



HOUSE OF LORDS

Library Note

Referendum on Scottish Independence

On 18 September 2014, Scotland will hold a referendum on whether it should be an independent country. This Library Note updates a previous Library Note, published on 27 January 2014, on the subject of the possible consequences of a 'Yes' vote. The Note aims to provide broad discussion of some of the main issues raised in connection with the subject, and lists possible sources for further reading. It is split into four key areas: possible constitutional changes, the economic impact, defence and security, and health and education. The section on the constitution includes an overview of the proposed "interim constitution" for Scotland published on 16 June 2014. In addition, the final section of this Library Note briefly considers the possibility for further devolution in the context of a 'No' vote. The House of Lords is scheduled to debate the constitutional future of Scotland, in light of the independence referendum, on 24 June 2014. This date will also include debate upon the House of Lords Select Committee on the Constitution report, *Scottish Independence: Constitutional Implications of the Referendum*.

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1. Introduction

On 18 September 2014, Scotland will hold a referendum on whether it should be an independent country. The date was announced by Alex Salmond, the First Minister of Scotland and Leader of the Scottish National Party, on 21 March 2013.¹ Voters will be asked to answer yes or no to the question ‘Should Scotland be an independent country?’,² the wording of which was recommended in a report by the Electoral Commission.³ If the electorate votes for independence, the Scottish Government has proposed 24 March 2016 as the date of independence.⁴

The 9 June 2014 marked 100 days left until the referendum takes place.⁵ As set out in the Scottish Independence Referendum (Franchise) Act 2013, voting entitlement is based on the franchise at Scottish Parliament and local government elections, but also extends to those aged over 16 at the time of the referendum (as opposed to those aged over 18). Further details on the background to the Scottish independence referendum itself can be found in the House of Commons Library Standard Note, [Referendum on Independence for Scotland](#).⁶

This Library Note updates a previous Library Note (published on 27 January 2014), which was prepared in advance of a House of Lords debate on 30 January 2014.⁷ The Note focuses on the possible implications of Scotland voting in favour of independence. Due to the scope of the subject area, this Library Note will only summarise some of the key issues that have been raised, whilst providing information on resources available for further reading. It covers, in turn, the potential impact on: the constitution; the economy; defence and national security; and health and education. On 16 June 2014, the Scottish Government published a draft Scottish Independence Bill, alongside a consultation on the “interim constitution” of Scotland in the event of a ‘Yes’ vote. An overview of these proposals is contained in section 2.5 of this Note.

In addition, the final section of this Library Note contains brief discussion on the possible implications of a ‘No’ vote, including proposals put forward for further devolution by the three main political parties and the views of the Scottish National Party.

2. Constitutional Changes

2.1 Powers of the Scottish Government and the Scottish Parliament

2.1.1 Current Status of Scottish Governance and Administration

The devolved administration in Scotland is made up of the Scottish Parliament and the Scottish Government (formerly known as the Scottish Executive).⁸ These bodies were established in their present form by the Scotland Act 1998. As stated on the Scottish Government website,

¹ BBC News, ‘[Scottish Independence: Referendum to be Held on 18 September 2014](#)’, 21 March 2013.

² The Electoral Commission: About My Vote, ‘[The Scottish Independence Referendum: Frequently Asked Questions](#)’, accessed 22 January 2014.

³ The Electoral Commission, [Referendum on Independence for Scotland: Advice of the Electoral Commission on the Proposed Referendum Question](#), January 2013.

⁴ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter Ten: Building a Modern Democracy](#), 26 November 2013.

⁵ BBC News, ‘[Scottish Independence: Final Countdown to Independence Vote](#)’, 9 June 2014.

⁶ 15 January 2013, SN/PC/06478.

⁷ Debate on ‘Scotland: Independence Referendum’, HL *Hansard*, 30 January 2014, [cols 1360–451](#).

⁸ Scottish Government, ‘[History of Devolution](#)’, accessed 22 January 2014.

“the Scottish Parliament has full legislative competence (in other words, it can pass both primary and secondary legislation) across a wide range of devolved subjects. The Scottish Government is the devolved administration led by a First Minister, elected by the Scottish Parliament, who appoints a Cabinet of Scottish Ministers. The Scotland Act 1998 does not set out devolved subjects, but instead lists ‘reserved matters’ for which the UK Parliament retains responsibility. By definition, devolved matters on which the Parliament can legislate are all those which are not specifically reserved (with certain provisos set out in the Act)”.⁹ The list of devolved and reserved matters was subsequently updated by the Scotland Act 2012, which extended the legislative powers of the Scottish Government. Devolved matters (those that can be legislated on by the Scottish Parliament) currently include: agriculture; education; environment; health and social services; housing; law and order; local government; sport and culture; and certain aspects of transport. Those matters reserved for the UK Parliament include: benefits and social security; immigration; defence; foreign policy; employment; broadcasting; trade and industry; fiscal matters; energy; and the constitution.¹⁰

The Scottish Parliament is made up of 129 Members (MSPs).¹¹ Elections take place every four years¹² and are “conducted on the basis of combining the traditional first-past-the-post system (to elect 73 constituency members) and a form of proportional representation called the Additional Member System (to elect 56 regional members—seven for each of the eight regions used in European Parliament elections)”.¹³ Information on the results of the 2011 Scottish Parliamentary election, where the Scottish National Party won an overall majority with 69 seats, is available in the House of Commons Library Research Paper, [Scottish Parliament Elections: 2011](#).¹⁴

2.1.2 Scottish Governance and Administration After Independence

In its white paper published in November 2013,¹⁵ the Scottish Government expressed its belief that Scottish independence would allow for better governance of the country than that currently experienced in the present system: “independence means that Scotland’s future will be in our own hands. Decisions currently taken for Scotland at Westminster will instead be taken by the people of Scotland [...] Only a Scottish Parliament and Government will always be able to put the interests of the people of Scotland first. We only have to look at the track record of devolution since 1999 to know this is the case; these powers have been good for Scotland, but in those areas still controlled by Westminster there have been many costs for families and communities in Scotland”.¹⁶

The report went on to outline the potential constitutional make-up of an independent Scotland, including the retention of the Queen as Head of State and the Scottish Parliament taking control of all matters currently reserved to the UK Parliament, whilst keeping its structure of 129 Members representing constituencies and regions.¹⁷ The Scottish Government stated that “we will replace a costly, remote and unrepresentative Westminster system with a Parliament

⁹ Scottish Government, ‘[Scottish Responsibilities](#)’, accessed 22 January 2014.

¹⁰ Cabinet Office/Scotland Office, ‘[Devolution Settlement: Scotland](#)’, 20 February 2013.

¹¹ Scottish Government, ‘[FAQs](#)’, accessed 22 January 2014.

¹² The Electoral Commission: About My Vote, ‘[Scottish Parliament](#)’, accessed 22 January 2014.

¹³ Scottish Government, ‘[History of Devolution](#)’, accessed 22 January 2014.

¹⁴ 24 May 2011, RP 11/41.

¹⁵ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland](#), 26 November 2013.

¹⁶ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland \(Summary\)](#), 26 November 2013.

¹⁷ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter One: The Case for Independence](#), 26 November 2013.

elected entirely by the people of Scotland, saving the Scottish taxpayers around £50 million a year in their contributions to the costs of the House of Commons and the House of Lords”.¹⁸

The Scottish Government’s white paper envisaged little or no change to the system of local government or the legal system. Regarding public services, the report stated:

For public services that are currently reserved, there will be arrangements for the continued delivery of services to the public across the UK where this is in the interests of service users and the two governments. In most cases, this will be for a transitional period, but in some it may be for the longer term. The underlying principle in all cases will be the seamless delivery of services to people in Scotland (and the rest of the UK), with decisions for Scotland being made in Scotland by the Scottish Government and Scottish Parliament.¹⁹

On 21 June 2013, the UK Government published a list of more than 200 public bodies that it believed need to be replaced within Scotland upon independence. Commenting on the list David Mundell, Scotland Office Minister, stated that it:

[...] clearly illustrates the range of ways in which the UK delivers for Scotland and all other parts of the UK. I am sure it will be an eye-opener for some just how large and complex a task it would be to replicate many of the services and bodies that we have working for us as part of the UK today. This list is a detailed reminder of the many changes in every walk of life that Scotland would have to deal with under independence. This is one of the many changes independence would bring and it is clearly a challenge for the Scottish Government to outline what it would recreate and at what cost to the taxpayer.²⁰

However, it has been reported that a spokeswoman for the Scottish Government claimed that the list showed how inefficient the system of public bodies was in the United Kingdom, and that, due to devolution, Scotland already had many of the bodies it required.²¹ Also, in the white paper, the Scottish Government set out some of its plans in relation to public bodies as follows:

Around 300 public bodies currently act for Scotland at the UK level. As well as proposing new public bodies, we have developed proposals for sharing arrangements with the Westminster Government. In summary, our proposals on public bodies mean:

- around 60 percent will transfer their functions to a new or existing body in Scotland either for independence day or after a transitional period;
- around 30 percent are proposed to continue to be based on a shared service approach, but with shared accountability to Scotland and the rest of the UK;
- around 40 percent of such bodies are small advisory or technical committees in highly specialised areas;

¹⁸ *ibid.*

¹⁹ *ibid.*

²⁰ Scotland Office/Cabinet Office, [‘UK Government Publishes List of UK Public Bodies that Serve Scotland’](#), 21 June 2013.

²¹ BBC News, [‘Scottish Independence: Ministers List Bodies ‘Needing Replication’](#), 21 June 2013.

- the remainder, almost 10 percent of UK bodies with functions relating to Scotland, do not need to be replicated in Scotland (for a variety of reasons).²²

The Scottish Government anticipated that the first election for a newly independent Scottish Parliament would take place on 5 May 2016.²³ This new Parliament would have responsibility to draft a “written constitution for Scotland, based on extensive engagement with the people of Scotland, as well as civic groups and organisations”.²⁴ Speaking in August 2013, Alex Salmond, the First Minister of Scotland, stated that “the process of drawing up a constitution in itself will energise and inspire people” and would provide Scotland with an opportunity to “reflect on the democracy and society we want to live in, the values that we most cherish”.²⁵ (Further reading on the issue of a Scottish constitution can be found in Stephen Tierney’s paper, [The Scottish Constitution After Independence](#), published on behalf of the Economic and Social Research Council).

In its analysis paper on the implications of Scottish independence, the UK Government stressed its belief that “both Scotland and the UK are better served by maintaining their partnership. A strong Scotland is good for the whole of the UK, and a strong UK is good for Scotland [...] Scotland’s success within the UK continues today. Scotland benefits from its close integration within a major global power. Key decisions are taken in Scotland to address Scottish priorities and needs, while all the citizens of the UK benefit from collective decision-making and collective endeavour at the UK level”.²⁶ The paper also defended the current system, stating that devolution had established a flexible and secure system of governance:

This means that a Scottish Parliament and Scottish Government are empowered to take decisions on a range of domestic policy areas, such as health, education and policing, so that specific Scottish needs are addressed. It also means that people in Scotland continue to benefit from decisions that are best made on a UK-wide basis. These contribute to guaranteeing the security of people in Scotland and the whole of the UK, providing significant economic opportunity, representing their interests in the world and allowing resources and risks to be shared effectively.²⁷

Chapter one of the report discussed these principles in further detail, referencing the UK’s collective response to the financial crisis, the size and co-ordination of the defence and anti-terrorism measures in the United Kingdom, and the Scottish Government’s use of devolved powers in relation to healthcare and transport. The report also considered the potential effect of independence on the countries currently making up the United Kingdom, listing three possible outcomes (as envisaged by Professor James Crawford and Professor Alan Boyle²⁸):

- The remainder of the UK is the continuing state and would exercise the existing UK’s international rights and obligations, and Scotland becomes a new successor state.

²² Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter Ten: Building a Modern Democracy](#), 26 November 2013.

²³ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter One: The Case for Independence](#), 26 November 2013.

²⁴ *ibid.*

²⁵ *Scotsman*, ‘[Scottish Independence: Salmond Hails Constitution](#)’, 29 August 2013.

²⁶ HM Government, [Scotland Analysis: Devolution and the Implications of Scottish Independence](#), 12 February 2013, Cm 8554, p 5.

²⁷ *ibid.*, p 6.

²⁸ Professor James Crawford, Whewell Professor of International Law at the University of Cambridge, and Professor Alan Boyle, Professor of Public International Law at the University of Edinburgh.

- Two successor states are created and neither would continue the international legal personality of the UK, which would cease to exist.
- The remainder of the UK is the continuing state and Scotland reverts to the status of the pre-1707 Scottish state.²⁹

The report expressed a belief that the first of these options was the most likely. The report also dismissed the view previously put forward by the Scottish Government that two successor states would emerge and the UK would cease to exist.³⁰ The UK Government's view that the remainder of the United Kingdom would continue as the same state, and that Scotland would be a new successor state, was shared by the House of Lords Select Committee on the Constitution, which stated that it had heard "no realistic alternative case".³¹ The Committee went on to reason that:

In the event of Scottish secession, institutions of the UK would become institutions of the rest of the UK, as the continuator state. Fixed assets would belong to the state in which they are located. Other (non-fixed) assets and liabilities would be apportioned equitably. The exact division would be a matter for negotiations, and would be complicated.³²

In addition, the report suggested that independence could leave Scotland without the legislative competence to effectively participate in such negotiations with the United Kingdom.³³ Therefore, the Committee reasoned that legislation should be introduced in the case of a 'Yes' vote, both to place independence on a statutory footing and to aid the transition to independence.³⁴ This would be important to improve the negotiation process between the two countries and to avoid a situation where Scotland was in a "constitutional limbo".³⁵

The report suggested that the two Governments should also reach an agreement over international representation and domestic governance during the transitional period.³⁶ For example, the report stated that:

In domestic affairs, the UK Government would still govern the whole of the UK, including Scotland, until such time as Scotland became independent. However, after a "yes" vote the legitimacy of the UK Government continuing to govern Scotland may be questioned, especially in cases where their policy diverges from that of the Scottish Government.

Decisions would have to be taken by the UK Government on reserved matters that affect Scotland, such as on economic and fiscal policy. Given that independence would be on the way, transition arrangements would have to be established. We note that

²⁹ HM Government, [Scotland Analysis: Devolution and the Implications of Scottish Independence](#), 12 February 2013, Cm 8554, p 34.

³⁰ *ibid*, pp 35–6.

³¹ House of Lords Select Committee on the Constitution, [Scottish Independence: Constitutional Implications of the Referendum](#), 16 May 2014, HL Paper 188 of Session 2013–14, p 29.

³² *ibid*.

³³ *ibid*, p 11.

³⁴ *ibid*.

³⁵ *ibid*.

³⁶ *ibid* pp 14–15.

neither the UK nor the Scottish Government have explained in detail what they imagine such arrangements may look like.³⁷

The report also set out some recommendations on how the negotiation process should be organised, the potential timetable and who should take part in it.³⁸ For example, the Committee suggested that the United Kingdom’s negotiating team should consist solely of representatives from the UK Government, but should be held accountable by Parliament and should consult fully with the other devolved assemblies and with the official Opposition.³⁹ However, MPs representing Scottish constituencies should not form part of the process, both in terms of negotiations and holding the Government to account,⁴⁰ as “their duty as representatives of the constituents in Scotland would conflict with the objective of that negotiating team: to secure the best outcome of England, Northern Ireland and Wales”.⁴¹

2.2 Citizenship

Under the current system, there is no legal concept of Scottish citizenship. In general, if an individual was born in Scotland, and had Scottish parentage, then that individual would qualify for British citizenship. However, in the case of an independent Scotland, this could be subject to change.⁴²

Implications of Citizenship Changes on Sport

One of the knock-on effects of any potential citizenship changes in the case of an independent Scotland could be upon British sporting teams. For example, although many sports already have teams representing the devolved regions of the UK (eg football and rugby), a number of others do not (eg the British Olympic team).

The Working Group on Scottish Sport stated that, following independence, Scotland would seek to enter their own team into the 2016 Olympics in Rio.⁴³ The report accepted that this would be contingent upon a number of factors, such as the establishment of a National Olympic Committee in Scotland and acceptance by the International Olympic Committee, but did not foresee any “obvious or major barrier to securing Olympic and Paralympic accreditation for an independent Scotland in time to compete in Rio 2016”.⁴⁴ The report suggested that athletes living or born in Scotland would be able to choose whether they represented the Scottish Olympic team, or the Great Britain Olympic team.⁴⁵

The potential impact of Scottish athletes leaving the Great Britain Olympic team has been set out in an article by David Bond, who stated that “Scottish athletes helped win 13—or 20 percent—of the 65 medals claimed by Britain at the London Olympics in 2012. Yet they only made up around 10 percent of the 542-strong team—a figure roughly in line with the split of the British population

³⁷ *ibid*, p 15.

