

Scotland: ‘independence lite’ or ‘devo more’?

19 March 2014

Summary:

Six months from today voters in Scotland will be waking up to discover their collective answer to the question “should Scotland be an independent country?” For now polls indicate that answer is likely to be no, but that is unlikely to be the end of the story. In the last two months a noisy debate has made the choices facing Scotland a lot starker and raised questions about how ‘independent’ an independent Scotland would, or indeed could, be. With six months to go it is increasingly clear that Scotland’s real choice may be between ‘independence lite’ and ‘devo more’.

With less than six months to go until polling day the campaigns in the referendum on Scottish independence from the United Kingdom are intensifying. Alex Salmond and the Scottish Nationalist Party (SNP) lead a Scottish government that is well regarded and enjoys a clear lead in the opinion polls. Nevertheless, on the question of independence, the No campaign has had a consistent and solid lead. Neither the fusillade of papers and speeches by the UK government nor the 670 pages of the [Scottish Government’s pro-independence prospectus](#) have moved the dial of public opinion one way or the other. Indeed since the publication of [our July 2013 report](#) there has been little movement in the opinion polls (Fig 1). The No vote shows on average a 15 percentage point lead, although the number of undecided voters has declined.

While this debate over the practicalities of independence has not moved the polls, it has nevertheless reframed the debate in key ways. It has certainly challenged Alex Salmond’s technique of making assertions of preference sound like descriptions of fact. It has seriously undermined the nationalists

strategy of reassuring Scots that in some key areas independence would actually change very little. But it has also raised the interesting and important question of how ‘independent’ an independent Scotland would or could be given its size and geography. It has also left the clear impression that the British political class has already accepted that the outcome of 18 September will not be the status quo for Scotland. So what does that mean?

The campaign for Scottish reassurance

In the six months which remain Alex Salmond and the Yes campaign face a daunting task. Assuming that his current support stays stable, even if Alex Salmond wins over every undecided voter, it will not be enough to secure victory in the referendum. The Yes campaign would also have to convert around 120000 of those who currently back the union into supporters of independence (Fig 2).

In seeking out these extra votes he will be targeting first the SNP voters who have not yet made up their mind on how they will cast their ballot. These voters make up almost a third of the total undecideds (Fig 3). Salmond

will also be targeting Labour supporters who are both more likely to be undecided on independence than any of the other pro-union parties at this stage and more amenable to Salmond's vision of a social democratic Scotland. Salmond will also have to bridge a yawning gender gap. While the lead for the 'Better Together' campaign among men is only 4 percentage points, it has a remarkable 31 percentage points lead among women. Polls indicate that women voters are particularly concerned about the financial viability of an independent Scotland.

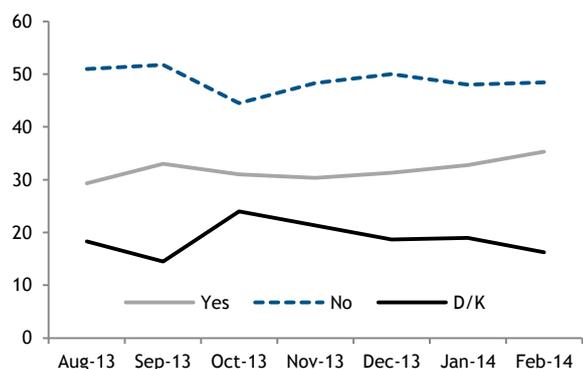


Fig 1: Should Scotland be an independent country? (% Monthly polling averages)
Source: Public polling

Indeed, these kinds of doubts about Scotland's ability to go it alone have been at the centre of the debate over the last two months. Detailed, and in some cases stark, assessments from London of Scottish monetary and European prospects have directly challenged Salmond's campaign of reassurance that on certain critical issues Scottish independence would change little. The debate has focused on three major issues: the pound, Scotland's place in the European Union (EU) and the country's future economic prosperity.

