view, it was unthinkable that a coalition Government would devolve corporation tax to Scotland, which was a view that I had formed talking to English Ministers. There was immediate pandemonium in the room. They said that they were in negotiations with the Treasury and asked whether the Treasury was negotiating in bad faith. I did not know that, but it was interesting that they did think that they were in serious negotiations on corporation tax. In the end, I was right: they did not get it. If the SNP is in a coalition Government at Westminster, we would expect that to be one thing that it would push for.

So, it is an unstable and uncertain situation, but I still repeat my opening remarks, which are that Northern Ireland might do well to keep its head down.

**The Chairperson (Mr McKay):** OK. We will move to questions. Judith.

**Mrs Cochrane:** Thank you, Chair. I was not quite ready for that. I was still jotting down notes. I want to ask about comparative spending. There is a higher per capita spending in all areas apart from science and technology, which is probably an area that we should be investing more in, given its growth aspect for the economy. What do you see as the underlying reasons for that? Is it like, for instance, in health, where we mirror a lot of the administrative structures in GB when we have much smaller numbers of people to deal with? We could potentially have one body for the five that are in place. You also mentioned that, by continuing to fund us in the way that we are funded, there is a disincentive for us to reform and make improvements. Are there other issues as well?

**Dr Gudgin:** That is right. I know that witnesses in previous sessions described the Barnett formula as something of a mess and a mystery that we inherited from history. When it was set up in 1979, Northern Ireland had, for various reasons, a high level of public expenditure. Although the Barnett squeeze took that down for a long time, it has remained high. It is not anything that anybody necessarily intended or designed. It has certainly not been a transparent policy to have higher expenditure in Northern Ireland. It is just an inherited position that has been somewhat eroded and is now going the other way.

We have a lot more money per head in Northern Ireland than people in England, and therefore it tends to be spent over a range of programmes, nearly all of which are higher. You are in as good a position as I am to know why some are perhaps a bit higher than others. All the devolved Governments spend a lot more on economic development than is available in England. Having been involved with some of

the regional development agencies in England, I know that they have no money for the things that Invest NI does. They have derisory amounts of money, really. There is no support. I do not think that that is always realised in Northern Ireland, certainly not by a lot of businessmen. If they were in England, they probably would not get anything. We get a lot of support. It is my view that far too much of that support goes to existing companies that could easily raise the money from other means. However, that may take us beyond what you want to discuss today. Does that answer your question, Judith?

**Mrs Cochrane:** Yes, thank you, that is fine.

**Mr Cree:** Good — that is a good question: is it "good morning" or "good afternoon"? It is high noon. Thank you very much; sorry that I missed the start of your presentation.

I want to follow on from the discussion about corporation tax and its imminent devolution to here. You came close to touching on the UK-wide debate on the devolution of other fiscal powers. What implications do you see that having on any developments with or changes to the Barnett consequential or the Barnett formula?

**Dr Gudgin:** There will have to be adjustments. The Scots will get half of income tax devolved, and there will be an adjustment for that. As far as I know, the details of that adjustment have not been decided or announced yet. In a sense, that is the main one. An adjustment will be made to how the money arrives in Scotland or in Northern Ireland.

It is very much a move in the right direction to try to match expenditure with tax-raising powers in the devolved regions, including Northern Ireland. We have been in a very lopsided and rather undemocratic situation for decades. The money comes from Westminster and arrives in Northern Ireland, and essentially your job as MLAs is to decide how to spend the money, and there are no real consequences in tax-raising. It would be a much more democratic position if, every time you made an expenditure decision, there was a tax consequence. That would see Northern Ireland going in the direction of the Republic of Ireland, which, it has always seemed to me, has been much more responsible and, if I may use the term, rather more grown-up about its fiscal debates. They know that, if they spend more money, taxes will be —

**Mr Cree:** We have talked about the minor fiscal powers, as well — stamp duty and all that sort of stuff. If a lot more fiscal powers were devolved, the structure of Barnett would need to be completely changed. Would that be a Pandora's box?