³⁸ *ibid*, pp 30–1.

³⁹ *ibid*, p 24.

⁴⁰ *ibid*, pp 24–6.

⁴¹ *ibid*, p 25.

⁴² UK Border Agency, ‘[What is British Citizenship?](#)’, accessed 22 January 2014.

⁴³ Scottish Government, [Working Group on Scottish Sport: The Continuing Development of Scottish Sport—Including the Impact of Independence](#), May 2014.

⁴⁴ *ibid*, p 4.

⁴⁵ *ibid*, p 17.

and one that echoes Scottish representation at the Games in Beijing and Athens in 2008 and 2004”.⁴⁶ David Bond’s article, and the Working Group on Scottish Sport’s report, also discuss potential funding issues for Scottish sport.

In its white paper, the Scottish Government stated that “in taking forward the result of a vote for independence, we will ensure that British citizens ‘habitually resident’ in Scotland on independence will automatically be considered Scottish citizens. This will include British citizens who hold dual citizenship with another country. Scottish-born British citizens currently living outside of Scotland will also automatically be considered Scottish citizens. Other people will be able to register or apply for Scottish citizenship on independence based on clear criteria. All Scottish citizens will have the right to acquire a Scottish passport, although there will be no requirement to hold one. We plan that citizens will be able to apply for Scottish passports from the date of independence”.⁴⁷

In particular, the Scottish Government envisaged that the following citizenship rules would apply.⁴⁸

Current Status	Scottish Citizenship?
At the Date of Independence	
British citizen habitually resident in Scotland on day one of independence	Yes, automatically a Scottish citizen
British citizens born in Scotland but living outside of Scotland on day one of independence	Yes, automatically a Scottish citizen
After the Date of Independence	
Child born in Scotland to at least one parent who has Scottish citizenship or indefinite leave to remain at the time of their birth	Yes, automatically a Scottish citizen
Child born outside Scotland to at least one parent who has Scottish citizenship	Yes, automatically a Scottish citizen (the birth must be registered in Scotland to take effect)
British national living outside Scotland with at least one parent who qualifies for Scottish citizenship	Can register as a Scottish citizen (will need to provide evidence to substantiate)
Citizens of any country who have a parent or grandparent who qualifies for Scottish citizenship	Can register as a Scottish citizen (will need to provide evidence to substantiate)
Migrants in Scotland legally	May apply for naturalisation as a Scottish citizen (subject to meeting good character, residency and any other requirements set out under Scottish immigration law)
Citizens of any country who have spent at least ten years living in Scotland at any time and have an ongoing connection with Scotland	May apply for naturalisation as a Scottish citizen (subject to meeting good character and other requirements set out under Scottish immigration law)

⁴⁶ BBC News, ‘[Sport, Scotland and the Impact of Independence](#)’, 27 January 2014.

⁴⁷ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Summary](#), 26 November 2013.

⁴⁸ *ibid.*

Analysing the proposals, Jo Shaw, an academic at Edinburgh University, stated that “it would seem that existing UK citizens in Scotland would be likely to hold rest of the United Kingdom citizenship, perhaps alongside Scottish citizenship, unless the rest of the United Kingdom Government changed the rules on holding rest of the UK citizenship and in doing so broke the link to the historic traditions of UK citizenship which appear to be tolerant of dual or multiple citizenship”.⁴⁹ The paper also analysed some of the available precedents in relation to changes in citizenship and the policy implications within the British Isles.

The probability of the UK allowing dual citizenship to be held was backed by the UK Government in its analysis paper on borders and citizenship.⁵⁰ However, the paper stated that Scottish citizenship could cause difficulties for future generations, due to the UK’s citizenship requirements:

The UK has historically been tolerant of plural nationalities, and therefore it is likely that it would be possible for an individual to be both a British and Scottish citizen. However any British citizens living outside the UK cannot pass their British nationality on more than one generation. So the children of British citizens living in an independent Scottish state would, under current rules, be British citizens, but their children and subsequent generations would not be.⁵¹

The paper went on to highlight the benefits attached to holding a British passport, such as visa waivers for certain travel destinations and consular assistance around the world, and questioned whether these would be lost to those who only held Scottish citizenship.⁵² Chapter four of the paper also discussed the following points:

- Who would be eligible for Scottish citizenship and the extent to which this would be available to the wider Scottish diaspora.
- What would be the rules and benefits attached to Scottish citizenship.
- The introduction and maintenance of Scottish passports.
- Historical examples drawn from other ‘new states’, including the Czech Republic and Republic of Ireland.

The most recent predictions estimated Scotland’s population at 5,313,600 (around 8.3 percent of the population of the United Kingdom).⁵³ The Scottish Government have previously published a number of estimates in relation to the size and characteristics of Scotland’s diaspora (eg those with a sense of Scottish identity). For example, in 2009 it published estimates suggesting that there were around 1,267,500 Scottish-born people living overseas, with around 800,000 living in England and 467,500 living elsewhere.⁵⁴ It also estimated that there were between 28 million and 40 million people worldwide who claimed some form of Scottish ancestry (with most predicted to be living in countries such as the United States, Canada, New Zealand and Australia).

⁴⁹ Jo Shaw, [Citizenship in an Independent Scotland: Legal Status and Political Implications](#), University of Edinburgh, October 2013.

⁵⁰ HM Government, [Scotland Analysis: Borders and Citizenship](#), January 2014, Cm 8726, p 60.

⁵¹ *ibid*, p 60.

⁵² *ibid*, p 10.

⁵³ Office for National Statistics, [Annual Mid-year Population Estimates, 2011 and 2012](#), 8 August 2013, p 7.

⁵⁴ Scottish Government, [The Scottish Diaspora and Diaspora Strategy: Insights and Lessons from Ireland](#), 2009, p 23.

2.3 Membership of International Organisations

Another aspect raised in one of the analysis reports published by the UK Government was Scotland's membership of certain international organisations such as the European Union, the International Monetary Fund and the North Atlantic Treaty Organisation.⁵⁵ The UK Government stated that the opinion obtained from Professor James Crawford and Professor Alan Boyle showed that “as the continuing state, the United Kingdom's membership of international organisations (including the European Union (EU), the North Atlantic Treaty Organization (NATO), the International Monetary Fund (IMF), the G8 and G20) and treaties would be largely unaffected by Scottish independence. By contrast, an independent Scottish state would be required to apply and/or negotiate to become a member of whichever international organisations it wished to join as a new state. In some cases this would be straightforward; in others, notably the EU, it would not”.⁵⁶ EU membership, the report asserted, would require lengthy negotiations with current EU members, and potentially unanimity of opinion or the adherence to standard accession procedures.⁵⁷ The Foreign Secretary, William Hague, has since predicted that negotiations could be “long and complex” and “would certainly prove less advantageous than the status quo”.⁵⁸

The importance of EU membership to Scotland was discussed in the Scottish Government's white paper, which stated that “the Scottish Government, supported by the overwhelming majority of Members of the Scottish Parliament, believes that membership of the EU is in the best interests of Scotland. It is our policy, therefore, that an independent Scotland will continue as a member of the EU”.⁵⁹ The report outlined the Scottish Government's intention to immediately begin negotiations with the UK Government and with all EU institutions and members in the case of independence, and believed this would allow a “smooth transition” to full EU membership from the proposed date of independence (24 March 2016). The report stressed that the negotiations would be approached on the “basis of the principle of continuity of effect. That means that Scotland's transition to independent membership will be based on the EU Treaty obligations and provisions that currently apply to Scotland under our present status as part of the UK. It will avoid disruption to Scotland's current fully integrated standing within the legal, economic, institutional, political and social framework of the EU”.⁶⁰ The report also affirmed that the Scottish Government would not seek to be part of the Eurozone or Schengen area, but would look to remain part of the Common Travel Area with the rest of the United Kingdom.⁶¹

However, the UK Government questioned whether Scotland would be able to negotiate EU membership under these terms: “all new EU Member States have been required to commit to joining both the euro and the Schengen area. The Scottish Government's stated intention to retain the pound and join the Common Travel Area is at odds with the EU's rules for new members, and is not in the Scottish Government's gift. Some Member States may be unwilling to grant special opt-outs to Scotland on measures which they have had to adopt themselves”.⁶² This point was re-emphasised in the UK Government's analysis paper on borders and

⁵⁵ HM Government, [Scotland Analysis: Devolution and the Implications of Scottish Independence](#), 12 February 2013, Cm 8554, p 8.

⁵⁶ *ibid*, p 34.

⁵⁷ *ibid*, p 8.

⁵⁸ BBC News, [Scottish Independence: Scotland 'Committed' to EU, Says Salmond](#), 29 April 2014.

⁵⁹ Scottish Government, [Scotland's Future: Your Guide to an Independent Scotland—Summary](#), 26 November 2013.

⁶⁰ *ibid*.

⁶¹ *ibid*.

⁶² HM Government, [Scotland Analysis: EU and International Issues](#), 17 January 2014, Cm 8765.

citizenship, which highlighted the incompatibility of Schengen Area and Common Travel Area membership.⁶³ Therefore, the UK Government stated that a Schengen opt-out would have to be negotiated if Scotland wished to be part of the Common Travel Area. In addition, on 19 May 2014, the European Commissioner for Enlargement, Stefan Füle, confirmed that an independent Scotland (as a new member state) may have to comply with the standard VAT rate of at least 15 percent.⁶⁴ This could see VAT being added to an increased number of goods in the country, as a 5 percent rate would only be able to be applied to a specifically limited list. The UK has a long-standing opt-out to this rate on goods such as children’s clothing and books.

The subject of EU membership has also been raised by a number of other senior European officials. For example, in December 2012, José Manuel Barroso, President of the European Commission, stated that if part of a member state became an independent state in its own right, it would have to apply for membership of the European Union and negotiate its terms of membership with the other states.⁶⁵ He also stated that such a move would see the country regarded as a “new state”, and it would therefore be conducting those negotiations from a position outside that of EU membership. More recently, in an interview with the BBC, Mr Barroso stated that he believed Scotland would find it “extremely difficult” to negotiate accession to the EU.⁶⁶ In doing so, he cited the difficulties experienced by Kosovo. In addition, with reference to the situation of Catalonia potentially seeking its independence from Spain, Herman van Rompuy, President of the European Council, stated that newly independent states would no longer be parties to EU treaties.⁶⁷ However, the application of this view to the case of Scotland’s independence was not accepted by the Scottish Government.⁶⁸

Despite these comments, on 28 April 2014, Alex Salmond reiterated the Scottish Government’s commitment to European Union membership.⁶⁹ Speaking to the College of Europe in Bruges, Mr Salmond stated that an “independent Scotland would be an enthusiastic, engaged and committed contributor to European progress”.⁷⁰ He accepted the need for negotiations with the EU, and—citing comments made by Professor James Crawford—stressed that such negotiations could be completed within 18 months of independence. He described this as a realistic timetable as Scotland would be seeking membership upon the basis of “continuity of effect”. He stated:

So there need be no reopening of the EU budget agreed last year to 2020. Scotland would take responsibility for its share of UK contributions and receipts—which means that we would still be a net contributor to the EU. We would remain within the Common Travel Area of the British Isles, as we are at present.

[...] We propose a practical, common sense approach to membership, which means that there is no detriment—none whatsoever—to any other member of the European Union as a result of Scotland’s continuing membership. And the alternative—the fishing fleets of 12 countries being denied any access to Scottish waters and as a consequence, their access to Norwegian waters, which is also dependent on Scottish access; 160,000

⁶³ HM Government, *Scotland Analysis: Borders and Citizenship*, January 2014, Cm 8726, p 60.

⁶⁴ BBC News, ‘[Scottish Independence: Tories Claim ‘Yes’ Vote Could Mean Higher VAT](#)’, 19 May 2014.

⁶⁵ BBC News, ‘[Scottish Independence: EC’s Barroso Says New States Need ‘Apply to Join EU](#)’, 10 December 2012.

⁶⁶ BBC News, ‘[Scottish Independence: Barroso Says Joining EU Would Be ‘Difficult](#)’, 16 February 2014.

⁶⁷ BBC News, ‘[Scottish Independence: Scots EU Independence Plan ‘Now Untenable](#)’, 13 December 2013.

⁶⁸ *ibid.*

⁶⁹ Scottish Government, speech by Alex Salmond on ‘[Scotland’s Place in Europe](#)’, 28 April 2014.

⁷⁰ *ibid.*

EU workers and students, and of course voters, in Scotland suddenly uncertain about their status; five and a quarter million people ceasing to be EU citizens against their will—this alternative, as Sir David Edward points out, is clearly absurd. But it is more than absurd. There is simply no legal basis in the EU treaties for any such proposition. And it is against the founding principles of the European Union.⁷¹

Alex Salmond also referred to the potential for there being a referendum on European Union membership within the United Kingdom. He believed that “in these circumstances, people in Scotland would almost certainly vote to stay in the EU—but the result for the UK as a whole is much more doubtful”.⁷² Therefore, taking Scotland’s population share into account, Mr Salmond expressed his concern that, if Scotland remains part of the United Kingdom, they “could be dragged out of the European Union against [their] will”.⁷³

The Scottish Government’s views on EU membership after independence have been questioned by the House of Commons Scottish Affairs Select Committee.⁷⁴ The Committee asserted that it was “misleading for the Scottish Government to claim that on 24 March 2016 Scotland could be both a separate state and a member state of the European Union. There are a number of clear risks to the Scottish Government’s strategy to gain membership of the EU, all of which are overlooked in the white paper, and which make the 18-month timetable unbelievable”.⁷⁵ The Committee also raised a number of concerns for Scotland regarding the potential conditions of membership, including:⁷⁶

- Requirements for Scotland to join the Euro at a future date.
- Commitments to comply with the EU target for national debt reduction (ie reducing debt to 60 percent of GDP).
- Opposition to Scotland wishing to opt-out of Schengen Area membership and EU measures relating to justice and home affairs.
- European Union VAT requirements.

Turning to contributions to, and receipts from, the European Union budget, the Committee estimated that Scottish independence “under the best-case scenario, would leave Scottish households at least £843 worse off. Under the worst-case scenario, that of a separate Scotland seeing its Common Agricultural Policy receipts phased in over ten years (as has been the case with the 13 most recent Member States), then Scottish households would be £1,343 worse off than if they remained part of the UK”.⁷⁷ This would largely be due to increased contributions needing to be made by the country to the EU budget, and the loss of its share of the UK’s rebate.⁷⁸

⁷¹ *ibid.*

⁷² *ibid.*

⁷³ *ibid.*

⁷⁴ House of Commons Scottish Affairs Select Committee, [The Referendum on Separation for Scotland: Scotland’s Membership of the EU](#), 27 May 2014, HC 1241 of Session 2013–14.

⁷⁵ *ibid.*, p 5.

⁷⁶ *ibid.*, pp 6–7.

⁷⁷ *ibid.*, p 8.

⁷⁸ *ibid.*, pp 30–1.

The issue of Scottish membership of international organisations has also been considered in a briefing paper funded by the Economic and Social Research Council.⁷⁹ The paper concluded that, although recognition of a newly independent Scotland as a new state in its own right should not present many issues (and would probably include a fairly seamless transition to most international organisations), membership of the European Union may prove a more complicated process. The author reasoned that “a number of political factors could come into play, not least the attitudes of other member states, including those which would not like to encourage sub-state nationalists within their own states with the idea that rapid entry to the EU is a realistic possibility. Certain important issues remain unclear. There seems no doubt that an independent Scotland would be a welcome member of the EU, but we cannot be certain as to how and on what terms such membership will be effected”.⁸⁰

More detailed discussion of Scotland’s potential membership of the European Union in the case of independence can be found in the Scottish Government’s paper, [Scotland in the European Union](#)⁸¹ and the report of the UK Government, [Scotland Analysis: EU and International Issues](#).⁸²

2.4 Effect on the House of Commons and House of Lords

In its white paper, the Scottish Government stated that: “with independence, Scotland will no longer send MPs to Westminster. Arrangements for the House of Lords will be for the rest of the UK to decide but the House of Lords will no longer be involved in legislating for Scotland”.⁸³

House of Commons

Out of the 650 Members of Parliament in the House of Commons, 59 MPs hold a seat in a Scottish constituency.⁸⁴ With the Scottish population estimated at around 5.3 million during mid-2012, this translates to around 90,000 people per MP (worked out as a share of the population).⁸⁵ The following table shows how this compares to the rest of the United Kingdom:

Table 1: Number of MPs in Devolved Regions as a Proportion of Regional Population

	Population (000s)	Population as a Percentage of the UK	Number of MPs	MPs as a Percentage of the Whole House	Population Share of Each MP (000s)
England	53,500	84 percent	533	82 percent	100.4
Scotland	5,300	8.3 percent	59	9.1 percent	89.8
Wales	3,100	4.8 percent	40	6.1 percent	77.5
Northern Ireland	1,800	2.9 percent	18	2.8 percent	100.0

The table indicates that Scotland has the second lowest number of people per MP (as a share of the population) and a higher percentage of MPs in the House of Commons compared to its

⁷⁹ Stephen Tierney, [Accession of an Independent Scotland to the European Union: A View of the Legal Issues](#), 2 December 2013.