On the question of currency, a key plank of the Yes campaign's reassurance strategy has been the stated intention to keep the pound sterling. Salmond's favoured outcome is for

an independent Scotland to form a currency board with the rest of the United Kingdom. In the case of a refusal by the UK government, he has argued that Scotland could adopt the pound anyway, in a process known as 'sterlingisation'. However UK Chancellor George Osborne, backed by the Labour opposition shadow chancellor Ed Balls and Liberal Democrat Danny Alexander, has firmly challenged the idea that an independent Scotland could decide on its own whether to continue to use the pound. The Bank of England - in a less overtly political way - has flagged the complicated question of checks on Scottish fiscal policy if it remained in a currency union with the rest of the UK.

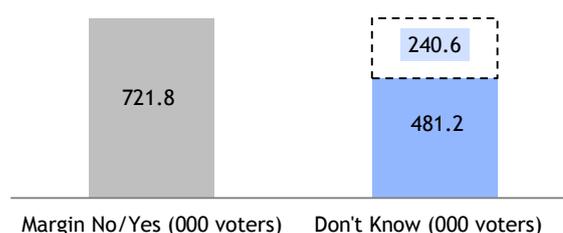


Fig 2: No/Yes margin and undecided voters
Source: YouGov, Global Counsel calculations

After much debate, there also remains uncertainty over the timing of an independent Scotland's accession to the EU. Alex Salmond's argument for independence is founded on a belief that small countries can prosper within the EU. In general this argument has been well received in Scotland, as unlike south of the border - where the electorate is more evenly split - a significant majority of Scots favour EU membership.

The Scottish Government insists that an independent Scotland would be an EU member state from the first day of independence. However in February 2014 European Commission President José Manuel Barroso said that Scotland might find it "extremely difficult if not impossible" to join the EU. Scotland's secession would certainly

be without precedent in the EU, and given the sensitivity of some Member States about their own breakaway regions, would be as much about politics and negotiation as bureaucracy and legal process. As a result, the terms of any negotiation for an independent Scotland to be in the EU and the speed and ease of their completion are very unclear.

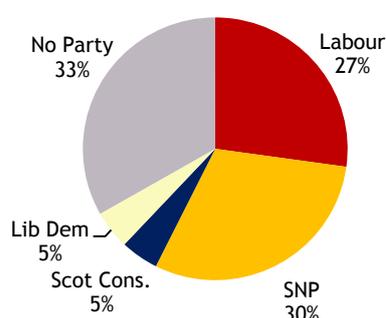


Fig 3: Breakdown of undecided voters by party support in 2011 Scottish parliamentary election
Source: YouGov

The third major plank of the reassurance strategy concerns Scotland's future prosperity. Polling suggests that voter views on whether independence would be good or bad for the economy and living standards is a key indicator of how they will vote. Eight out of ten of those supporting independence think that people like them will be better off in an independent Scotland, exactly the same as the proportion of pro-UK supporters who think that they would be worse off in the event of independence.

While it is widely accepted that in the event of independence most of the remaining oil in the North Sea would be in Scotland's waters, just how valuable a resource this is for the public coffers is disputed. The UK government recently estimated that Scotland had a net deficit of 8.3% GDP in 2012-13, even including revenues from North Sea oil. This compares to the UK's current 7.3% deficit - a difference of £500 per person. This is partly due to a sharp 40% fall-off in North Sea oil revenues - which

highlights the potential financial exposure of an independent Scotland to volatile changes in oil production and price.

The businesses that would be responsible for much of the economic activity in an independent Scotland have until recently been notably reluctant to participate in the debate. The independence camp has some support in business, but recent weeks have seen public warnings about the negative impact of independence from some of Scotland's leading companies such as Standard Life, Royal Bank of Scotland, Alliance, and Aggreko, with some saying that they would consider relocating in the event of a Yes vote.

'Independence lite' vs 'devo more'

The logic of the 'Yes Scotland' reassurance strategy is clear, but it has two basic problems. First, it is objectively a hard sell - as London and the Westminster political classes have worked hard to emphasise. On issues like the currency and the EU it is not simply a matter of what an independent Scotland would like, but what others would agree to. This has provided a major challenge to Alex Salmond's ability to set out a definite vision of an independent Scotland.

Second, it may be counterproductive. The Scottish Government's White Paper wants to keep the pound in a currency union with the UK, which would severely constrain the ability of an independent Scotland to set own monetary and fiscal policy. It wants to maintain a borderless area with the rest of the UK, which would restrict its ability to set an independent migration policy. Salmond is selling both independence and a large measure of continuity. By emphasising the continuity he may well be weakening his case for independence in the minds of voters.

