

[Binning the Barnett formula](#) [1]

Written by [Tom Clougherty](#) [2] | Thursday 10 April 2008



The Barnett formula, which allocates UK government money to Scotland, has become a source of real resentment in England. Its effect is that Scottish residents receive over £1300 more government spending per person per year than their English counterparts. The disparity is not easily explained by different levels of wealth ? the North-East of England is poorer than Scotland, but receives less government funding. Yet successive governments have stuck to the formula, claiming it shares out public funding on the basis of need.

But now Lord Barnett, the former Treasury chief secretary who devised the scheme, has [dismissed](#) [3] these assertions in an interview with Holyrood magazine, saying Gordon Brown is simply too scared to overhaul it for fear of upsetting Scottish voters. Lord Barnett went so far as to say that it was not really a formula at all, that there was "nothing scientific" about it, and that he concocted it "almost on the back of an envelope" based on "approximate" population figures in the 1970s. It's a pretty damning display of honesty, isn't it?

Lord Barnett is absolutely right to call for a thorough review of the system of allocating funding. The system is certainly unfair to English taxpayers, and I don't think it does much for the Scottish either. The fact that the Scottish Executive only spends money that is allocated to it ? rather than having to raise revenue itself ? entrenches high public spending, encourages waste, and discourages fiscal responsibility, as well as reducing accountability.

The most sensible solution is to make Scotland fiscally autonomous. According to my own back-of-the-envelope calculations, the Scottish Executive could easily finance all devolved spending if it set, collected and kept the proceeds of income tax, corporation tax and VAT, and took a share of North Sea Oil Revenues. One additional bonus of such a system would be the introduction of tax competition within the UK. If Scotland cut its corporation tax rates to Irish levels, for instance, it would put a lot of pressure on the Westminster government to follow suit.

The SNP administration at Holyrood is known to be keen on the idea, so watch this space.

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