

A referendum in 2020?

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The First Minister continues to push for a second independence referendum [‘before the end of 2020’](#).

There are of course a number of political hurdles to cross before this could happen. And these will no doubt dominate debates in the press and social media.

But will the Scottish Government be ready to present the *economic* case in 2020?

Similarities and differences from 2014

As we argued in [last month’s Commentary](#), many of the economic arguments will be similar to those in 2014.

Those in favour will make the case that Scotland is comparable to other successful independent countries, with independence providing an opportunity to do things differently. Those against will counter by arguing that Holyrood already has substantial powers whilst benefitting from the pooling and sharing of resources across the UK.

But there are important differences –

1. Back in 2014 there was a choice between a relatively stable ‘status quo’ – albeit with more devolved powers – and independence. But with Brexit, the debate will be set against a backdrop of change and uncertainty whatever the people of Scotland decide;
2. Brexit has thrown into sharp focus the challenges of structural economic change, particularly for businesses. Voters will also be much more mindful about what both sides can credibly say about their so-called Plan Bs and contingencies than was the case in either 2014 or 2016;
3. The economic context has undoubtedly changed. Some aspects – such as the fall in oil revenues – pose a challenge for those in favour of independence. Against that, Brexit throws up challenges for those arguing for the Union, with implications for trade and migration, not to mention the future direction of UK economic and social policy; and,
4. Finally, and perhaps most significantly, many of those on the ‘yes’ side in 2014 stressed the importance of continuity. The plan was to retain Sterling, share economic institutions and keep an open border. But if the case for independence is now framed around Scotland pro-actively taking a different path to a post-Brexit UK, then it follows that the economic proposition for independence will need to be more radical on issues such as currency, customs and fiscal policy than in 2014.

Is this achievable in 2020?

Time is tight. The Scottish and UK Governments had over 3 years between the SNP gaining a majority in the 2011 Scottish election and the 2014 referendum to set out their case.

Back then, Scottish Ministers set out their arguments for why – in their view – [Scotland’s economy would prosper under independence](#). In addition, the civil service and their advisers had the opportunity to put forward what they saw as being a workable *plan for* independence. See for example the work of the [Fiscal Commission Working Group](#). All of this informed the 2013 [White Paper](#).

At the same time, the UK Government undertook a similar exercise through its '[Scotland Analysis](#)' programme.

In total, hundreds of pages of analysis and research were published (not to mention numerous contributions from academia, the business community and think-tanks).

Now it's possible to question the quality of aspects of this work, and indeed, as our Director argued in his [Alexander Stone lecture](#), there are questions about the role of government in any future referendum, particularly in providing the impartial information needed to inform any future vote.

Is such work needed this time?

In our view, it is. And arguably it will be even more important than in 2014.

Firstly, the economic arguments are likely to be high up the agenda for most voters this time around.

Secondly, whatever the outcome, a clear and credible plan will be needed and it will be the responsibility of government and the civil service to ensure that this happens.

Thirdly, as we have seen with Brexit, the credibility of any vote can be questioned if it is not underpinned by facts and evidence (or the reality turns out to be very different to what was promised prior to any vote).

Finally, in the context of a referendum, where the decision is taken not just by Ministers but the wider electorate, civil servants have an important role to help inform voters of the implications (good and bad), the risks, the opportunities and the practicalities of different outcomes.

So what key issues will the Scottish Government need to set out in 2020?

Many of the issues will be as before.

Currency

Firstly, the most pressing issue will be currency.

Back in 2014, the plan was to retain Sterling in a currency union with rUK. This was rejected by the then UK Government.

The 2018 [Sustainable Growth Commission](#) recommended retaining the pound for an extended period. But they also opened the door for a new currency to be established in the medium to long-term.

Since then, there has been a push within some quarters in the SNP for a stronger position on establishing a new Scottish currency.

From 2014, and the work of the Sustainable Growth Commission, we have a good understanding of the arguments for and against different options (for example, the value of an independent Scottish monetary policy and the importance of currency stability for trade.)