⁸⁰ *ibid*, p 8.

⁸¹ 27 November 2013.

⁸² 17 January 2014, Cm 8765.

⁸³ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Q&A](#), 26 November 2013.

⁸⁴ UK Parliament, ‘[List of MPs](#)’, accessed 22 January 2014.

⁸⁵ Office for National Statistics, [Annual Mid-year Population Estimates, 2011 and 2012](#), 8 August 2013, p 7.

population share of the United Kingdom. Wales has the lowest number of people per MP with 77,500, and England has the highest number of people per MP with 100,400. England and Northern Ireland both have lower percentage shares of MPs than their population share of the United Kingdom.

Published in July 2013, an article by Democratic Audit considered the regional background of MPs in the House of Commons. Their findings indicated that Scotland received disproportionately high levels of representation:⁸⁶

Both Labour and Conservatives have more Scottish MPs than they have seats in Scotland. There are 85 MPs who we can plausibly consider Scottish: this includes 64 who were born in Scotland, a further seven who finished secondary school in Scotland but were born elsewhere, and a further 14 who finished secondary school in Scotland but for whom birthplace data is not available.

Of these 85 Scottish MPs, 52 represent parliamentary constituencies in Scotland. This leaves a group of 33 'migrant Scots' who represent seats elsewhere in the UK.

Democratic Audit also calculated that the representation of Scottish MPs was similar across the political parties, ie the percentage of Scottish MPs in the House of Commons grouped by political affiliation largely reflected each party's overall share of MPs.

The next table shows MPs in Scotland by their political party affiliation, alongside the overall party share in the House of Commons (covering all of the United Kingdom constituencies):⁸⁷

Table 2: MPs in Scottish Constituencies by Political Affiliation

Party	Seats Held in Scottish Constituencies	Total Seats Across UK
Conservative	1	303
Labour	40 (includes 5 Labour Co-ops)	256
Liberal Democrat	11	56
Democratic Unionist		8
Scottish Nationalist	6	6
Independent	1	5
Sinn Fein		5
Plaid Cymru		3
Social Democratic & Labour Party		3
Alliance		1
Green		1
Respect		1
Speaker		1
Vacant		1
Total number of seats		650
Current working government majority		76

⁸⁶ Democratic Audit, '[MPs Are Much Less Local Than They Would Have Us Believe](#)', 16 July 2013.

⁸⁷ UK Parliament, '[State of the Parties](#)', accessed 22 January 2014.

Some commentators have raised questions about the possible implications of Scottish independence on the political party share in the House of Commons. For example, in an article for the *Times*, David Aaronovitch wrote of the potential impact that Scottish independence could have on the Labour Party.⁸⁸ However, others have looked to downplay these concerns, with Vernon Bogdanor believing Labour would simply adapt its message to suit English voters more and John Curtice disputing the view that it could equate to “one party rule”.⁸⁹

The subject was raised in a blog by Brian Walker on the UCL Constitution Unit website, which discussed the issue in the context of a transitional period between Scotland voting for independence (18 September 2014) and the proposed date of independence (24 March 2016).⁹⁰ He debated the potential impact it could have on the projected 2015 UK parliamentary election (including the effect it could have on Labour’s share of the votes or any successful Labour Government), but also questioned the level of involvement in the parliamentary process that could be expected from MPs representing Scottish constituencies.

The potential impact upon the House of Commons was also considered by the House of Lords Select Committee on the Constitution.⁹¹ The Committee suggested that, in the case of independence, retention of Scottish MPs (even if only for a limited period of time) may prove too controversial. This would be due to Scottish MPs having the power (in theory) to participate in parliamentary business only affecting the rest of the United Kingdom. As such, the Committee reasoned that:

In the event of Scotland becoming independent, once the UK Parliament ceased to have jurisdiction over Scotland there would be no grounds for retaining MPs representing Scottish constituencies. The only question would be when Scottish MPs should leave the House of Commons.

Removing the 59 Scottish MPs may affect the balance of power in the House of Commons, potentially forcing a change of government. Since 1945, there have been two elections in which the largest party in the Commons would have been different were Scottish MPs excluded: 1964 and February 1974. There were two more elections in which Scottish MPs made the difference between a minority and a majority administration: October 1974 and 2010. A majority administration elected in May 2015 could lose their majority upon the departure of Scottish MPs. Alternatively, the largest party in May 2015 may have a minority of seats, but stand to gain a majority through the departure of Scottish MPs. Both situations would be foreseeable after the election in 2015.⁹²

In light of this, and further complications that might be caused by holding an early election (upon the Scottish MPs leaving in 2016) or by postponing the 2015 election, the Committee urged the UK Government to pass legislation as soon as possible after a ‘Yes’ vote clearly identifying how and when Scottish MPs would be removed.⁹³

⁸⁸ *Times*, [‘Britain Faces Chaos if Scots Leave the UK’](#), 24 October 2013.

⁸⁹ BBC News, [‘Scottish Independence: What Would it Mean for the Rest of the UK?’](#), 25 November 2013.

⁹⁰ Constitution Unit blog, [‘What Will Become of the May 2015 UK Parliament if Scotland Votes “Yes” on Independence?’](#), 23 March 2013.

⁹¹ House of Lords Select Committee on the Constitution, [Scottish Independence: Constitutional Implications of the Referendum](#), 16 May 2014, HL Paper 188 of Session 2013–14, pp 16–18.

⁹² *ibid*, p 17.

⁹³ *ibid*, p 18.

House of Lords

As at 10 February 2014, there were 62 Members of the House of Lords that had their main residence listed as being in Scotland.⁹⁴ There were also around 60 Peers with a title connected to a location in Scotland, and a number of Peers with former or current connections with the region due to certain offices held (eg local councillors and former MSPs). These numbers included life Peers and hereditary Peers. The House of Lords *Companion to the Standing Orders* states:

By the Act of Settlement 1701 “no person born out of the Kingdoms of England, Scotland or Ireland, or the Dominions thereunto belonging [...] (except such as are born of English parents)” may be a Member of the House of Lords. By virtue of a modification contained in the British Nationality Act 1981, this provision does not apply to Commonwealth citizens or citizens of the Republic of Ireland. Under the 1981 Act, “Commonwealth citizen” means a British citizen, a British Overseas Territories citizen, a British subject under that Act, or a citizen of an independent Commonwealth country.⁹⁵

Therefore, in the absence of any changes to the legislation, it would appear that Peers born in Scotland would still be considered Members of the House of Lords. It also suggests that, if Scotland remained part of the Commonwealth, Scottish citizens could still be granted peerages.

With regard to those hereditary Peers who held a peerage of Scotland, section 4 of the Peerage Act 1963 states that “the holder of a peerage in the peerage of Scotland shall have the same right to receive writs of summons to attend the House of Lords, and to sit and vote in that House, as the holder of a peerage in the peerage of the United Kingdom; and the enactments relating to the election of Scottish representative Peers shall cease to have effect”. This would imply that, barring any change to existing legislation, “excepted” hereditary Peers would continue to be able to sit in the House of Lords. However, as noted by Lord Wallace of Tankerness, the Advocate-General for Scotland, on 28 November 2013,⁹⁶ this would also be contingent upon these Members complying with the House’s requirements in relation to tax domiciliation status.⁹⁷

2.5 Scotland’s Interim Constitution

On 16 June 2014, the Scottish Government published a draft Scottish Independence Bill, together with a consultation on the interim constitution for Scotland.⁹⁸ This included proposed revisions to the Scotland Act 1998. The Scottish Government stated that the draft Bill was a temporary measure, which—alongside a “renewed” Scotland Act—would act as a “staging post on the way to the permanent written constitution which would be prepared following independence”.⁹⁹

⁹⁴ House of Lords Library, [Regional Representation in the House of Lords](#), 10 February 2014, LLN 2014/005.

⁹⁵ House of Lords, [Companion to the Standing Orders and Guide to the Proceedings of the House of Lords](#), 2013, p 15.

⁹⁶ HL *Hansard*, 28 Nov 2013, [cols 1512–13](#).

⁹⁷ See further House of Lords, [Companion to the Standing Orders and Guide to the Proceedings of the House of Lords](#), 2013, p 24.

⁹⁸ Scottish Government, [The Scottish Independence Bill: A Consultation on an Interim Constitution for Scotland](#), June 2014.

⁹⁹ *ibid*, p 60.

Section 2 of the draft Bill stated that “in Scotland, the people are sovereign”.¹⁰⁰ Section 3 then set out four components to this concept of sovereignty, namely:

- In Scotland, the people have the sovereign right to self-determination and to choose freely the form in which their State is to be constituted and how they are to be governed.
- All State power and authority accordingly derives from, and is subject to, the sovereign will of the people, and those exercising State power and authority are accountable for it to the people.
- The sovereign will of the people is expressed in the constitution and, in accordance with the constitution and laws made under it, through the people’s elected representatives, at referendums and by other means provided by law.
- The sovereign will of the people is limited only by the constitution and by the obligations flowing from international agreements to which Scotland is or becomes a party on the people’s behalf, in accordance with the constitution and international law.¹⁰¹

The Scottish Government asserted that the principle was a historical one in Scotland, reflecting the constitutional tradition that Monarchs and Parliaments are the servants of the people.¹⁰² The Explanatory Notes to the draft Bill distinguished this principle from the concept of sovereignty in the United Kingdom, stating that, in the UK, sovereignty lies with the Crown and with Parliament, and that in Scotland it would be based on popular sovereignty and self-determination.¹⁰³ Regarding the latter point, the Explanatory Notes stated that “the referendum, and becoming an independent country, would be an act of self-determination by the people of Scotland. However self-determination is permanent and that principle would continue to be respected following independence by the on-going democratic nature of government in Scotland”.¹⁰⁴ The draft Bill also explicitly stated that the Scottish Parliament, and through it the Scottish Government, would be held directly accountable to the Scottish people.¹⁰⁵

Other proposals contained in the draft Bill to form part of Scotland’s “interim constitution”, included:¹⁰⁶

- The Scottish territory upon independence would include those islands and territories forming the Scottish territory immediately before Independence Day (intended as 24 March 2016).
- Scotland would be an independent, constitutional monarchy (with the Queen (or her successor(s)) as Head of State) and would be governed as a parliamentary democracy.

¹⁰⁰ *ibid*, p 11.

¹⁰¹ *ibid*, pp 11–12.

¹⁰² *ibid*, p 27.

¹⁰³ *ibid*, pp 27–8.

¹⁰⁴ *ibid*, p 28.

¹⁰⁵ *ibid*, p 13.

¹⁰⁶ *ibid*, pp 11–19.

- Scotland would retain the national flag, and may choose whether it would be represented by a new national anthem.
- An outline of Scottish citizenship rules (which include provision for dual citizenship).
- The Supreme Court in Scotland would be comprised of (together) the Court of Session and the High Court of Justiciary—these are currently the final courts of appeal in Scotland.
- Continuation of the Rule of Law and the incorporation and/or continuation of all domestic or international laws that applied to Scotland prior to the date of independence.
- A stated commitment to nuclear disarmament, children’s wellbeing, the environment, natural resources, equality and the European Convention on Human Rights.
- The Scottish Parliament, following independence, to pass legislation establishing an independent Constitutional Convention to draw up a written constitution for Scotland, which must be agreed by (or on behalf of) the people of Scotland.

The draft Bill would also repeal the Act of Union.¹⁰⁷

The Scottish Government intend the draft Bill to be considered and debated in advance of the referendum.¹⁰⁸ In the event of a ‘Yes’ vote, the Bill would then be introduced in the Scottish Parliament, and would go through the normal stages of parliamentary debate and scrutiny. The Bill would be enacted prior to independence, with some provisions coming into force before Independence Day, and others coming into force on the day itself.

The consultation document also proposed a number of changes to the Scotland Act 1998.¹⁰⁹ Many of these have simply been proposed to remove references to the involvement of the UK Government and the Westminster Parliament. For example, schedule 5 of the Act, which contains the list of matters reserved for the Westminster Parliament, would be entirely repealed.¹¹⁰ However, the consultation also proposed to strengthen some of the provisions of the Human Rights Act 1998, by incorporating these into the Scotland Act:

Relevant provisions from the Human Rights Act 1998 will be included in the renewed Scotland Act so as to provide a single, more accessible regime for the application and enforcement of human rights in an independent Scotland.

This integration of the Human Rights Act into the renewed Scotland Act will end the current two-tier system depending on whether the legislation that is being assessed for human rights compliance is devolved or reserved. At present the Human Rights Act is subject to the perceived need to recognise the sovereignty of the Westminster Parliament. This means that a court, finding a breach of ECHR in primary legislation, makes a ‘declaration of incompatibility’ which Westminster may, or may not, decide to act upon by adjusting that legislation. However under the Scotland Act, if a court comes

¹⁰⁷ *ibid*, p 19.

¹⁰⁸ *ibid*, p 1.

¹⁰⁹ *ibid*, pp 50–7.

¹¹⁰ *ibid*, p 50.

to a similar conclusion about legislation enacted by the Scottish Parliament, it declares it to have been ‘not law’ from the point at which it was made, with the consequence that the Scottish Government and Scottish Parliament must then decide how to respond. In short the Scotland Act’s human rights ‘bite’ is sharper than that of the Human Rights Act.¹¹¹

Many of the other aspects of the Scotland Act (such as those relating to the composition of the Scottish Government and the Scottish Parliament) would be retained.

The final section of the consultation document set out some of the Scottish Government’s proposals for the permanent constitution to be drafted following independence.¹¹² Reiterating that the Scottish Independence Bill and amendments to the Scotland Act would only be a temporary constitutional measure, the document stated that: “the Constitutional Convention would give the people of Scotland the historic opportunity to create a truly home-grown, free-standing constitution for their State. That permanent constitution would replace the Scottish Independence Bill and renewed Scotland Act”.¹¹³ The Scottish Government envisaged that this would include: a prohibition on nuclear weapons being based in Scotland; military operations to be undertaken only following Scottish Government and Scottish Parliament approval, and only in accordance with the United Nations Charter; and additional rights to be enshrined within the constitution, such as the rights to education or healthcare.¹¹⁴

3. Economic Impact

3.1 Macroeconomics and Public Finances

3.1.1 Recent Figures in Relation to the Scottish Economy

GDP

According to recent figures published by the Scottish Government and the Office for National Statistics, Scotland’s GDP grew by 0.2 percent in the fourth quarter of 2013, an increase of 1.7 percent on the previous year.¹¹⁵ In comparison, GDP increased by 0.7 percent in the United Kingdom (as a whole) in the fourth quarter of 2013, and the annual increase was 2.7 percent.¹¹⁶

GDP Projections for an Independent Scotland

The Scottish Government have claimed that, if Scotland is assigned a geographic share of North Sea oil output, their GDP per capita (\$39,642) would be the 14th highest of all OECD countries (based on 2012 estimates).¹¹⁷ The United Kingdom would then be ranked in 18th place (\$35,671). This would be due to the relatively high value of the North Sea oil revenues, aligned with the smaller population of Scotland.

¹¹¹ *ibid*, p 56.

¹¹² *ibid*, pp 64–7.

¹¹³ *ibid*, p 64.

¹¹⁴ *ibid*, pp 65–6.

¹¹⁵ Scottish Government and the Office for National Statistics, [Gross Domestic Product](#), 16 April 2014, p 1.

¹¹⁶ *ibid*, p 4.

¹¹⁷ Scottish Government, [Scotland’s International GDP Per Capita Ranking](#), March 2014, p 1.

HM Treasury also projected GDP per capita to be higher in Scotland than the rest of the UK at the point of independence, valuing the difference at around 10 percent.¹¹⁸ Again, this was based on Scotland being allocated a geographical share of offshore output. However, HM Treasury believed that the levels would then converge over the next few years, due to reductions in the revenues provided by North Sea oil.

The Scottish Government's GDP estimates have also been critically analysed in a report by John McLaren and Jo Armstrong, honorary professors at the Adam Smith Business School.¹¹⁹ The authors found that the GDP figures did not accurately represent living standards in the country, due to the amount of foreign ownership prevalent in the whisky and North Sea oil industries, and that Gross National Income (GNI) would be a better measure. This provided a lower figure, moving Scotland down six places in the report (to below the UK). The authors also stated that the importance of oil revenues resulted in "erratic" GDP figures for the country.