**Dr Gudgin:** If we are only talking about small adjustments and small taxes, adjustments can be made to Barnett, and it can carry on. However, if I understand where your question is leading, that is right. If we got the devolution of the whole of income tax, for instance, it would start to make Barnett look less important and somewhat irrelevant. We would then be moving much more towards a more federal UK. My opinion, for what little it is worth, is that we are on that journey now.

**Ms Boyle:** You are very welcome, Dr Gudgin.

**Dr Gudgin:** Thank you.

**Ms Boyle:** Some concerns have been raised by other commentators about the lack of transparent or independent public finance data, and you allude to that in your work on modelling the reduced corporation tax rates. How could that be developed for that to be addressed and to provide assurances that any further devolution of fiscal powers is on the basis of a fair and proportionate adjustment to the block grant? How can that be taken forward? Also, how do you think we should progress, if at all, with repatriating our local revenue streams?

**Dr Gudgin:** On the first part of your question, there could be more transparency in the negotiations between DFP and Treasury civil servants about how much the block grant would be affected. If you were to have weekly reports, which stated that the Treasury is asking for this and DFP is suggesting that, you could put your views in and political pressures could be brought to bear. It seems to me that those are the important ones. As I said, my experience of negotiations with Treasury personnel is that they are tough cookies who are trying to get the best deal for the Treasury. That is all that they are trying to do. They will load any costs on that they think help them and will resist any changes that will not help them. Therefore, transparency is quite important. I may have missed things, but I am not

quite sure where those negotiations are at at present. I would like to know more, and I think that it would help Northern Ireland if we knew more. What I am really saying is this: it is not necessarily a job for civil servants. They can do some of the initial legwork, but, in my view, it is largely a political decision. It is not cut and dried: there are fairness issues involved. Some people argue that it is fair to include something, while other people argue that it is fair to exclude other things. That debate would be better taking place out in the open.

Perhaps I can add just one more thing. My experience is that Treasury tends to involve Revenue and Customs staff in the negotiations. They know their tax details well and are pretty tough on this. On the other side, when it comes to estimating the benefits of corporation tax, which is rather less important but is part of this, my own experience is that the Treasury was just hopeless. It was just off the wall. We absolutely rejected its calculations. I do not know whether that will be relevant to you, but if you are faced with any figures from Treasury on the possible economic impact on Northern Ireland of lower corporation tax, do not start from the assumption that you are dealing with experts who know what they are doing. That is a strong thing to say, but that was my experience.

Sorry, can you repeat your second question, please?

**Ms Boyle:** Do you think we should repatriate revenue streams locally?

**Dr Gudgin:** I am not quite sure what you mean by "repatriating" in that case.

**Ms Boyle:** How do we repatriate what Westminster gets to our local economy to regenerate it?

**Dr Gudgin:** That is essentially what the Barnett — sorry, you mean revenue streams from here. The two are not related, even at national level, to an extent that would surprise quite a lot of people, which is why we have such huge public debt and public borrowing. First, tax rates are set, and money comes in or does not come in. Governments set their expenditure but do not relate it as closely to their income as perhaps you or I do. Secondly, we do not really know what the tax revenue from Northern Ireland is. I now live largely in England, but when I lived in Northern Ireland, my tax office was in Liverpool. I do not think that it is that easy for Revenue and Customs to work out exactly what tax is raised in Northern Ireland.

That brings me to another point, which I cannot recall if I mentioned earlier. It is quite important. The Treasury and DFP officials are trying to estimate what corporation tax is raised in Northern Ireland so that Treasury can then take that off the block. It seems to me, however, that by far the best thing to do is to set a temporary figure — around £300 million, say — and then let the national corporation tax rate run for a year in Northern Ireland and see what money comes in. At present, we do not know. A company such as Tesco, for example, pays its taxes nationally. We do not know how much of that tax relates to Northern Ireland. Accountants tell me that it is as long as a piece of string anyway. It is not an easy thing to calculate. We do not always know what the revenue streams are, and the money that we get is not at all related to the revenue that is raised in Northern Ireland. Currently, however, that is very much to Northern Ireland's benefit, so we might be best to let sleeping dogs lie.

**Ms Boyle:** Let sleeping dogs lie. Thank you.

**The Chairperson (Mr McKay):** I want to go back to the point about revenue streams. There are three devolved institutions in the Union, with lots of finances and taxation going to and from those, but did Germany or other countries have similar problems with financial data? In other words, the figures should be there and should be transparent, and you should be able to trace taxation from source to Treasury. Are there similar problems in other countries, or is it something unique to here?