So an obvious first task for the Scottish Government will be to set out their favoured option for currency post-independence – their weighing up of the costs and benefits of each option and crucially, their detailed plans for how any new system will operate in *practice*.

Macroeconomic textbook answers to different currency options won't cut it. Instead it's the detailed practicalities that will be vital.

There are a number of issues here including –

- how businesses and individuals might be supported to look at the hundreds of thousands of contracts - from car loans to mortgages, commercial transactions and pensions – to ascertain their legal basis (and whether they will remain in Sterling or not), or change in asset value;
- how might businesses and households cope with day-to-day currency risks;
- what are the plans for a new payments system and possibly a new banking system;
- what is the strategy for the creation and use of currency reserves (if any); and,
- how might a new system for financial regulation be developed.

Through all of this, detailed transition and contingency plans will be needed and required to be set out. (As history has shown, and the Scottish Government has been quite right to highlight during the Brexit process, economic plans can change often for reasons out with your control).

The public finances

The second most pressing issue will be the public finances.

Since 2014, all sorts of wacky theories have developed around the provenance, quality and impartiality of the Scottish Government's own figures for Scotland's fiscal position. We have covered this issue in many [blogs](#) over the last few years.

Whilst the [GERS](#) numbers don't provide a picture of the *long-term fiscal position* of an independent Scotland or the policy preferences of a future government, they do provide an accurate picture of the [starting](#) position any newly independent Scotland would inherit.

The decline in oil revenues has weakened Scotland's prospective revenue base and even after 10 years of austerity, public spending per head remains higher than the UK average.

Scotland would face a major challenge in meeting the EU target of a fiscal deficit of no greater than 3% in the short to medium term.

Now some have argued that the GERS numbers can be dismissed, or wished away by a newly independent Scotland simply [printing money](#).

Ministers and their advisers will know that such arguments aren't credible. Instead, they will be working to set out a plan – taking the GERS numbers as a starting point – based upon cutting back on certain UK-wide spending programmes, significant fiscal restraint and – the holy grail of – promoting growth.

How this all credibly stacks up, whilst still protecting the government's objectives of ending austerity and moving away from growth to an economy based upon wellbeing, won't be easy.

Trade and the EU

A third thorny issue will be around trade and EU membership. If any aspect of the Scottish independence debate has changed since 2014 it is the fallout from Brexit.

Will Scotland seek to remain/re-join the EU or be part of the European Economic Area through some looser arrangement?

And what does the Scottish Government see as being the necessary steps to doing so (and in particular, are there likely to be [economic challenges to overcome on the public finances and choice of currency](#) before membership can be secured)?

And with the UK on track to put in place a 'hard' border with the EU – for Customs and possibly for tariffs if Boris Johnson can't agree a trade deal – what type of border will Scotland have with the rest of the UK? Will there be tariffs, border checks and different VAT arrangements?

The Scottish Government have over the last three years, developed a host of [sophisticated modelling frameworks to show the potential implications of different border arrangements on Scotland's economy for their Brexit work](#).

But what do these same models show about the possible benefits and costs of different trade and border arrangements between Scotland and the EU and Scotland and rUK post-independence (with trade to the UK 3 times as large)?

Transition

A further issue will be around the practical steps of setting up the institutions required for independence.

Back in 2014, the Scottish Government said relatively little on the detail of set-up costs, beyond aiming for a transition period of around 18 months and a budget in the low hundreds of millions.

But the experience of Brexit has highlighted the complexities of unwinding shared institutions, whilst the devolution of new fiscal powers – not least in social security – shows that the setting up of new bodies can be complex ([the devolution of even just a subset of social security benefits may cost over £300 million](#)).

How long will the period of transition take? What are these costs likely to be and/or payoffs in the long-run? What are the opportunities to do things differently/better in an independent Scotland?