Employment Figures

For the period January to March 2014, Scotland had the fourth highest employment rate (out of eleven) of all the UK regions, excluding Northern Ireland.¹²⁰ Standing at 73.5 percent, this was also higher than the overall UK rate of 72.7 percent. The highest level of employment within the UK was found in the East of England (76.3 percent), and the lowest employment rate was in the North East (69.2 percent).

The unemployment rate in Scotland (ie those actively seeking work but not working) during the same period was 6.4 percent. This rate was lower than that of the UK as a whole (6.8 percent), was the fourth lowest in the UK (excluding Northern Ireland), and represented the second largest drop in unemployment of any UK region (excluding Northern Ireland). The lowest unemployment rate was in the South West (4.9 percent). However, Scotland's Jobseeker's Allowance claimant count rate was 3.7 percent, which was higher than that for the UK as a whole (3.3 percent).¹²¹

Public Finances

A number of figures relating to Scotland's public finances are published in the Scottish Government and Office for National Statistics publication, *Government Expenditure and Revenue Scotland 2012–13*.¹²² Much of the analysis in the paper varies depending on how North Sea revenues are allocated (see section 3.1.2).

The following four tables contain figures on Scotland's finances, compared to the United Kingdom, over the last five fiscal years:¹²³

¹¹⁸ HM Treasury, *Scotland Analysis: Fiscal Policy and Sustainability*, 28 May 2014, Cm 8854, p 68.

¹¹⁹ *Guardian*, 'Scotland's Standard of Living: Full Report', 29 May 2014.

¹²⁰ Office for National Statistics, *Regional Labour Market Statistics*, May 2014, p 4.

¹²¹ *ibid*, p 7.

¹²² Scottish Government and Office for National Statistics, *Government Expenditure and Revenue Scotland 2012–13*, March 2014.

¹²³ *ibid*, pp 4–5.

Table 3: Scottish Public Sector Revenue

Total Current Revenue: Scotland 2008–09 to 2012–13					
	(£ Million)				
	2008–09	2009–10	2010–11	2011–12	2012–13
Excluding North Sea revenue	43,772	42,054	44,318	46,315	47,566
Including North Sea revenue (per capita share)	44,820	42,557	45,023	47,264	48,118
Including North Sea revenue (geographical share)	53,349	47,733	51,773	56,315	53,147
	(Percentage of Total UK Revenue)				
Excluding North Sea revenue	8.4	8.2	8.1	8.2	8.2
Including North Sea revenue (per capita share)	8.4	8.2	8.1	8.2	8.2
Including North Sea revenue (geographical share)	10.3	9.2	9.3	9.8	9.1

Table 4: Public Sector Expenditure for Scotland¹²⁴

Public Sector Total Managed Expenditure: Scotland 2008–09 to 2012–13					
	2008–09	2009–10	2010–11	2011–12	2012–13
Total Public Expenditure for Scotland (£ millions)	59,440	62,087	64,095	64,869	65,205
Total Public Expenditure for Scotland (percentage of UK Total)	9.4	9.2	9.2	9.3	9.3

Table 5: Current Budget Balance (Excludes Capital Expenditure)

Current Budget Balance: Scotland and UK 2008–09 to 2012–13					
	(£ million)				
	2008–09	2009–10	2010–11	2011–12	2012–13
Scotland—Excluding North Sea revenue	-10,695	-15,235	-15,753	-14,632	-14,180
Scotland—Including North Sea revenue (per capita share)	-9,647	-14,732	-15,049	-13,684	-13,628
Scotland—Including North Sea revenue (geographical share)	883	-9,556	-8,299	-4,632	-8,599
UK	-50,808	-108,900	-100,546	-88,663	-91,930
	(percentage of GDP)				
Scotland—Excluding North Sea revenue	-9.0	-13.1	-12.9	-11.6	-11.2
Scotland—Including North Sea revenue (per capita share)	-8.0	-12.5	-12.1	-10.7	-10.6
Scotland—Including North Sea revenue (geographical share)	0.6	-7.1	-5.7	-3.1	-5.9
UK	-3.5	-7.6	-6.7	-5.7	-5.8

¹²⁴ Composed of identifiable and non-identifiable public spending, including a per capita share of UK debt interest payments.

Table 6: Net Fiscal Balance (Includes Capital Investment)

Net Fiscal Balance: Scotland and UK 2008–09 to 2012–13					
	(£ million)				
	2008–09	2009–10	2010–11	2011–12	2012–13
Scotland—Excluding North Sea revenue	-15,668	-20,033	-19,777	-18,553	-17,639
Scotland—Including North Sea revenue (per capita share)	-14,620	-19,530	-19,072	-17,605	-17,087
Scotland—Including North Sea revenue (geographical share)	-4,091	-14,354	-12,322	-8,554	-12,058
UK	-99,355	-157,293	-139,199	-117,382	-114,756
	(percentage of GDP)				
Scotland—Excluding North Sea revenue	-13.2	-17.2	-16.1	-14.7	-14.0
Scotland—Including North Sea revenue (per capita share)	-12.1	-16.5	-15.3	-13.7	-13.3
Scotland—Including North Sea revenue (geographical share)	-2.9	-10.7	-8.5	-5.8	-8.3
UK	-6.9	-11.0	-9.3	-7.6	-7.3

Based on these figures, the House of Commons Library produced estimates that public spending per head was £12,265 in 2012–13 for Scotland, and was £10,998 for the United Kingdom as a whole.¹²⁵ Revenue per head estimates are shown in the following table:¹²⁶

Table 7: Public Revenues in Scotland and the United Kingdom

Scottish Revenue, 2012/13				
	Total £ billion	Share of UK total percentage	Per head £	UK revenue per head £
Excluding North Sea revenue	47.6	8.2	8,952	9,109
Including per capita share of NS revenue	48.1	8.2	9,056	9,213
Including geographic share of NS revenue	53.1	9.1	10,002	9,213

The *Government Expenditure and Revenue Scotland 2012–13* report provided some possible reasons for the higher levels of public spending per head in Scotland.¹²⁷ These included:

- The effect of a lower population density on the provision of public services.
- The larger public sector in Scotland (for example, the water industry is publicly funded).
- That Scotland currently has a greater need for certain public services, such as health and housing provision.

¹²⁵ House of Commons Library, [Economic Aspects of Scottish Independence: Public Spending and Revenue](#), 11 April 2014, SN/EP/6625, p 6.

¹²⁶ *ibid*, p 10.

¹²⁷ Scottish Government and Office for National Statistics, [Government Expenditure and Revenue Scotland 2012–13](#), March 2014, p 51.

Further statistics on the Scottish economy, and comparisons with the United Kingdom economy, can be found in the following resources:

- UK Statistics Authority, [Monitoring Report: Official Statistics in the Context of the Referendum on Scottish Independence](#), September 2013.
- Scottish Government, '[Key Economic Statistics](#)'.

3.1.2 The Allocation and Value of North Sea Revenues

Publishing a report on the potential economic implications of Scottish independence in April 2013, the House of Lords Economic Affairs Committee described North Sea revenues as the “economic bridge over which Scotland would pass to independence”, and expected them to make up for the loss of finances allocated by HM Treasury under the Barnett Formula.¹²⁸ This was based on the assumption that Scotland would receive a “geographical share” of North Sea revenues (around 90 percent of oil revenues). However, this would be open to negotiation between the two governments, and other options for apportionment are also possible. For example, Scotland could instead receive a “population share” of oil revenues (8.3 percent), or no share.¹²⁹

For 2013–14, HMRC have published figures estimating oil and gas revenues of £4.7 billion.¹³⁰ This is down from £6.1 billion the previous fiscal year, and down from £10.9 billion in 2011–12. The revenue figures in this report are also lower than those used during the publication of the Scottish Government’s *Government Expenditure and Revenue Scotland 2012–13*¹³¹ report (see section 3.1.1 above), both in terms of the figures for 2012–13 (which have been revised down) and for the new financial year.

The following table estimates the oil and gas revenues that could have been received by Scotland over the last three years under the “geographical” (90 percent) and “population” (8.3 percent) share options:

Table 8: Scotland’s ‘Share’ of Oil and Gas Revenues since 2011–12

	Geographical Share of Revenue (£ billion)	Population Share of Revenue (£ billion)
2011–12	9.8	0.9
2012–13	5.5	0.5
2013–14	4.2	0.4

The table shows a large difference in the possible revenues available to Scotland in the case of a geographical share being negotiated, rather than a population share. In 2011–12, this difference was worth £8.9 billion. In 2013–14, it was worth £3.8 billion. The table also demonstrates the

¹²⁸ House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence](#), 10 April 2013, HL Paper 152 of session 2012–13, p 14.

¹²⁹ House of Commons Library, [Economic Aspects of Scottish Independence: Public Spending and Revenue](#), 11 April 2014, SN/EP/6625, p 11.

¹³⁰ HM Revenue and Customs, [Statistics of Government Revenues from UK Oil and Gas Production](#), p 6.

¹³¹ Scottish Government and Office for National Statistics, [Government Expenditure and Revenue Scotland 2012–13](#), March 2014, p 51.

volatility of oil revenues, which would have been worth £5.6 billion less for Scotland (on a geographical basis) in 2013–14 than in 2011–12, and the current downward trend in revenues.

Indeed, such concerns were raised by the House of Lords Select Committee on Economic Affairs, which discussed:

- The possible impact of price instability in the oil market on Scotland’s economy and revenues.
- The length of time the resource could be relied upon.
- The potential additional costs that may be accrued by Scotland through the maintenance of the resource.

As such, the report noted that it would be a less predictable source of revenue than that provided by HM Treasury.¹³² In addition, in March 2014, the Office for Budget Responsibility predicted that the value of oil and gas revenues could drop even further over the next five years.¹³³

3.1.3 Economic Projections Published by the Scottish and UK Governments

The effect that independence would have on the future economies of Scotland and the rest of the United Kingdom is far from certain. This was evidenced recently by the contrasting conclusions published by HM Treasury¹³⁴ and by the Scottish Government¹³⁵ (both published on 28 May 2014) when analysing the potential overall effect upon the Scottish economy.

In its report, HM Treasury asserted that “the United Kingdom is one of the most successful fiscal, monetary and political unions in history. It is a union that has brought benefits to all parts of the UK. The UK’s fiscal union enables all nations and regions of the UK to pool financial resources, benefit from shared public spending, manage financial risks and borrow as a single and credible participant in international financial markets”.¹³⁶ HM Treasury valued the annual benefits to Scotland of remaining in the union to be worth £1,400 per person from 2016–17 onwards (‘the UK Dividend’). This estimate was based on factors such as the direct costs of independence, lower onshore tax revenues and higher public spending:

The majority of the dividend comes from higher public spending in Scotland and lower onshore tax revenues at present and by 2016–17, that are not covered by higher oil revenues. Over the following 20 years, remaining part of the UK would insure people in Scotland against the fiscal costs of an ageing population and declining oil revenues. The UK Dividend also includes people in Scotland avoiding the direct costs that would come with independence. These include the costs of higher interest rates for an independent Scottish state to borrow, the net costs of setting up new institutions, and the net costs

¹³² House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence](#), 10 April 2013, HL Paper 152 of session 2012–13, pp 14–15.

¹³³ Office for Budget Responsibility, [Economic and Fiscal Outlook](#), March 2014, Cm 8820.

¹³⁴ HM Treasury, [Scotland Analysis: Fiscal Policy and Sustainability](#), 28 May 2014, Cm 8854.

¹³⁵ Scottish Government, [Outlook for Scotland’s Public Finances and the Opportunities of Independence](#), 28 May 2014.

¹³⁶ HM Treasury, [Scotland Analysis: Fiscal Policy and Sustainability](#), 28 May 2014, Cm 8854, p 5.

of funding the Scottish Government’s white paper policies (including the potential economic benefits).¹³⁷

HM Treasury stated that the £1,400 estimate was based on a “favourable view” of the potential fiscal consequences, and suggested that a higher figure could be possible.¹³⁸ This could be caused by issues such as slower productivity growth, lower oil revenues or higher premiums on government borrowing. Based on this analysis, HM Treasury reasoned that an independent Scotland would either need to reduce public spending by 11 percent, or would need to increase onshore tax revenues by 13 percent.¹³⁹ Addressing the latter proposal, the report estimated that this would be equivalent to “setting a 28 percent basic rate of income tax, a 26 percent standard rate of VAT, and increasing the main duties (on alcohol, tobacco, fuel and vehicles) by almost 40 percent”.¹⁴⁰

However, the analysis published by the Scottish Government provided a more positive picture of independence.¹⁴¹ Working on the assumption of a geographical share of oil and gas receipts, and the current geographical estimates of GDP, the report stated that:

Over the period 2008–09 to 2012–13 as a whole, Scotland’s estimated net fiscal deficit, the difference between total public spending and total tax receipts, has averaged £10.3 billion a year, equivalent to 7.2 percent of GDP. This is proportionately smaller than the UK’s fiscal deficit which averaged £125.6 billion or 8.4 percent of GDP over the same period. In cash terms, Scotland’s relatively stronger fiscal position compared to the UK over this period is estimated to have been worth £8.3 billion, equivalent to £1,600 per person in Scotland.¹⁴²

Moving to forecasts of the future of Scotland’s economy, the report highlighted the importance of how debt is apportioned between the two countries as a significant contributory factor. The Scottish Government identified three potential scenarios for the apportionment of debt:¹⁴³

- Per capita share of UK debt (ie a share of around 8.3 percent based on recent population figures)—the Scottish Government described this as “the upper bound on the share of UK debt that Scotland could inherit”.¹⁴⁴
- Historic share of UK debt (based on Scotland’s contributions to UK public sector finances since 1980–1 and negotiations around UK public sector assets and liabilities).
- Zero share of UK debt.

Discussing the most likely possibilities for the apportionment of debt, the Scottish Government stated that:

Although the UK Government have confirmed legal title to all existing UK public sector debt, the Scottish Government has indicated that it envisages servicing a share of such

¹³⁷ *ibid*, p 8.

¹³⁸ *ibid*, p 9.

¹³⁹ *ibid*, p 10.

¹⁴⁰ *ibid*.

¹⁴¹ Scottish Government, [Outlook for Scotland’s Public Finances and the Opportunities of Independence](#), 28 May 2014.

¹⁴² *ibid*, p 6.

¹⁴³ *ibid*, p 7.

¹⁴⁴ *ibid*.

debt as part of a wider negotiation over the division of UK assets and liabilities. A zero debt scenario would therefore only be likely in the event that Scotland did not receive an equitable share of UK public sector assets.

The Scottish Government believes that a negotiated settlement for debt payments would ultimately lie within the bounds of a per capita and zero share range. This will not only reflect Scotland's historic contribution to the UK public finances, but also the likelihood that Scotland would be unlikely to want (or need) to take on a per capita share of certain existing UK assets (eg defence and non-Scottish physical assets).¹⁴⁵

However, HM Treasury's report worked on the assumption that Scotland would receive a population share of debt (which they estimated could be worth around 74 percent of Scottish GDP).¹⁴⁶

Regardless of which debt option was negotiated, the Scottish Government estimated that Scotland's current budget balance (the difference between public sector revenue and current expenditure) and Scotland's net fiscal balance (which includes capital expenditure) would both compare favourably to the UK's public finance figures in 2016–17.¹⁴⁷ Looking beyond 2016–7, the Scottish Government predicted further improvements in the country's finances, which would vary depending on the spending choices of future Scottish Governments. For example, in the case of a historic share of the UK's debt being taken on, the report predicted that Scotland's net fiscal deficit could fall to 2.2 percent or a 0.9 percent share of GDP in 2018–19, depending on whether the country pursued a 3 percent or 1 percent growth in non-debt interest current spending.¹⁴⁸

Based on these estimates, the Scottish Government were optimistic that independence would “provide Scotland with the tools to tailor economic policy in Scotland to maximise the country's strengths and address the specific challenges that it faces” (such as a changing demographic profile).¹⁴⁹ The report reasoned that policies aimed at increasing labour market participation and improving productivity rates could also lead to higher tax revenues for the country. It was estimated that, if these improvements were in line with other high-performing countries in the OECD, after 13 years this could lead to additional tax receipts of £5 billion a year.¹⁵⁰

David Eiser analysed the two reports in a blog piece written for the Economic and Social Research Council.¹⁵¹ He drew attention to the contrasting figures and predictions of the two governments. He suggested that many of the variations were linked to differing views on the apportionment of debt and North Sea revenues, and contrasting projections as to the worth of North Sea revenues over the next few years. As such, he argued that voters may dismiss the

¹⁴⁵ *ibid*, p 7.

¹⁴⁶ HM Treasury, [Scotland Analysis: Fiscal Policy and Sustainability](#), 28 May 2014, Cm 8854, p 9.