**Dr Gudgin:** My impression is that there are not those problems in former federations such as Germany or Canada, but I do not claim to be an expert on those countries, so I am open to correction on that. It seems to me from what I read that it all runs much more smoothly than it does in the UK.

**The Chairperson (Mr McKay):** Is there a systemic problem here that could be —

**Dr Gudgin:** Well, we have a very odd constitutional set-up, which is derived from history and has been patched up over time. That is different from when you set up a federation in which the tax-raising powers of the federal authority and its expenditure are very clear. Nothing is terribly clear here. In my understanding, the Barnett formula is not a legal requirement. It can be changed, and the details rules

of Barnett are fiddled about with every year. It is just an administrative convenience and therefore obviously open to question and argument.

**The Chairperson (Mr McKay):** There are a number of Barnett consequentials year in, year out, and it is widely open to interpretation as to what is a Barnett consequential and what is not. Is that something that you feel should be passed to a neutral regulator as opposed to being a central government decision?

**Dr Gudgin:** Yes, I think so. It seems to me that most of the decisions that have been made are reasonably sensible. The devolved civil servants can make their representations, and there is genuine bargaining, but it would be more transparent, and therefore better, if there were some sort of independent regulator or a committee on which the devolved authorities sat. I doubt whether it would make very much difference to the finances of Northern Ireland, but it is important that justice is seen to be done.

**Mr D Bradley:** Good afternoon, Professor. Can I ask you —

**Dr Gudgin:** Thanks for the promotion, by the way. *[Laughter.]*

**Mr D Bradley:** Sorry. I want to ask you about the factors that might influence the Barnett formula in future. For example, what might the implications be for English votes for English laws and the possibility, as you mentioned earlier, of further devolution to the English regions?

**Dr Gudgin:** I can answer the last bit quite quickly. I do not think that there is any possibility of devolution to English regions, although there might be some possibility of passing more expenditure back to counties, for instance. For my sins, I was on John Prescott's Labour Party commission on regional government, which took evidence in different regions across England, and I would describe it as a fiasco, because absolutely no one in England was interested in regional government. You will remember that there was a devolution referendum in the north-east, which got a derisory vote of 10% or something. I do not think that any Government will go anywhere near trying to set up a regional tier in England.

The best solution in my mind to the whole issue of English votes for English laws, which exercises ordinary people as well as politicians in England, would be to pass more expenditure — say, for health and education — back down to counties. England is still a greatly over-centralised economic entity, particularly in contrast to the federal systems that we were just discussing.

I was at a seminar in Cambridge last week that I thought was going to be on the break-up of the UK, but, rather as you get in the national press, the only thing that people wanted to talk about was English votes for English issues. There will be political pressures, and there will be more changes. The coalition Government seem to have set the continuation of the Barnett formula in stone, yet they are facing quite a lot of pressure from English constituencies to change it, so we are in the world of immovable objects and irresistible forces. It is very hard to know what will come out of that. We are in some constitutional turbulence, and the Barnett formula is very much sitting there as a target. However, to repeat, perhaps for the third time, it is in Northern Ireland's interests to defend the Barnett formula rather than to ask for its replacement. Therefore, there may not be a common interest among Scotland, Wales and Northern Ireland, which is a pity, because, working together, they would be quite a strong force.

**Mr McQuillan:** I think that my question has mainly been answered. What you are saying, in summary, is that the Barnett formula is the best way forward at the minute for us.

**Dr Gudgin:** I think so. It will be for the next five years or so, during a period of austerity.

**Mr McQuillan:** Can you look into your crystal ball and give us a prediction for after those five years?

**Dr Gudgin:** It depends on how much of the present coalition's austerity is carried into practice. When I look at the figures, as other economists do, it looks fairly startling to take expenditure levels, particularly levels of public-sector employment, back down to those of the 1950s. If the Government were to do that, there could well be a reaction, and we might then enter a period of faster growth of public expenditure. The coalition Government have found it rather hard to bring in the cuts that they had previously announced. There is always backsliding on them, so I would not be surprised if we

experience fewer cuts than the Government are currently intending. The public debt, even in five years, will still be reasonably high. I cannot see us going back to the sort of situation that we were in under the Blair and Brown Labour Governments, in which public expenditure was rising pretty rapidly. I do not think that we will get back to that. I may not be around to see it.