More fundamentally the strategy has inadvertently highlighted real questions over how ‘independent’ an independent Scotland could ever feasibly be given its relatively small size, geographical contiguity to a much larger country and the economic necessity of access both to the UK and European markets. Many of these questions are not specific to Scotland, but a condition of all small and open modern states. Detractors accuse Salmond of proposing ‘independence lite’, but given Scotland’s inherent features there are serious questions about how much further he could actually go.

May 2011	SNP wins first overall majority
October 2012	Edinburgh Agreement on a referendum on independence is signed between UK and Scottish Governments
November 2013	Scottish government publishes White Paper
18 September 2014	Independence referendum.
May 2015	General elections across the UK. Scotland will elect 59 MPs.
24 March 2016	If Scotland votes Yes, proposed date for Scottish independence
April 2016	If Scotland votes No, provisions of Scotland Act 2012 come into force.
May 2016	Elections to the Scottish Parliament

Table 1: Timeline

This is in large part why the ‘devo more’ argument is likely to look good to many Scots and why the pro-union parties have used it to draw the sting of the Yes campaign by promising more devolution for Scotland, even in the case of a No vote. Any such new powers would be in addition to those provisions of the Scotland Act 2012 which will come into force in April 2016 whether Scots vote Yes or No. These provisions include full control over a

range of smaller taxes and the power to create new taxes. Most significantly the Scotland Act will reduce the rate of income tax by 10p on every band in Scotland whilst granting the Scottish Parliament the power to levy in addition a ‘Scottish’ income tax at any rate it chooses.

The Scottish Labour Party, the largest of the pro-UK parties, has been divided on the precise parameters of ‘devo more’, but its Devolution Commission on March 18 outlined its proposals on further devolution. Controversially for some in the Party, these include further powers on income tax, including for the first time the power to alter the top rate. The decision notably brought in former Prime Minister Gordon Brown on 10 March 2014, who made a rare contribution to the Scottish independence debate by calling for the Scottish Parliament to be given more powers over tax.

The Liberal Democrats, historically the most enthusiastic UK party with respect to devolution, published in October 2012 the ‘Campbell report’ by former Liberal Democrat leader Menzies Campbell which proposed a blueprint for Scotland within a federal UK. This was updated in March 2014 by ‘[Campbell II](#)’ which called for a meeting to be convened within thirty days of the referendum to secure a consensus on a further extension of powers. The Scottish Labour and Liberal Democrats (who governed in coalition between 1999 and 2007) are now certainly moving closer on what would constitute ‘devo more’.

Even the Scottish Conservatives, traditionally the staunchest opponents of devolution, have, under the leadership of Ruth Davidson, now called for greater fiscal powers. The Scottish Conservatives’ Strathclyde Commission is expected to report before the date of the referendum and it looks likely to include

proposals for more tax powers. Although Conservatives have ruled out a cross-party plan for devolution to be outlined before the referendum, a more general consensus on where to implement further devolution could make a No vote more appealing to the remaining undecided voters. It may also cement some of those inclined to vote in favour of the Union.

The clear conclusion is that regardless of the outcome of the referendum, Scotland will receive more powers in April 2016. If a majority of Scots vote Yes on 18 September 2014, they will be those of an independent Scotland, albeit one which would retain many of the links with the rest of the UK. If a majority vote No - as polls currently indicate - they will be those of the Scotland Act 2012, destined to be increased by the growing consensus among the pro-union parties that Scotland needs further devolution, although the final configuration would be determined by the outcome of the 2015 UK general election.

With a clear gap to close in the final six months of the campaign, Salmond and the Yes

campaign face some big decisions on strategy - including whether to continue with the campaign of reassurance. It will be interesting to see in the weeks ahead whether the Yes campaign starts arguing for clearer water between the vision of independence and the experience of being part of the UK - a little less independence ' Overall the debate of the last two months has flushed out a set of issues which suggest that the choice on 18 September is not really one between independence and the status quo, but between 'independence lite' and 'devo more'. Ultimately it has also highlighted that the constitutional future of Scotland is likely to be as much a product of its size and geography as its political choices.

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