¹⁴⁷ Scottish Government, [Outlook for Scotland's Public Finances and the Opportunities of Independence](#), 28 May 2014, p 8.

¹⁴⁸ *ibid*, p 9.

¹⁴⁹ *ibid*, p 10.

¹⁵⁰ *ibid*, p 11.

¹⁵¹ David Eiser, [Financial Reflections: Overview of UK & Scottish Government Visions of Scotland's Future](#), Economic and Social Research Council Future of the UK and Scotland Blog, 29 May 2014.

reports as “propaganda”, or would simply use one or the other to “confirm their own pre-held views”. However, he still believed that both reports contained important messages:

The Treasury report confirms that Scotland will face long-term challenges in respect of population ageing and declining oil revenues, and that the fiscal policies proposed to date are unlikely in themselves to address those issues. But the Scottish Government report reminds us that independence does bring opportunities as well as threats. What we need now is more detail on the policies that might help realise these opportunities.

Further economic analysis, as published by the UK and Scottish Governments, is available from the following resources:

- Department of Work and Pensions, [Scotland Analysis: Work and Pensions](#), 24 April 2014, Cm 8849.
- HM Government, [Scotland Analysis: Macroeconomic and Fiscal Performance](#), 3 September 2013, Cm 8694.
- HM Government, [Scotland Analysis: Business and Microeconomic Framework](#), 2 July 2013, Cm 8616.
- HM Treasury, ‘[Treasury Analysis Shows £1.6 Billion Funding Gap in Scottish Independence White Paper](#)’, 18 December 2013.
- Scottish Government, [Scotland’s Economy: The Case for Independence](#), May 2013.
- Scottish Government, [Fiscal Commission Working Group: Macroeconomic Framework](#), 11 February 2013.
- Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter Three: Finance and the Economy](#), 26 November 2013.

3.1.4 Economic Projections by the House of Lords Economic Affairs Committee

The report by the House of Lords Select Committee on Economic Affairs provided further analysis of Scotland’s potential economic situation upon independence.¹⁵² Published in April 2013, the report considered the possible impact upon Scotland of taking on a share of UK debt. Working on the assumption that it would probably be shared on a population basis, the Committee stated that:

The most widely used measure of public sector debt is the Public Sector Net Debt (PSND) which was £1,104bn or 71.8 percent of UK GDP in the fiscal year ending in March 2012. Assuming that 8.4 percent of this debt is allocated to Scotland (so the share is £93bn) and North Sea oil is allocated on a geographical basis, the ratio of Scottish debt to GDP would be approximately 61.6 percent. The public sector debt to GDP ratio for the rest of the UK would be approximately 73.5 percent.

¹⁵² House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence](#), 10 April 2013, HL Paper 152 of session 2012–13, pp 14–15.

But this measure of debt does not include known future public sector liabilities. According to the Office for Budget Responsibility these future liabilities for the fiscal year ending March 2011 include inter alia: £960bn of UK public service pensions; £32bn of UK private finance initiatives; and £108bn of other expected future liabilities (eg decommissioning nuclear power stations). Ms Johann Lamont MSP argued that some of these future liabilities clearly relate to Scotland. Assuming that these future liabilities are apportioned on the same population basis as the public sector debt, the total liabilities of an independent Scotland would double to £185.4bn or 123 percent of GDP including a geographical share of North Sea oil.¹⁵³

With reference to the [Government Expenditure and Revenue Scotland 2011–12](#) report, the Committee noted the higher fiscal deficit per person in Scotland and predictions that “without including any tax revenues or output from North Sea oil and gas, Scotland’s separate fiscal deficit might be around £18.2bn or 14.6 percent of GDP in 2011–12. If, however, North Sea oil and gas revenues and output are apportioned on a geographic basis, as expected, the deficit for a separate Scotland might be £7.6bn or 5.0 percent of GDP in 2011–12. This is significantly lower than the OBR’s estimate of the fiscal deficit (Public Sector Net Borrowing) for the UK overall of 7.9 percent of GDP in 2011–12. If the North Sea oil and gas output and tax revenue had been allocated to Scotland the fiscal deficit of the rest of the UK might be around 8.7 percent of GDP”.¹⁵⁴ The Committee report also considered the country’s economic position in relation to fiscal sustainability, and how it could affect fiscal policy within a currency union.

3.1.5 Economic Projections Published by the Institute for Fiscal Studies

On 4 June 2014, the Institute for Fiscal Studies (IFS) published two reports analysing the potential consequences of independence on Scotland’s economy. The first of these considered many of the proposals in the Scottish Government’s November 2013 white paper¹⁵⁵ in their current fiscal context.¹⁵⁶

The report stated that Scotland’s finances at 2016–17, and how the economy might perform over subsequent years, is a matter of uncertainty. Much of this would depend on the negotiations over Scotland’s share of North Sea revenue and UK debt. However, the organisation stated that, “using the OBR’s latest forecasts for the UK’s public finances and under the assumption that Scotland would inherit a population share of UK government debt, our calculations suggest that the net fiscal deficit in Scotland would be 5.5 percent of GDP in the first year of potential independence, 2016–17. This would be around 3 percent of GDP larger than that for the UK as a whole”.¹⁵⁷ As such, the IFS reasoned that further tax increases or spending cuts would be necessary for the country to achieve a sustainable fiscal position over time.

Analysing the tax measures outlined in the white paper, the IFS believed that the “main revenue raising measure is the intention to streamline tax reliefs and exemptions and reduce tax avoidance, although precise details on how this would be done are lacking”.¹⁵⁸ The report also

¹⁵³ *ibid*, p 27.

¹⁵⁴ *ibid*, p 29.

¹⁵⁵ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland](#), 26 November 2013.

¹⁵⁶ Institute for Fiscal Studies, [Policies for an Independent Scotland? Putting the Independence White Paper in its Fiscal Context](#), June 2014.

¹⁵⁷ *ibid* p 1.

¹⁵⁸ *ibid*, p 2.

highlighted three of the tax cuts mentioned in the white paper, to air passenger duty, employers' National Insurance and corporation tax, and suggested that, although these may be partially offset by economic gains, the cost of each could be significant in the short-term. Also, the success of each measure could vary depending on how the UK Government reacted (eg a cut in the rate of corporation tax could subsequently be repeated in the UK).

Turning to the Scottish Government's public spending commitments, the report considered the following main areas:¹⁵⁹

- The Scottish Government's proposal to spend less on defence (by around £400m) than is apportioned as part of the United Kingdom.
- Proposals to halt the roll-out of Personal Independence Payments (estimated to cost the Scottish Government around £300m) and Universal Credit.
- Implementing a more generous Carer's Allowance (estimated to cost around £60m a year).
- Plans for a more generous single-tier pension and to retain the savings credit element of Pension Credit after 2016 (estimated to cost little in the short-term, but around £240m per year by the 2030s).
- Proposals to retain the "triple lock" on state pensions indefinitely, ie a guarantee to increase the state pension every year by the highest of inflation, average earnings or a minimum of 2.5 percent (estimated to cost around £1.6bn per year by the 2060s).
- Delaying the increase of the state pension age from 66 to 67 (estimated to cost upwards of £550m a year).

Analysing the costs and benefits of these tax and spending proposals, the IFS stated that:

The white paper outlined specific tax raising measures and spending cuts that would together save just under £500 million a year. On top of this there is an aspiration to raise a further £235 million through, as yet unspecified, measures to remove exemptions and reduce tax avoidance. The spending increases and tax cuts described in the white paper are more numerous and more valuable—costing around £1.2 billion a year in the short term and potentially considerably more in the longer term if full aspirations for childcare and pensions are met.¹⁶⁰

The organisation concluded that, even taking into account the possibility that some of the policies may have other economic consequences such that they partly "pay for themselves", the Scottish Government would be required to make bigger cuts to services or further tax increases upon independence—particularly in light of the current fiscal backdrop.¹⁶¹

¹⁵⁹ *ibid* pp 2–3.

¹⁶⁰ *ibid*, p 3.

¹⁶¹ *ibid*, p 4.

The second report published by the IFS on 4 June 2014 concentrated on Scotland's public finances and expenditure.¹⁶² The IFS calculated that "total public spending for the benefit of Scotland amounted to £65.2 billion in 2012–13, or £12,265 per person. This was 11.5 percent higher than per capita spending across the UK as a whole, which stood at £10,998. This is similar to the difference observed in 2011–12".¹⁶³ The organisation found that, whereas some areas of public spending were similar to the UK's (eg health, education and benefits), there were changes in how the money was distributed within these areas. For example, Scotland spent more on disability benefits and less on housing benefits, and the Scottish Government tended to spend relatively more on investment, rather than current, spending than the UK Government did as a whole. In addition, the IFS stated that "in [some] areas—such as enterprise and economic development, and housing—the Scottish Government spends considerably more per person than is spent across the UK as a whole".¹⁶⁴

On taxation, the IFS stated that onshore tax revenues in Scotland were £47.6 billion in 2012–13, or £8,952 per person (the figure was £9,109 per person across the UK as a whole).¹⁶⁵ Regarding the make-up of such receipts, the organisation claimed that "more is raised per person in Scotland than across the UK as a whole from indirect taxes—in particular, duties on gambling, alcohol, and tobacco. Less is raised per person in Scotland from income tax, capital gains tax, inheritance tax, and stamp duties". The IFS then considered the potential impact of a geographical share of oil and gas revenues on these figures, noting that the value had decreased considerably since 2011–12 (see section 3.1.1 and section 3.1.2 of this Note for further discussion of oil contributions to public finances).

Based on the pre-revision oil and gas revenue figures for 2012–13 (they have since been revised down), the IFS reasoned that offshore revenues would not have offset Scotland's higher level of public spending that year. As such, the organisation estimated that Scotland's fiscal position was weaker than that of the UK as a whole: "Scotland's net fiscal deficit is estimated to have been 8.3 percent of GDP, compared to 7.3 percent for the UK. This is in contrast to 2011–12 when Scotland's net fiscal deficit was smaller than for the UK".¹⁶⁶ The IFS then highlighted the projections of the OBR that oil and gas revenues will likely decline over the coming few years. Under such circumstances, the IFS feared that Scotland's fiscal position would not strengthen as quickly as the UK's:

Using the OBR's forecasts for the UK as a whole and assuming a population share of debt is allocated to an independent Scotland, we estimate that Scotland's net fiscal deficit would decline from 8.3 percent of GDP in 2012–13 to 2.9 percent by 2018–19, assuming that the Government of a newly independent Scotland continued to implement the spending cuts pencilled in by George Osborne for 2016–17, 2017–18 and 2018–19. However, by the same date the UK as a whole is projected to achieve a net fiscal surplus of 0.2 percent of GDP.¹⁶⁷

Therefore, the IFS concluded that the mid-term outlook for the Scottish economy is sensitive to a number of factors, particularly the share of debt and North Sea revenues taken on by the country, and the performance of the latter. For example, "if offshore revenues were to come in

¹⁶² Institute for Fiscal Studies, [Taxation, Government Spending and the Public Finances of Scotland: Updating the Medium Term Outlook](#), 4 June 2014.

¹⁶³ *ibid*, p 1.

¹⁶⁴ *ibid*.

¹⁶⁵ *ibid*, p 2.

¹⁶⁶ *ibid*.

¹⁶⁷ *ibid*, p 2.

more in line with some of the scenarios outlined recently by the Scottish Government and/or if Scotland were to inherit a smaller share of UK debt, Scotland's fiscal position would be stronger".¹⁶⁸ However, the organisation believed that, due to the importance of North Sea revenues to Scotland and the eventual depletion of the resource, an independent Scotland is likely to face greater long-term fiscal challenges than the rest of the United Kingdom.

3.1.6 Further Commentary on the Economic Implications of Independence

Further resources on the economic implications of Scottish independence, which include coverage of possible spending on pensions¹⁶⁹ and welfare¹⁷⁰, include:

- National Institute Economic Review, [Scotland's Economic Performance and the Fiscal Implications of Moving to Independence](#), February 2014.
- University of Strathclyde, *Fraser of Allander Institute Economic Commentary*, March 2014, vol 37, no 3 (includes articles on the '[Economic Case for an Independent Scotland](#)' and the '[Economic Case for Union](#)').
- Jimmy Reid Foundation, [Economic Policy Options for an Independent Scotland](#), 9 September 2013.
- Institute for Fiscal Studies, [Fiscal Sustainability of an Independent Scotland](#), November 2013.
- Institute for Fiscal Studies, [Government Spending on Public Services in Scotland: Current Patterns and Future Issues](#), 19 September 2013.
- Institute for Fiscal Studies, [Government Spending on Benefits and State Pensions in Scotland: Current Patterns and Future Issues](#), July 2013.
- House of Commons Library, [Economic Aspects of Scottish Independence: Public Spending and Revenue](#), 11 April 2014, SN/EP/6625.
- Economic and Social Research Council, [Inequality in Scotland: Trends, Drivers, and Implications for the Independence Debate](#), November 2013.

3.2 Currency and Monetary Policy

In its white paper, the Scottish Government outlined a preference (based on recommendations of the Scottish Fiscal Commission) to pursue a sterling currency union with the rest of the United Kingdom: "under such an arrangement, monetary policy will be set according to economic conditions across the Sterling Area with ownership and governance of the Bank of England undertaken on a shareholder basis".¹⁷¹ This recommendation followed the consideration of four options ("the continued use of sterling (pegged and flexible), the creation of a Scottish currency and membership of the euro"), and was viewed as the best option for

¹⁶⁸ *ibid*, p 3.

¹⁶⁹ Scottish Government, [Pensions in an Independent Scotland](#), 23 September 2013.

¹⁷⁰ Scottish Government, [The Expert Working Group on Welfare](#), May 2013.

¹⁷¹ Scottish Government, [Scotland's Future: Your Guide to an Independent Scotland—Chapter Three: Finance and the Economy](#), 26 November 2013.

Scotland, and for the rest of the United Kingdom.¹⁷² The reasons for this choice included: the high prevalence of cross-border trade and business operations; labour mobility; and the relatively high levels of synchronicity between the regions' economic cycles.

Regarding the operation of such a monetary union, the white paper stated that:

The Fiscal Commission set out that the Bank of England Financial Policy Committee will continue to set macroprudential policy and identify systemic risks across the whole of the Sterling Area. There could be a shared Sterling Area prudential regulatory authority for deposit takers, insurance companies and investment firms. Alternatively this could be undertaken by the regulatory arm of a Scottish Monetary Institute working alongside the equivalent UK authority on a consistent and harmonised basis.

The Bank of England, accountable to both countries, will continue to provide lender of last resort facilities and retain its role in dealing with financial institutions which posed a systemic risk. Where financial resource was required to secure financial stability, there will be shared contributions from both the Scottish and Westminster Governments based on the principle that financial stability is of mutual benefit to consumers in both countries. This will reflect the fact that financial institutions both in Scotland and the UK operate—and will continue to operate—with customers in Scotland, England, Wales and Northern Ireland and their stability will benefit all concerned. Scotland will play our full part in protecting the financial system on these isles, taking responsibility for activity within Scotland as part of joint action across the Sterling Area.¹⁷³

However, writing in advance of the Scottish Government's white paper, the House of Lords Select Committee on Economic Affairs questioned the workability of such proposals.¹⁷⁴ The Committee doubted the possibility of members of the Monetary Policy Committee of the Bank of England representing the interests of a separate country, and stated that “for the Bank of England to provide central bank services to substantial financial institutions operating in an independent Scotland and regulated by a body reporting to an independent Scottish Government implies that the Bank would accept risks over which it had little control, which seems implausible”.¹⁷⁵ The report also doubted whether the UK Government would accept the proposed shareholding agreement, suggesting that it could lead to governance and accountability difficulties, and even doubted whether the Bank of England would be able to provide Emergency Liquidity Assistance, as was provided to the Royal Bank of Scotland and HBOS in 2008: “it is difficult to see how the UK Government could extend central banking services to an independent Scotland since the UK Government would lack control over the tax and spending policies of an independent Scotland”.¹⁷⁶

The concerns were largely echoed by the UK Government in its analysis paper on currency and monetary policy in the case of Scottish independence.¹⁷⁷ Although stating that, if agreement was reached, a currency union could benefit both Scotland and the UK, the paper raised concerns over the governance of such a union and the increased exposure to fiscal and financial risk.¹⁷⁸

¹⁷² *ibid.*

¹⁷³ *ibid.*

¹⁷⁴ House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence](#), 10 April 2013, HL Paper 152 of session 2012–13.

¹⁷⁵ *ibid.*, p 22.

¹⁷⁶ *ibid.*, p 24.

¹⁷⁷ HM Government, [Scotland Analysis: Currency and Monetary Policy](#), 23 April 2013, Cm 8594.