**Mr McQuillan:** We will bring you back in five years to see whether you were right.

**Dr Gudgin:** I might be here in five years but not much beyond that. We will see.

**Mr McCallister:** Sorry for missing some of your presentation, Graham.

What I want to ask ties into Adrian's point. According to the coalition's original projection, we were almost to have a balanced Budget at this point, but it is still £95 billion or £98 billion in the red. Your basic point is that you might not expect the cuts to be as dramatic but that we are a long number of years away from huge rises in public spending, such as that which we had between 2000 and 2010 or 2012 — the first decade of the century.

You said that Scotland, Wales and Northern Ireland might not be in agreement on Barnett. The Welsh seem to be suffering slightly because of convergence under Barnett. Do you think that we will get to that point at some stage if we do not change the system, or are we a long way from that?

**Dr Gudgin:** My estimates are that we are quite a long way above. Gerry Holtham, who did the Welsh report, estimated that our needs in Northern Ireland were about 23% above England's. Our current expenditure is around 30%, so we are quite well above our need.

I would not have done the exercise in the way in which he did. I wonder whether our needs are probably closer to Wales's, which are around 14% above England's. However, let us say that our needs are somewhere in that range — between 14% and 23% above England's — but, with expenditure, we get 30% more. We are still probably getting quite a lot above need. It is politically quite important to add that our excess probably would not be as much as Scotland's. Scotland does not get as much money as we do per head, but its needs are clearly very much lower. It has plenty of money, which is why it can spend it on better arrangements for elderly care, why it has more police per head, why it has student grants, and all the rest of it. It really has a lot more free money to spend than England does.

**Mr McCallister:** That also brings pressure in the wider context of the Union in an English set-up. If we are sitting at 30% above relative spend, the best advice is probably to keep our head down and be quiet about it. In some of the Budget debates, we at times sound very ungrateful that our fellow UK citizens are propping us up to such an extent. Rather than being ungrateful, we should be saying, "Thank you very much", because Northern Ireland could not survive those types of cuts. Even if we managed to pull the figure of 30% back to 23% — never mind whether your guesstimate of 14% was right — that would have a huge impact. It may be much clearer in the federal system, because who does what, what the spend is and the ability to raise taxes are all written down. At the minute, the Assembly raises only the regional rate, which is 5% or 6% of what we spend. It is tiny. The idea that we are a low-tax Assembly is total nonsense, because we do not have any real taxation powers, nor do we show any willingness to look at revenue-raising if there are pressures. However, do you think that pressure from England — I am looking particularly at Scotland and Northern Ireland — will eventually bubble up and keep on going? You said that you did not think that English regions will get devolution. However, is there a case to be made for devolution for some of the bigger cities? For example, London is making the case for getting certain powers, and then there is Birmingham, Manchester, Liverpool and Newcastle. Do you see that happening? Could a certain level of tax be raised under that model?

**Dr Gudgin:** There is interesting discussion about devolving things. To go back to conurbations, Manchester has been quite clever. It is covered by, I think, nine different local authority districts. There used to be the Greater Manchester County Council, which was abolished by Mrs Thatcher, I think, and now, a bit like London, it is run by nine different authorities. They work together pretty well, and they have been pushing harder than anybody else. They say, "Give us more of our own money back, and we will decide how to spend it", and, because they have shown that they can work together pretty well, I think that what they are asking is taken somewhat seriously.

On your point about being grateful, I have to say that I sometimes do that for a joke. If friends of mine in England complain about how much money there is in Northern Ireland, I always say, "Well, thank



you very much. We are very grateful". However, it is one of the perverse incentives, and that is the trouble. If you were to show gratitude, it would merely attract attention to the fact. Scotland seems to attract much more opposition and antagonism from England than Northern Ireland does. I think that Northern Ireland is always treated as a special case. People do not understand the repercussions that there have been from the Troubles. A lot of people have not been here, and it is quite small. Northern Ireland operates under the radar, but Scotland does not.