In all of this, a key difference this time around will be that the government will have to be much more expansive about their contingency plans and strategies should things work out differently than planned.

The last three years has shown that – whether or not you agree or disagree with a constitutional or policy position – uncertainty can have a debilitating impact upon economic performance.

Scottish Government economists have undertaken some excellent analytical work to assess the impact of [uncertainty on the Scottish economy from Brexit](#) (even before any consideration is given to possible implications). What does this same analysis show for independence? And is it something Ministers are concerned about?

A new vision

Finally, and arguably most importantly, the government will need to set out their vision for a future Scottish economy post-independence.

Much of what we have raised above are the technical issues required to operate an economic state and cover the transition to independence. And it's unlikely that many of them will be easy political ground for the Scottish Government – but this itself shouldn't be used as an excuse not to do the work (or to not be transparent about it).

Much safer territory will be in setting out their stall for the 'type of Scotland' they wish to create and the policy levers they will prioritise.

Again, the Sustainable Growth Commission offered some insights, but we're yet to hear much from the government on their response to the specific ideas they offered.

Indeed, one could argue that much of the recent case for independence has been about pitching it around an anti-Brexit/anti-Westminster narrative.

This is entirely understandable from a political perspective. And there certainly legitimate criticisms of the UK economic model – from its levels of inequalities through to the dominance of London and the South East – that can be made.

But as we move into 2020, we'd expect to see much more of a setting out of the 'positive' case for independence: what can actually be done with the levers of independence on the economy, on the environment and social justice to create a more prosperous and fairer Scotland?

Many of the policies put forward in 2014 – e.g. cutting corporation tax and air passenger duty – already look dated and out of step with the current policy landscape. And with the model of independence being put forward more radical than before, the opportunity for more expansive thinking is that much greater.

Of course, all of this poses a challenge to the UK Government as well, and particularly how it might set out its positive economic case for Scotland remaining in a post-Brexit UK.

It will simply not be sufficient for the UK Government to highlight risks with independence. The status quo itself has important policy challenges, whether that be the economic costs of leaving the EU Single Market or the economic effect of limits on immigration.

There are challenges to should future UK Government policy – possibly in areas such as employment rights, trade and the environment – differ from those of voters in Scotland.

And there is much repair work needed in restoring intergovernmental relations between Edinburgh and London. Most of the time this is just knock-about politics, but when it starts to spill-over into key policy issues such as delaying the [Scottish Budget then the stakes get raised](#).

Where might the spotlight focus upon the UK Government?

Some of the debate will undoubtedly stray into discussions around possible further devolution – perhaps less on issues of public finance (as was the case with the Smith Commission) and more on issues of economic and welfare policy.

The UK Government is also likely to need to come up with some answers pretty quickly on what (now to be ex-EU) powers it wishes to see administered by Holyrood and the other devolved nations and what will be retained at Westminster? What too might they see any

role for the Scottish Government in future trade negotiations? Frankly, it does not appear on the outside that they have a clear position on any of these issues.

But it also seems that the UK Government needs to ask some sharp questions about its role in supporting the Scottish economy – beyond traditional arguments around fiscal transfers and the like.

Where does UK economic policy support the Scottish economy? Where – in areas such as a possible ‘one-size-fits-all’ migration policy – might policy be detrimental to outcomes in Scotland (and what could be done differently)?

How might a refreshed regional policy for the UK benefit Scotland? And what might [Lord Dunlop's review](#) of UK Government structures and activities in the context of devolution – scheduled to report in the autumn of last year – recommend?

Conclusions

These are enormous questions.

And a short article clearly cannot do justice to the complexity and significance of the myriad of different factors at play here.

The issues themselves are hugely complex, highly technical and will require careful and detailed thought.

With any vote likely to be contentious once again, any analysis is likely to be poured over and heavily scrutinised. But such analysis is crucial to inform the debate.

If a referendum is to be held in 2020, this suggests answers to these questions in the coming weeks and months.

2020 promises to be a fascinating year!

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