¹⁷⁸ *ibid.*, p 7.

For example, the report stated that “the recent experience of the euro area has shown that it is extremely challenging to sustain a successful formal currency union without close fiscal integration and common arrangements for the resolution of banking sector difficulties. In particular, an agreed set of euro area fiscal rules proved insufficient to prevent funding problems arising for smaller, and in many cases fiscally prudent, members of the euro area. These difficulties have also spilled over to other members of the currency union”.¹⁷⁹ The report also highlighted the asymmetry between the two countries in relation to their size and economies, reasoning that any fiscal constraints agreed to be placed upon Scotland would have to reflect this.¹⁸⁰

These views were reiterated by HM Treasury in its analysis paper specifically addressing a potential currency union.¹⁸¹ Based on similar analysis to that which led HM Treasury to publish its 2003 report¹⁸² recommending that the UK did not join the euro area, the paper concluded that “on the basis of the scale of the challenges, and the Scottish Government’s proposals for addressing them, HM Treasury would advise the UK Government against entering into a currency union. There is no evidence that adequate proposals or policy changes to enable the formation of a durable currency union could be devised, agreed and implemented by both governments”.¹⁸³

With reference to the “successful currency union” in the United States, HM Treasury highlighted the importance of fiscal and political union.¹⁸⁴ The paper expressed concerns over an independent Scotland’s ability to manage economic shocks, particularly in light of current economic pressures and the country’s projected reliance on the oil sector, and suggested that such a union would have an impact upon the Scottish Government’s own fiscal policies: “regular monitoring of an independent Scottish state’s fiscal position by the continuing UK would be required in a currency union, including some mechanism for intervention and correction if fiscal risks to the stability of the currency union were to arise. These constraints would limit a future Scottish government’s ability to use fiscal policy to support the economy”.¹⁸⁵ In addition, HM Treasury predicted that independence would affect confidence in Scotland within the financial markets, leading to an increase in the Scottish Government’s borrowing costs:

The financial markets would also constrain the fiscal policy of an independent Scottish state. An independent Scottish state would find it more expensive to borrow in financial markets as it would have: a less liquid debt market; a lack of an institutional track record and institutional uncertainty; higher economic and fiscal volatility; a larger future potential debt burden; a larger financial services sector, with larger contingent liabilities as a share of GDP; and reduced monetary policy flexibility to respond to external shocks. The National Institute of Economic and Social Research have estimated that in a sterling currency union the government of an independent Scottish state would pay an interest rate premium of between 0.72 and 1.65 percent, relative to the price of UK Government funding.¹⁸⁶

¹⁷⁹ *ibid*, p 8.

¹⁸⁰ *ibid*, p 7.

¹⁸¹ HM Treasury, [Scotland Analysis: Assessment of a Sterling Currency Union](#), 12 February 2014, Cm 8815.

¹⁸² HM Treasury, [UK Membership of the Single Currency: An Assessment of the Five Economic Tests](#), June 2003, Cm 5776.

¹⁸³ *ibid*, p 9.

¹⁸⁴ *ibid*, p 6.

¹⁸⁵ *ibid*, p 6.

¹⁸⁶ *ibid*, p 7.

The views expressed in the paper were backed by an accompanying letter written by the Permanent Secretary to HM Treasury, Sir Nicholas Macpherson.¹⁸⁷ The letter set out four key areas of concern. The first was that the idea of a currency union may be viewed as only a temporary solution by the Scottish Government, and that this could affect confidence in the currency. Second, Sir Nicholas Macpherson believed the banking sector in Scotland to be “far too big in relation to its national income, which means that there is a very real risk that the continuing UK would end up bearing most of the liquidity and solvency risk which it creates”. Third, he highlighted potential problems caused by the different sizes of the two economies, suggesting that the UK would be most at risk of having to bail Scotland out (rather than vice versa). And fourth, he expressed fears that the two countries’ fiscal policies would become increasingly misaligned and would result in mounting political pressure on the future of the currency union.

The letter also addressed the possibility that the Scottish Government could threaten not to take on a share of UK debt if a currency union was opposed.¹⁸⁸ He believed such a threat was unlikely to be credible, suggesting that it would affect the country’s economic credibility and the country’s negotiations to work within the international community.

On 14 May 2014, the Chancellor of the Exchequer, George Osborne, reiterated HM Treasury’s stance when appearing before the House of Commons Scottish Affairs Select Committee.¹⁸⁹ He stated that a currency union had been ruled out, and that “an independent Scotland would not share the pound with the rest of the UK”.

3.3 Business and Trade

In its white paper, the Scottish Government expressed a belief that “independence will provide the opportunity to target policies to Scotland’s unique circumstances and challenges, and to boost productivity. Our plans for re-industrialisation, innovation, taxation, investment and internationalisation will help to achieve this by delivering the necessary changes to our economy”.¹⁹⁰ The paper made a number of statements in relation to the performance of the Scottish economy (eg including those relating to levels of output and productivity), and featured commitments made by the Scottish Government in the event of independence. These included: setting a timescale to reduce corporation tax by 3 percent; boosting innovation and manufacturing through changes to the tax system to encourage investment; utilising capital borrowing to invest in infrastructure and research and development projects; and increased support for workers, eg through promotion of the living wage and a commitment to raise the national minimum wage in line with inflation.

The UK Government’s analysis paper on macroeconomic and fiscal performance also commented on Scotland’s economic performance, stating that:

The performance of the Scottish economy is similar to that of the UK as a whole. On average, a worker in Scotland produces almost exactly the same as a worker in the rest of the UK. Scotland has the third highest economic output per person of all parts of the

¹⁸⁷ HM Treasury, [Letter](#) from the Permanent Secretary to HM Treasury, Sir Nicholas Macpherson, to the Chancellor of the Exchequer, George Osborne, 11 February 2014.

¹⁸⁸ For example, see: *Telegraph*, ‘[SNP Threaten to Saddle Taxpayers in Rest of the UK with All of National Debt](#)’, 7 March 2014.

¹⁸⁹ BBC News, ‘[Scottish Independence: Osborne Tells MPs Currency Union has been 'Ruled Out'](#)’, 14 May 2014.

¹⁹⁰ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter Three: Finance and the Economy](#), 26 November 2013.

UK, behind only London and the South East of England. While London's performance is very strong, it is in line with the stronger performing Scottish cities. The annual growth in the cash value of economic output per person from 1995 to 2011 was 4.9 percent in London, 5.0 percent in Glasgow City, and 4.4 percent in both the City of Edinburgh and Aberdeen and Aberdeenshire. And Scottish output per person is closer to the overall UK average than any other part of the UK. Since 1963, growth in economic output per person has been slightly stronger in Scotland than in the UK, averaging 2.0 percent in Scotland and 1.9 percent in the UK overall. Differences in employment rates between the UK and Scotland have narrowed over time: the latest data show that the employment rate in Scotland is now higher than the UK at 71.9 percent compared with 71.4 percent.¹⁹¹

The following table includes figures from the Office for National Statistics in relation to the Scottish economy and workforce:

Table 9: Statistics Regarding Scottish Economy and Workforce

	Scotland	United Kingdom
Population: 2012 ¹⁹²	5.3m (8.3 percent of UK)	63.7m
Workplace-based Gross Value Added (GVA) at Current Basic Prices (2011) ¹⁹³	£107.8bn (8 percent of UK)	£1,340.6bn
Workplace-based GVA Per Head (2011)	£20,511	£21,368
Employment rate (January–March 2014) ¹⁹⁴	73.5 percent	72.7 percent
Unemployment rate (January–March 2014) ¹⁹⁵	6.4 percent	6.8 percent
Average Weekly Earnings: 2012 ¹⁹⁶	£508	£518

The regional economic statistics¹⁹⁷ also indicated that labour productivity in Scotland (measured as GVA per hour worked) mirrored the index rate for the UK as a whole (ie 100.0). This was higher than the figures for Northern Ireland (84.0) and Wales (84.6), but lower than that for England (101.3).

In its analysis papers on Scottish independence, the UK Government has made a number of claims in relation to the possible impact on business in Scotland and the United Kingdom.¹⁹⁸ For example, in the paper on financial services and banking, the UK Government described the financial services sector as “one of the most important industries in Scotland and the rest of the UK. Financial services contributed £8.8 billion to the Scottish economy in 2010—more than 8 percent of Scottish onshore economic activity. The sector directly employs 85,000 people in Scotland and a further 100,000 indirectly—around 7 percent of total Scottish employment. The UK is widely recognised as a global leader in financial services. Scotland's vibrant financial sector is an important contributor to this strong UK position, and also benefits from its global reputation”.¹⁹⁹ The report discussed the importance of the connections enjoyed

¹⁹¹ HM Government, [Scotland Analysis: Macroeconomic and Fiscal Performance](#), 3 September 2013, Cm 8694, p 6.

¹⁹² Office for National Statistics, [Annual Mid-year Population Estimates, 2011 and 2012](#), 8 August 2013.

¹⁹³ Office for National Statistics, [Regional and Country Profiles: Economy Tables](#), June 2013.

¹⁹⁴ Office for National Statistics, [Regional Labour Market Statistics](#), May 2014, p 4.

¹⁹⁵ *ibid*, pp 4–5.

¹⁹⁶ Office for National Statistics, [Annual Survey of Hours and Earnings, 2013 Provisional Results](#), December 2013, p 30.

¹⁹⁷ Office for National Statistics, [Regional and Country Profiles: Economy Tables](#), June 2013.

¹⁹⁸ Scotland Office, ‘[Scotland Analysis](#)’, updated 17 January 2014.

¹⁹⁹ HM Government, [Scotland Analysis: Financial Services and Banking](#), 20 May 2013, Cm 8630, p 6.

by the Scottish financial services sector to the rest of the United Kingdom (eg through the confidence held in its regulation), and the benefits it directly brings to the Scottish economy through wealth and jobs.

However, in the event of independence, the UK Government believed the size of the sector would increase risk in the case of financial shocks, both due to the value of the sector compared to that of the Scottish economy and the domination of the sector by the two banks RBS and HBOS.²⁰⁰ They stated that “the size of the UK economy relative to its financial sector means that even if a very large firm fails, the UK Government can intervene to ensure that consumers and businesses are protected. The UK has credible institutions, such as the Bank of England, which acts as lender of last resort for the UK financial system. The exceptionally large and highly-concentrated financial sector of an independent Scotland would be likely to increase the risks, to markets, firms and consumers, of financial services firms operating in an independent Scotland”.²⁰¹ This, it believed, could lead to increased financial uncertainty or the potential of relocation.

Indeed, Douglas McWilliams, the founder of the Centre for Economics and Business Research, has reportedly predicted that between 20,000 and 40,000 financial services jobs would move from Scotland to England upon independence, due to the importance of their links to the rest of the United Kingdom.²⁰² In addition, a survey of businesses conducted by the Scottish Chambers of Commerce found that “8 percent had definite plans to move away from Scotland if it voted to leave the UK, while 10 percent said they were considering moving”.²⁰³ Overall, 38 percent of the businesses in the survey expressed concerns over the uncertainties regarding the transfer to independence. A report published in March 2014 by the Economic and Social Research Council and the University of Edinburgh noted similar concerns expressed by business leaders over uncertainty.²⁰⁴ Their interviews indicated that 90 percent “perceived the costs of independence to business to outweigh the perceived benefits that might accrue”.²⁰⁵ Concerns regarding the effect of Scottish independence on business have also been raised by the CBI.²⁰⁶

The UK Government have expressed concerns that independence could lead to trade barriers emerging, due to the divergence of separate regulatory and tax regimes between the two countries.²⁰⁷ This issue was discussed in further detail in the UK Government’s analysis paper on the business and microeconomic framework, which stated that:

In the event of independence trade will, of course, continue, but the introduction of an international border would almost certainly have a negative impact. Just a one percent reduction in exports by Scotland to the rest of the UK equates to £450 million of sales. The economic integration of the UK is not replicated in the EU Single Market. Evidence clearly demonstrates many barriers to trade remain between EU Member States, particularly in the services sector that accounts for around three-quarters of Scotland’s output and an even higher share of employment (82 percent). Small companies with

²⁰⁰ *ibid*, pp 6–7.

²⁰¹ *ibid*, p 7.

²⁰² *Telegraph*, ‘[Scottish Independence Will Trigger Mass Exodus of Financial Services](#)’, 29 April 2014.

²⁰³ *Herald Scotland*, ‘[One in Six Firms May Quit Scotland in Event of Independence](#)’, 1 May 2014.

²⁰⁴ Economic and Social Research Council and University of Edinburgh, [The Scottish Independence Debate: Evidence from Business](#), March 2014.

²⁰⁵ *ibid*, p 7.

²⁰⁶ CBI, [The Scottish Government’s Plan for Independence: An Analysis for Business](#), March 2014.

²⁰⁷ HM Government, [Scotland Analysis: Financial Services and Banking](#), 20 May 2013, Cm 8630, p 8.

little cross-border experience are likely to be hampered most by the creation of barriers to trade and added bureaucracy.²⁰⁸

The report valued trade with Scotland as follows:

- In 2011 Scotland sold goods and services to the rest of the UK worth £45.5 billion, double the levels exported to the rest of the world and four times as much as to the rest of the European Union.
- Between 2002 and 2011, the value of Scottish trade with the rest of the UK increased by 62 percent, compared with a 1 percent increase in value of exports to the rest of the EU combined.
- Demand from the rest of the UK for Scottish-produced goods and services resulted in sales to the rest of the UK representing 29 percent of Scottish GDP in 2011. The financial services and insurance sector, for example, sold nearly half (47 percent) of its output to the rest of the UK in 2009.
- Exports to Scotland represent 3.5 percent of the rest of the UK's GDP.²⁰⁹

The issue of border trade costs emerging was analysed in an article authored by David Comerford.²¹⁰ The article highlighted apparent border frictions between European Union countries and the lack of similar border frictions between states in the US. He reasoned that, although the two countries were likely to remain close trading partners, the eventual build-up of border frictions appeared to be inevitable, and proposed the Irish–UK border as a suitable example. Mr Comerford estimated that this could lead to a reduction in Scottish GDP of 5 percent. However, the author then stated that, if Scotland also improved its trade frictions with the rest of the world at this point (to a level comparable with several other OECD countries), it could increase GDP by 3.5 percent. He stressed that it was “not clear which of independence or union is most likely to be associated with the highest overall level of economic integration because Scotland also has the scope to improve its external trade position. It is the level of overall integration into the global economy that matters”.

The UK Government commented on the benefits brought by: shared regulations and institutions; a unified labour market; integrated infrastructure; and the current UK business framework (eg Companies House).²¹¹ The UK Government believed that, in the case of independence, many of these factors would suffer, and that the Scottish Government would face the cost of implementing new regulatory regimes and institutions.

The House of Lords Select Committee on Economic Affairs highlighted the importance of trade between the UK and Scottish economies, and stressed that “a post-independence Scottish Government and its counterpart in the rest of the UK should try to preserve, as far as possible, the single UK market, which brings economic benefits to both”.²¹² However, it also stated that,

²⁰⁸ HM Government, [Scotland Analysis: Business and Microeconomic Framework](#), 2 July 2013, Cm 8616, pp 6–7.

²⁰⁹ *ibid*, p 6.

²¹⁰ David Comerford, ‘[The Border Effect on Trade Between an Independent Scotland and the UK](#)’, Economic and Social Research Council Future of the UK and Scotland Blog, 2 May 2014.

²¹¹ HM Government, [Scotland Analysis: Business and Microeconomic Framework](#), 2 July 2013, Cm 8616, pp 6–9.

²¹² House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence](#), 10 April 2013, HL Paper 152 of session 2012–13, p 12.

although the effects would be felt by both economies, due to the disparities in size between the economies such effects would resonate less in the United Kingdom.²¹³

Another issue discussed in the report was the proposed corporation tax cut, with Alastair Darling (head of the [Better Together](#) campaign and Labour MP for Edinburgh South West) raising concerns that it could simply lead to a subsequent cut in the rest of the United Kingdom's rate:

Suppose Scotland cut its corporation tax and it worked. How long do you think it would be before the rest of the UK thought, 'Well, it's working; [we] will cut our rate too?' [...] Then you get the ridiculous situation of beggar your neighbour, and the only people laughing are the multinationals who pay corporation tax [...] I have always been sceptical about whether cutting corporation tax would make a big difference. There is no way that the other side will not retaliate.²¹⁴

Despite this, the potential tax cut was backed by John Swinney MSP, Scottish Government Cabinet Secretary for Finance, Employment and Sustainable Growth, as a valuable opportunity to promote Scotland as a place for investment: "in relation to corporation tax, we have taken the view and still take the view that business taxation is an area where we can provide the opportunity to make Scotland an attractive place for investment. In the powers that we currently have on business rates, for example, we have the most competitive business tax arrangements in place within the United Kingdom. Obviously, creating a competitive business tax platform would be part of our interests to take forward".²¹⁵

The views of a number of different businesses regarding Scottish independence are quoted in the BBC News article, '[Scottish Independence: What Have Businesses Been Saying?](#)', 31 March 2014.