**Mr McCallister:** I accept that. The entire Scottish referendum debate opened up the discussion not only on how the UK is funded but on broader governance arrangements, such as who votes and what rights you should have, and, if you want a particular power, you have to take responsibility for it, be it corporation tax or something else.

My point on funding is that, even in the debate around public-sector reform here, the argument is more that we are doing that only because the Tories are making us do it rather than because it is the right thing to do or it will deliver a more efficient model of government or more efficient public services. We are sort of hooked on the idea that spending is the only answer to our problem so we need to keep spending. If we had taken the level of cuts that our colleagues in the Republic of Ireland have taken, we probably really would have something to scream about.

**Dr Gudgin:** Yes. I do not know whether any of you read 'The Economist', but Professor Neil Gibson is quoted in the current edition as describing Northern Ireland as a "moody teenager" that is getting used to having to take consequences for its spending. That point is pretty important. If the system falls apart at some point — in an unstable constitutional position, that is not unthinkable — I do not think that Northern Ireland will be well placed, as it has not really put much effort into public-sector reform. It has thrown money at problems. I can mention things such as the district hospital in Downpatrick, where I live. I am not sure that it would have been built in an English region, although I may be wrong about that. There are local pressures for those sorts of things, and, if we have the money in Northern Ireland, we tend to use it to respond to those pressures. Some English regions just do not have the money so do not respond, and, as a result, things have to change.

It would be interesting if you, as the Finance and Personnel Committee, were to look at expenditure on different programmes, ask how some English regions manage to get by with 20% less per head than we do and then find out how they are doing that. In some cases, they are doing things that we would not want to do. A lot of the local cuts in England have fallen on local authority care budgets, and that has come back to bite the NHS. I know that the chief executive of my local hospital, Addenbrooke's in Cambridge, which is a big teaching hospital, describes himself as running the biggest care home in Europe, because all his beds are blocked by elderly people who have nowhere else to go. It is not doing the job that a hospital is there to do, and that is because the care budgets have been hit so hard.

**Mr McCallister:** My gripe with the previous presentation was that it appears that you have no way of making policy, whether it be Transforming Your Care or something else. Once you hit something difficult, it becomes a Department of Health policy not a Northern Ireland Government policy, and that is why you have very little room to manoeuvre and to drive policy change forward under our system. That is why it becomes so difficult to have a strategic approach to doing anything that the Government are doing here.

**Dr Gudgin:** That is right. That is why it is much better if there can be a balance of income from revenue-raising powers and spending powers. In the Republic, politicians have to live with the consequences of anything that they decide, and their electoral prospects will be heavily influenced by those decisions. That is not the case in Northern Ireland. It is a less democratic and *[Inaudible.]* system here as a result, but I think we are quite a long way off that. Corporation tax is still a fairly small tax in the scheme of things. If the Assembly could set VAT rates or income tax rates, for instance, we would be in a very different world. We are a long way off that, but the system could, at some point, change quite quickly.

**Mr McCallister:** Scotland is looking at a variety of tax-varying powers. The challenge, if we get to that point, is in making much more realistic decisions on what you tax people for and what you spend money on.

**Dr Gudgin:** We will see whether Scotland takes advantage of that. It has had that power —

**Mr McCallister:** For 15 years.

**Dr Gudgin:** It has been able to raise income tax rates for a long time but has not.

**Mr McCallister:** You made comments about Barnett in Scotland. It has not needed to raise extra revenue and, indeed, has decided not to cut the rate of income tax.

**Dr Gudgin:** No. Scotland is quite well placed. It is doing things at the margins, however. It is doing something with taxation of expensive houses to raise a bit more money. It is a fairly left-wing Government, so you can expect things of that sort to happen. It will be interesting if Scotland does that, because we will be able to see whether it has knock-on consequences for the Scottish economy. Again, we will be in a world in which there are consequences of those decisions. That is a healthier and more democratic way to run a country. In the UK, however, we are still a long way from having real accountability for spending and a long way from having any tradition of even using the powers that are there. We will see what happens in Scotland.

**The Chairperson (Mr McKay):** Dr Gudgin, thank you very much.