4. Defence and National Security

One of the key issues that has been raised in the run-up to the Scottish referendum is the Scottish National Party's commitment to remove the Trident nuclear weapons programme from the country.²¹⁶ Currently operating out of the Clyde, the Trident programme would then need to be moved elsewhere in the United Kingdom. Andrew Murrison (Conservative MP for South West Wiltshire) described the potential costs of such a measure as "murderously expensive".²¹⁷ Indeed, in its report on the potential economic implications of Scottish independence, the House of Lords Select Committee on Economic Affairs highlighted estimates that it could cost significantly more than the recent £3.5 billion investment programme at HMNB Clyde.²¹⁸ The report expressed concerns over the UK Government's unwillingness to outline any assurances about the future of Trident in the case of Scottish independence.²¹⁹ In response to this, the UK Government stated that it was "confident that people in Scotland will

²¹³ *ibid*, p 13.

²¹⁴ *ibid*, p 12.

²¹⁵ House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence: Oral and Written Evidence](#), April 2013, Q 898.

²¹⁶ See for example: BBC News, '[Scottish Independence: Minister Raises Trident Removal Cost](#)', 12 November 2013.

²¹⁷ House of Commons Scottish Affairs Select Committee, [Evidence Session on 12 November 2013](#), EV 51.

²¹⁸ House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence](#), 10 April 2013, HL Paper 152 of session 2012–13, p 39.

²¹⁹ *ibid*, p 40.

vote to remain a part of the United Kingdom”.²²⁰ However, if this was not the case, the UK Government stressed that any commitment by an independent Scottish Government to change the arrangements for the UK’s nuclear deterrent would be a major factor in the two countries’ negotiations, particularly due to the cost and complexity involved. The UK Government went on to state that “the Ministry of Defence plans for a huge range of contingencies. However, for reasons of national security, the UK Government does not comment publicly on plans relating to the nuclear deterrent”.²²¹ The need for “urgent consideration” of the issue was also raised in a report by the House of Commons Defence Select Committee, which believed that negotiations over the programme could impact on the two countries’ capacity to co-operate on other matters.²²²

The commitment to remove Trident facilities was underlined in the Scottish Government’s white paper, where it stated that “this Scottish Government would make early agreement on the speediest safe removal of nuclear weapons a priority. This would be with a view to the removal of Trident within the first term of the Scottish Parliament following independence”.²²³ The paper reasoned that:

Scotland has been home to one of the largest concentrations of nuclear weapons anywhere in the world, despite consistent and clear opposition from across civic Scotland, our churches, trade unions and a clear majority of our elected politicians. Billions of pounds have been wasted to date on weapons that must never be used and, unless we act now, we risk wasting a further £100 billion, over its lifetime, on a new nuclear weapons system. Trident is an affront to basic decency with its indiscriminate and inhumane destructive power.

Westminster’s commitment to nuclear weapons leaves other aspects of our defence weakened. Costs for the successor to Trident are to be met from within the defence budget, taking money from conventional equipment and levels of service personnel. The Royal Navy will have two new aircraft carriers years before it has the aircraft to put on them. Cost overruns are endemic and major projects have been significantly delayed. Scotland can do better.²²⁴

The paper also suggested that the UK Government’s current defence programme was costing Scotland more than it was receiving back, and that defence operations were being scaled back in the country. The white paper outlined the Scottish Government’s commitment to forge close relationships within the British Isles, the European Union, NATO and United Nations agencies, and asserted that “an independent Scotland would not need to replicate the structure of the Westminster Government or adopt its processes. Scotland’s smaller size and specific national interests mean that we can adopt a more focused approach to the design and delivery

²²⁰ HM Treasury, [Letter](#) from Danny Alexander, Chief Secretary to the Treasury, to Lord MacGregor of Pulham Market, Chairman of the House of Lords Select Committee on Economic Affairs, 10 June 2013.

²²¹ *ibid.*

²²² House of Commons Defence Committee, [The Defence Implications of Possible Scottish Independence](#), 27 September 2013, HC 198 of session 2013–14, p 51.

²²³ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter Six: International Relations and Defence](#), 26 November 2013.

²²⁴ *ibid.*

of foreign and defence policies”.²²⁵ The Scottish Government also committed to five defence priorities in the event of independence:

- maintaining the commitment to a budget for defence and security in an independent Scotland of £2.5 billion;
- securing the speediest safe withdrawal of nuclear weapons from Scotland;
- building a focus on maritime capabilities, such as air and sea-based patrol, and specialist forces able to operate around our coasts, protecting Scotland’s maritime assets and contributing to collective security in the North Atlantic;
- progressively building to a total of 15,000 regular and 5,000 reserve personnel over the 10 years following independence; and
- reconfiguring the defence estate inherited at the point of independence to meet Scotland’s needs, including the transition of Faslane to a conventional naval base and joint headquarters of Scottish defence forces.²²⁶

However, the defence proposals for an independent Scotland have been criticised by the House of Commons Scottish Affairs Select Committee, which, writing before the publication of the Scottish Government’s white paper, claimed that “much of what the Scottish Government have suggested up to now suffers from a conspiracy of optimism—the assumption that everything will go according to plan, that every other government and international body will fall in with the Scottish Government’s proposals. But what if this doesn’t happen? What are their alternatives? The Scottish Government must also spell out its fallback positions in the event that everything does not go according to plan”.²²⁷ The Committee suggested that the proposals left a lot of questions unanswered, such as what the figure of £2.5 billion of defence spending encompassed (and how it was calculated) and how the negotiations over Trident removal would be progressed. The latter point, the Committee reasoned, could have a significant impact on the Scottish Government’s intention to join NATO:

We welcome the fact that the Scottish Government has acknowledged the need for sensible discussions about the timetable with the UK Government if, in the event of separation, they would pursue their policy of removing Trident from the Clyde. We welcome the First Minister’s acknowledgement that these discussions have a NATO dimension. We re-state our previous recommendation that the Scottish Government must provide more detail on their desired timetable for the speediest safe removal of Trident from the Clyde.

Trident is part of the nuclear security umbrella provided by NATO. If Scotland evicted Trident from the Clyde it would greatly damage Scotland’s relationship with other NATO countries, and impact upon any application to join NATO. A future Scottish Government may demand Trident is evicted, but that decision would have repercussions. The Independence white paper should set out the potential implications

²²⁵ *ibid.*

²²⁶ *ibid.*

²²⁷ House of Commons Scottish Affairs Select Committee, [The Referendum on Separation for Scotland: A Defence Force for Scotland—A Conspiracy of Optimism?](#), 23 November 2013, HC 842 of session 2013–14, p 3.

of such a decision. It should also set out how Scotland would defend itself if evicting Trident on a timetable unacceptable to the UK and NATO meant Scotland's application to NATO was rejected or stalled significantly.²²⁸

The defence proposals put forward by the Scottish Government have also been questioned by the UK Government. For example, in its analysis paper on the potential impact of Scottish independence on defence, the UK Government stated that:

In terms of spending, the SNP's proposed budget of £2.5 billion for defence and security (which would include intelligence and cyber) would mean a budget of something less than £2.5 billion for defence. This is less than Denmark (£2.8 billion) and substantially less than Norway (£4.4 billion) spent on defence in 2012, about the same as Finland (£2.3 billion) and higher than Ireland (£0.7 billion), Slovakia (£0.6 billion) and Croatia (£0.6 billion). With the exception of Slovakia and Croatia, none of these nations has had to contend with the costs of becoming a newly separated state including start-up costs, nor the economic uncertainty that would likely follow independence compounded by current global economic challenges.

The SNP's proposed force size of 15,000 regular personnel would be significantly larger than Ireland, but slightly smaller than Slovakia and much smaller than Denmark, Norway, Finland and Croatia. There are also some important differences in terms of how forces are recruited. According to figures published by the International Institute for Strategic Studies, approximately 30 percent of the total armed forces in Norway and approximately 60 percent in Finland were conscripts. Given the different cultural and historical context for recruitment in the UK, it is unlikely that such a policy would be viewed as credible or acceptable for an independent Scottish state.²²⁹

A similar point was made by Danny Alexander, Chief Secretary to the Treasury, in response to a written question on 9 January 2014, where he claimed that the figure of £2.5 billion was "only about 7 percent of the combined UK budgets for defence, intelligence and cyber—the UK spent over £34 billion on defence in 2012–13 and over £2 billion per year for the security and intelligence agencies and the National Cyber Security Programme".²³⁰ Indeed, in the analysis report, the UK Government stated that "in 2011, the UK remained the second largest military spender in the North Atlantic Treaty Organisation (NATO) after the United States, and one of only three NATO countries which met the NATO target of spending the equivalent of 2 percent or more of gross domestic product on defence; it was the fourth largest military spender in the world after the US, China and Russia. The defence budget is set to continue at £33 billion to £34 billion (excluding the cost of operations) over this and the next two years".²³¹ The paper claimed that Scotland benefitted from the scale of the United Kingdom's defence spending, and the relationship it already enjoyed with other countries and international organisations.

Similar claims were made in a related analysis paper on national security arrangements, which stated that "in the event of a vote for independence, security bodies that support the UK in its present form would continue to operate on behalf of the continuing UK and would have no legal authority in an independent Scottish state".²³² Even though the paper recognised the

²²⁸ *ibid*, p 58.

²²⁹ HM Government, [Scotland Analysis: Defence](#), 8 October 2013, Cm 8714, p 44.

²³⁰ HC *Hansard*, 9 January 2014, [col 295VV](#).

²³¹ HM Government, [Scotland Analysis: Defence](#), 8 October 2013, Cm 8714, p 8.

²³² HM Government, [Scotland Analysis: Security](#), 29 October 2013, Cm 8741, p 10.

possibility of an element of co-operation between the two countries, it stressed that independence would lead to Scotland losing the benefits of economies of scale and could lead to a less effective or efficient security service in Scotland. However, in its white paper, the Scottish Government stated the importance of national security, and that it would set up a single security and intelligence agency upon independence.²³³ It committed resources to cyber security and ensuring the resilience of critical infrastructure, and outlined a desire to collaborate with the UK Government during the transitional phase and beyond.

The UK Government's defence analysis paper also stated that the Scottish economy benefitted from the Ministry of Defence's spending, referencing the involvement of Scottish-based contractors and the trade enjoyed with Scotland's shipbuilding industry. The report claimed that this also may no longer be possible in the case of independence:

In the event of independence, companies based in an independent Scottish state would no longer be eligible for contracts that the UK chose to place or compete domestically for national security reasons; and where they could continue to compete they would be pitching for business in a competitive international market dominated by major economic powers. All of the UK's complex warships are designed and built within the UK without being subject to international competition for reasons of national security—other than procurement activity undertaken during the World Wars, the UK has not had a complex warship built outside the UK since the start of the 20th century at least—and the UK Government remains committed to utilising the strengths of UK industry in this specialist and complex area. An independent Scottish state would therefore certainly see lower domestic demand for defence goods due to a much smaller budget and would also lose the support to exports provided by the UK's international defence engagement and facilitated by the UK's global reputation.²³⁴

The report said that the presence of defence forces in Scotland provided benefits to the Scottish economy through jobs, and that military bases contributed significantly to regional and local economies in Scotland.²³⁵ However, the economic benefits of defence were equally recognised by the Scottish Government in its white paper: "Scotland's defence industries are an important source of employment and provide high quality defence products to the UK armed forces and more widely. If in government in an independent Scotland the Scottish Government will work with defence industries to support their continued growth and to meet Scotland's own defence needs".²³⁶ The white paper emphasised a commitment to Scottish defence industries, outlining potential investment in defence personnel, procurement and the shipbuilding industry. It also highlighted the economic potential of diversifying the defence industry through research and development (R&D):

The Scottish Government's work will focus on the potential offered by energy, particularly marine renewables, although it will also examine other aspects of defence diversification, for example those relevant to the shipbuilding industry. The research and development capacity of Scotland's defence industries offers the opportunity to boost

²³³ Scottish Government, [Scotland's Future: Your Guide to an Independent Scotland—Chapter Seven: Justice, Security and Home Affairs](#), 26 November 2013.

²³⁴ HM Government, [Scotland Analysis: Defence](#), 8 October 2013, Cm 8714, p 13.

²³⁵ *ibid*, p 7.

²³⁶ Scottish Government, [Scotland's Future: Your Guide to an Independent Scotland—Chapter Six: International Relations and Defence](#), 26 November 2013.

Scotland's business R&D. Other comparable countries have much higher levels of R&D activity (a key driver of economic growth). Finland, for example, uses an innovation agency as its primary tool for R&D activity. Defence diversification could play an important role in Scotland's future industrial strategy.²³⁷

Further analysis of the economic implications of Scottish independence as related to defence can be found in Chapter Six of the report of the House of Lords Select Committee on Economic Affairs.²³⁸ More detailed analysis of some of the broader issues, including the potential implications for particular sectors of the Scottish defence forces and the effect independence could have on the rest of the United Kingdom's defence programme, can be found in the following reports of the House of Commons Defence Committee:

- House of Commons Defence Committee, [The Defence Implications of Possible Scottish Independence](#), 27 September 2013, HC 198 of session 2013–14.
- House of Commons Defence Committee, [The Referendum on Separation for Scotland: How Would Separation Affect Jobs in the Scottish Defence Industry?](#), 26 March 2013, HC 957 of session 2012–13.
- House of Commons Defence Committee, [The Referendum on Separation for Scotland: Terminating Trident—Days or Decades?](#), 25 October 2012, HC 676 of session 2012–13.

Regarding the implications for the rest of the UK, the Committee stated in one of their reports that “the UK Government must set out more clearly the implications for the security of the remainder of the United Kingdom should the people of Scotland choose the path of separation. This should include greater detail about the options for relocation of the strategic nuclear deterrent and an estimate of the associated costs. The UK Government should also outline its options for making good any defence deficit, caused by loss of personnel, equipment and bases, which might be created by Scottish independence”.²³⁹

Further commentary on the potential impact of Scottish independence upon defence and security, both on a global and domestic level, can be found in the *International Affairs* article, ‘[More than a Storm in a Teacup: The Defence and Security Implications of Scottish Independence](#)’,²⁴⁰ and in a [briefing paper](#) published by the Royal United Services Institute.²⁴¹

²³⁷ *ibid.*

²³⁸ House of Lords Select Committee on Economic Affairs, [The Economic Implications for the United Kingdom of Scottish Independence](#), 10 April 2013, HL Paper 152 of session 2012–13.

²³⁹ *ibid.*, p 10.

²⁴⁰ Andrew M Dorman, ‘[More Than a Storm in a Teacup: the Defence and Security Implications of Scottish Independence](#)’, *International Affairs*, May 2014, vol 90 no 3, pp 679–96.

²⁴¹ Royal United Services Institute, [Kingdom's End](#), June 2012.

5. Health and Education

5.1 Health

In terms of health, a report published by the UK Statistics Authority²⁴² provided data suggesting that:

- annual identifiable expenditure on health in Scotland per capita has been higher than in the UK as a whole for each of the past five years (in 2011–12 this equated to £2,091 per head, compared to £1,903 per head);
- life expectancies for women and men born in 2010 in Scotland were lower than in the rest of the UK (and are among the lowest in Western Europe); and
- Scotland has a higher prevalence of cardiovascular disease than England.²⁴³

However, as noted in the report, much of the data was inconsistent or difficult to use to draw appropriate comparisons with the rest of the United Kingdom.

In its white paper, the Scottish Government referred to independence as an opportunity to further the progress made in the provision of health and social care services following devolution:²⁴⁴

Under devolution, NHS Scotland has been reshaped and modernised [...] Currently this Government and our partners in health boards and local authorities are taking radical steps to join up health and social care, ensuring that organisational barriers do not prevent people receiving the care they need in the setting they prefer, for example, at home.

With independence we can address directly inequalities in Scotland, which are the root cause of many of the country's remaining health issues. If in government after the 2016 election, we will adopt a government-wide approach to the health and wellbeing of our nation with confidence that the actions we take, and their success, will be down to our own efforts and our own decisions. The alternative is for Westminster to continue to control the overall level of Scotland's budget, and to make decisions that directly affect poverty and wellbeing through the tax and benefits systems.²⁴⁵

Although recognising that many functions in relation to healthcare have already been devolved to the Scottish Government, it believed that independence would allow greater flexibility and control over key health policy issues (eg through taxation and advertising regulations). The Scottish Government also indicated a commitment to maintain the existing professional healthcare regulatory bodies and the current organ donation arrangements across the UK.

²⁴² UK Statistics Authority, [Monitoring Report: Official Statistics in the Context of the Referendum on Scottish Independence](#), September 2013.

²⁴³ *ibid.*, pp 54–61.

²⁴⁴ Scottish Government, [Scotland's Future: Your Guide to an Independent Scotland—Chapter Four: Health, Wellbeing and Social Protection](#), 26 November 2013.

²⁴⁵ *ibid.*

The prospect for further health policy changes under an independent Scotland was discussed in an article published by the *British Medical Journal*.²⁴⁶ The article reasoned that “the Scottish Government’s endorsement of standardised tobacco product packaging, and its persistence on minimum pricing, contrast starkly with the UK Government’s equivocations. The ambition to make Scotland ‘smoke-free’ by 2034 reinforces its claims to public health leadership within the UK. Such policies suggest that Scottish policy makers are more comfortable than their English counterparts with pursuing state level interventions for public health”. However, it also noted that “the core commitment to undercut the UK Government on corporation tax highlights the strategic priority of creating a business friendly Scotland, and in this context maintaining political will to prioritise the interests of public health over those of the food and drinks industry may prove difficult”.

In addition, although recognising that health policy had already been devolved to the Scottish Parliament and was unlikely to feature prominently in debates over independence, a further article published by the British Medical Association believed that there were still some key questions to be answered on the subject: “these include issues that would arise from the potential status of Scotland as a separate sovereign state, such as student tuition fees; responsibilities currently reserved to the UK Government, for example regulation of the medical profession; and areas where the Scottish Government chooses to co-ordinate policy with the other UK nations on a UK-wide basis, including medical workforce planning”.²⁴⁷ Further information can be found in the British Medical Association’s briefing document on the subject.²⁴⁸

5.2 Education

Providing background to the education system in Scotland under devolution, a report by the UK Statistics Authority noted that “Scotland has its own distinct school education system and it is therefore difficult to make valid comparisons between Scotland and the other UK countries [...] Under the Scottish system for primary and secondary education, pupils normally spend seven years in primary school compared with six in the rest of the UK, and have one fewer year in secondary school. Pupils who go on to higher education often leave school a year earlier in Scotland than in the rest of the UK, and then stay at a Scottish university for a four year course rather than go to a university elsewhere in the UK where, for most disciplines, a three year course is the norm. Funding arrangements for Scottish students are also different”.²⁴⁹ Despite these differences, and the difficulties in comparing data, the report did publish statistics on education expenditure as follows:²⁵⁰

Table 10: Education, Identifiable Expenditure

	2007–08	2008–09	2009–10	2010–11	2011–12
Education spending—Scotland (£ million)	7,370	7,580	7,750	7,690	7,700
Education spending—UK (£ million)	78,600	82,900	88,300	91,800	91,600
Education spending—Scotland as % of UK	9.37%	9.13%	8.77%	8.38%	8.40%

²⁴⁶ *British Medical Journal*, ‘[Scotland and the Public Health Politics of Independence](#)’, 20 December 2013.

²⁴⁷ British Medical Association, ‘[What Would a Scottish Yes Mean for Health?](#)’, 1 October 2013.

²⁴⁸ British Medical Association Scotland, *Independence Referendum 2014: Implications for Health*, September 2013.

²⁴⁹ UK Statistics Authority, *Monitoring Report: Official Statistics in the Context of the Referendum on Scottish Independence*, September 2013, p 63.

²⁵⁰ *ibid*, pp 64–5, tables 13.1 and 13.2.

	2007–08	2008–09	2009–10	2010–11	2011–12
Education spending per capita—Scotland (£)	1,432	1,466	1,492	1,473	1,466
Education spending per capita—UK (£)	1,283	1,342	1,420	1,464	1,449
Per head—indexed to UK=100	111.6	109.2	105.1	100.6	101.2

of which: pre-primary, primary and secondary

	2007–08	2008–09	2009–10	2010–11	2011–12
Education spending—Scotland (£ million)	5,390	5,570	5,580	5,600	5,740
Education spending—UK (£ million)	59,100	62,400	66,100	67,500	72,400
Education spending—Scotland as % of UK	9.12%	8.92%	8.45%	8.29%	7.92%
Education spending per capita—Scotland (£)	1,048	1,077	1,075	1,073	1,092
Education spending per capita—UK (£)	964	1,009	1,062	1,077	1,145
Per head—indexed to UK=100	108.7	106.7	101.2	99.6	95.3

(Source: PESA CRA)

Table 11: Education Outturn, £ per Head in 2011/12, Country Comparison

	England	Wales	Scotland	Northern Ireland	United Kingdom
Education					
Pre-primary and primary education	472	483	569	392	478
<i>of which: under fives</i>	88	25	58	62	82
<i>of which: primary education</i>	384	458	510	330	396
Secondary education	691	544	523	573	667
Post-secondary non-tertiary education	8	-	25	-	9
Tertiary education	171	188	257	221	180
Education not definable by level	3	112	15	67	11
Subsidiary services to education	62	116	42	102	64
R&D education	0	0	0	0	0
Education other	38	8	35	143	39
Total education	1,446	1,450	1,466	1,498	1,449

(Source: HMT PESA CRA)

Discussing the latter table, the report stated that “Scotland had higher expenditure per head on primary education than England in 2011–12, but this was offset by lower expenditure per head on secondary education. This difference largely reflects the differences in education systems—Scotland has an extra year in primary schools and a year fewer in secondary schools. Scotland spent more per capita on tertiary education than England, Wales and Northern Ireland in 2011–12 because Scottish students do not pay tuition fees in Scotland, and under-graduate courses are generally for four years duration in contrast to the more typical three year courses elsewhere in the UK”.²⁵¹ The report also highlighted findings from the 2009 Programme for International Student Assessment that Scottish students had attained better results in reading

²⁵¹ *ibid*, p 65.

and mathematics (however, due to the published standard error rates, it concluded that this may not actually represent a significant difference to the figures returned for England and Northern Ireland).²⁵²

Table 12: Programme for International Student Assessment, 2009

	Reading		Mathematics		Science	
	Mean Score	Standard Error	Mean Score	Standard Error	Mean Score	Standard Error
England	495	2.8	493	2.9	515	3.0
Wales	476	3.4	472	3.0	496	3.5
Scotland	500	3.2	499	3.3	514	3.5
Northern Ireland	499	4.1	492	3.1	511	4.4
United Kingdom	494	2.3	492	2.4	514	2.5
OECD total	492	1.2	488	1.2	496	1.2

(Source: SG – PISA)

The Scottish Government’s white paper stated that “substantial investment in Scotland’s schools has seen secondary school attainment levels increase year-on-year. In 2011–12, school-leaver destinations—the numbers getting a job, going on to college or university, or undertaking training such as a Modern Apprenticeship—were the best on record. Building on this, 2012–13 saw the highest pass rates for Highers (77.4 percent) and Advanced Highers (82.1 percent). In 2012–13, 89 percent of school leavers were in positive destinations—positive and sustained learning, training or work—the highest proportion ever”.²⁵³ It outlined an intention to continue investing in primary and secondary schools, and to extend the provision of early learning and childcare.

The white paper also highlighted the importance of higher and further education in Scotland, stating that “the university sector is one of the main drivers of the Scottish economy and ensuring a supply of trained graduates to contribute to our economy is one of its significant outputs. In 2011–12, there were 167,365 full-time students in Scottish Higher Education Institutions and Scottish students accepted by our universities rose to a record number this year with 27,990 students accepted to study in 2013–14, an increase in 2 percent compared with the same stage last year”.²⁵⁴ The Scottish Government committed to maintaining free access to higher education for students domiciled in Scotland, but acknowledged that those from the rest of the United Kingdom, as was the case now, would have to pay tuition fees. The paper also addressed UK policies in relation to international students, believing that policies in relation to student visa requirements “have restricted access for international students, posing a direct threat to Scotland’s universities and colleges. Not only do some prospective students find it difficult to obtain a visa to come and benefit from a Scottish education, but they are unable to use this education for the benefit of Scotland by remaining after graduation and playing an active part in the economy and culture of Scotland”.²⁵⁵ It emphasised that independence would “provide the ability for Scotland to develop our own immigration system

²⁵² *ibid*, p 66, table 13.3.

²⁵³ Scottish Government, [Scotland’s Future: Your Guide to an Independent Scotland—Chapter Five: Education, Skills and Development](#), 26 November 2013.

²⁵⁴ *ibid*.

²⁵⁵ *ibid*.

ensuring that we benefit from the skills and enthusiasm of those highly educated people who wish to make Scotland their home”.²⁵⁶

In a blog published on behalf of the Economic and Social Research Council on 27 November 2013, Sheila Riddell raised concerns that, in the case of independence, the decision to charge tuition fees to students from the rest of the United Kingdom may contravene European law.²⁵⁷ This issue has since been highlighted in an analysis paper published by the UK Government²⁵⁸ and in a report by the House of Commons Scottish Affairs Select Committee.²⁵⁹ The Committee stated that:

Article 18 of the Treaty on the Functioning of the European Union, which forbids discrimination against other EU citizens on the grounds of nationality, provides that the Scottish Government’s present policy of free access to higher education for citizens domiciled in Scotland must also apply to students from all EU Member States, as they must be treated the same as students of the host country. The regulations governing discrimination between Member States do not apply to students from Wales, England and Northern Ireland, as, at present, they are within the same Member State. Scotland’s higher education institutions are therefore free to—and do—charge students from the rest of the UK up to £9,000 per year in tuition fees.

In the event of separation and membership of the EU, plans to continue to charge tuition fees to students from the rest of the UK would clearly be contrary to Article 18 as Scotland would be overtly discriminating against students from another EU Member State.²⁶⁰

The Committee estimated that, if Scotland did not receive an exemption from this part of EU law (and they considered the prospect of gaining one to be highly unlikely), it could cost the country £150 million from its education budget.

In addition, Sheila Riddell pointed to funding changes that may take effect in the case of independence, with the Department for Business, Innovation and Skills suggesting that “significant difficulties would emerge with regard to the funding of research by UK charities post-independence. Scottish universities currently get about 15 percent of their total research income from charities, most of which are UK based. The UK Government believes that, post-independence, most UK charities would wish to concentrate funding within their own territory, and Scotland would have to look to Scottish charitable sources, leading to fragmentation and duplication”.²⁶¹ Further information on the latter subject can be found in the UK Government’s analysis document on science and research.²⁶²

²⁵⁶ *ibid.*

²⁵⁷ Sheila Riddell, ‘[White Paper Reflections—Higher Education](#)’, Economic and Social Research Council Future of the UK and Scotland Blog, 27 November 2013.

²⁵⁸ HM Government, [Scotland Analysis: EU and International Issues](#), 17 January 2014, Cm 8765, pp 72–3.

²⁵⁹ House of Commons Scottish Affairs Select Committee, [The Referendum on Separation for Scotland: Scotland’s Membership of the EU](#), 27 May 2014, HC 1241 of session 2013–14.

²⁶⁰ *ibid.*, p 28–29.

²⁶¹ Sheila Riddell, ‘[White Paper Reflections—Higher Education](#)’, Economic and Social Research Council Future of the UK and Scotland Blog, 27 November 2013.

²⁶² HM Government, [Scotland Analysis: Science and Research](#), 11 November 2013, Cm 8728.

6. A ‘No’ Vote and the Possibilities of Further Devolution

This Library Note has so far concentrated on the possibilities of Scotland voting for independence. However, a ‘No’ vote could also result in changes to the relationship between Scotland and the rest of the United Kingdom. For example, in a blog piece published on the Democratic Audit website, Stephen Tierney and Katie Boyle expressed their belief that a ‘No’ vote could lead to further consideration of the constitutional framework of the United Kingdom as a whole.²⁶³ This included discussion as to the future status of the Human Rights Act 1998 and whether the Scottish Parliament could be enshrined within constitutional law so as to make its position “permanent” and “irreversible”.

Others believe that the consequence of a ‘No’ vote could lead to Scotland seeking the devolution of further powers from the UK Government.²⁶⁴ Indeed, the possibility of further devolution in the case of a ‘No’ vote has since been raised by the UK’s three main party leaders.²⁶⁵ Further to this, on 16 June 2014, Scotland’s main opposition party leaders (Ruth Davidson, Johann Lamont and Willie Rennie) “jointly pledged to increase Holyrood fiscal powers in the event of a vote against independence”.²⁶⁶

The issue of the devolution of further powers to Scotland was recently covered in a report by the Commission on the Future Governance of Scotland.²⁶⁷ Chaired by Lord Strathclyde, the Commission made a number of recommendations intended to strengthen the position of the Scottish Parliament within the United Kingdom. These recommendations included:²⁶⁸

- Devolution of the powers to set the rates and bands of income tax.
- Establishing an independent Scottish Fiscal Commission.
- New rules to improve the scrutiny of legislation in the Scottish Parliament.
- Secondments to UK departments for senior civil servants from Scotland.
- More localised powers.
- Creation of a Committee of all the Parliaments and Assemblies of the United Kingdom to “consider the developing role of the United Kingdom, its Parliaments and Assemblies and their respective powers, representation and financing”.

A number of recommendations over the future of Scotland in the union have also been published by the Scottish Labour Devolution Commission.²⁶⁹ The report believed these would provide the “basis on how we can remodel the union for the twenty-first century, strengthen

²⁶³ Stephen Tierney and Katie Boyle, [‘Yes or No, the Scottish Independence Referendum Will Have a Lasting Impact on the Coherence of the Multi-national State’](#), Democratic Audit Blog, 10 September 2013.

²⁶⁴ BBC News, [‘Q&A: Scottish Independence Referendum’](#), 26 November 2013.

²⁶⁵ See the BBC News articles: [‘Scottish Independence: Ed Miliband Offers New ‘Contract’ with Scotland’](#), 9 May 2014; [‘Scottish Independence: Cameron Says No Vote ‘Not for Status Quo’](#), 15 May 2014; and [‘Scottish Independence: Lib Dems ‘Guarantors’ of More Powers’](#), 19 May 2014.

²⁶⁶ BBC News, [‘Scottish Independence: Pro-Union Parties Make Pledge on Holyrood Powers’](#), 16 June 2014.

²⁶⁷ Scottish Conservatives, [‘Commission on the Future Governance of Scotland’](#), 2 June 2014.

²⁶⁸ *ibid*, p 2.

²⁶⁹ Scottish Labour, [‘Powers for a Purpose: Strengthening Accountability and Empowering People’](#), March 2014.

devolution, increase accountability and better meet people's needs".²⁷⁰ This included further recommendations over the devolution of powers connected to income tax, responsibility for the administration of Scottish Parliamentary elections to lie with the Scottish Parliament, and for the Scottish Parliament to be entrenched in the UK constitution. In addition, the Commission outlined proposals to devolve further powers in relation to:

- Employment (including employment legislation and tribunals).
- The Scottish Government's revenue raising powers.
- Local government.
- Benefits and public services.

In addition, in a speech on 19 May 2014, the Deputy Prime Minister and leader of the Liberal Democrats, Nick Clegg, spoke of the party's continuing commitment to devolve further powers to Scotland.²⁷¹ Mr Clegg referred to measures published by the Home Rule Commission in October 2012,²⁷² and highlighted proposals to increase the revenue raising powers of the Scottish Parliament to 50 percent and to strengthen the Scottish Parliament's control over taxation—including income tax, capital gains tax and inheritance tax. He asserted that "Scotland should be able to innovate and change within the UK in line with its own opportunities and challenges, and that is what our proposals allow".

However, the First Minister of Scotland, Alex Salmond, has expressed his doubts over the stated proposals to extend further powers to Scotland in the case of a 'No' vote.²⁷³ He stated that "the only guarantee of getting more powers is to vote Yes on 18 September [...] Anything else is in the grace and favour of the unionist parties, and they have got form in these sort of things." In doing so he referred to the devolution referendum in 1979, arguing that the Scottish public voted in favour of a Scottish Assembly, but had to wait "18 years" to witness significant change.

More information on the possibilities for further devolution can be found in:

- Electoral Reform Society, [More Devolution: An Alternative Road?](#), 2013.
- Constitution Society, [If Scotland Says 'No': What Next for the Union?](#), 2013.

²⁷⁰ *ibid*, p 1.

²⁷¹ ScotLibDems.org.uk, [Speech from Nick Clegg MP to Scottish Chambers of Commerce](#), 19 May 2014.

²⁷² Home Rule and Community Rule Commission of the Scottish Liberal Democrats, [Federalism: the Best Future for Scotland](#), October 2012.

²⁷³ Scotsman, [Salmond Dismisses Promises of Further Devolution](#), 12 June 2014.