Introduction
The debate on Scotland’s constitutional future appears to have intensified following the conclusion of the Chancellor of the Exchequer, George Osborne, and the closely coordinated parallel statements of Danny Alexander and Ed Balls, that a formal currency union between the residual UK and an independent Scotland ‘is not going to happen’ in the event of a Yes vote in September 2014.

Though economic analysis is used to support arguments for and against formal currency union in the event of a Yes vote, such analysis may well be subsidiary to political considerations and strategies aimed at shaping voting behaviour in September. This note begins with a consideration of public attitudes on Scotland’s constitutional future before relating these to the political strategies of the two sides in the debate.

Public Attitudes
The referendum in September offers a binary choice, Yes or No to the question ‘Should Scotland be an independent country?’ Voters’ opinions about Scotland’s constitutional future do not map onto this binary choice. Opinion is split three ways between the status quo, fuller devolution, and independence. This can be illustrated with data from the Scottish Social Attitudes Survey, as in the table below.

Who Should Decide What?

<table>
<thead>
<tr>
<th>Status Quo</th>
<th>Fuller Devolution</th>
<th>Independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 %</td>
<td>2011 %</td>
<td>2012 %</td>
</tr>
<tr>
<td>The Scottish Parliament should make all the decisions for Scotland</td>
<td>28</td>
<td>43</td>
</tr>
<tr>
<td>The UK Government should make decisions about defence and foreign affairs; the Scottish Parliament should decide everything else</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>The UK Government should make decisions about taxes, benefits, defence and foreign affairs; the Scottish Parliament should decide everything else</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td>The UK Government should make all the decisions for Scotland</td>
<td>10</td>
<td>5</td>
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</tbody>
</table>


The first row in the table describes Scottish independence. The second – where the Scottish Parliament ‘should decide everything’ except defence and foreign affairs (but including taxes and welfare benefits) – is an approximation to what has become
known in shorthand as ‘devo-max’. The third broadly describes the status quo, and the last the situation that existed before devolution. While there is some year-to-year churn it is clear that the status quo is supported by only around a quarter of Scots and the repeal of devolution altogether by at best one in ten.

There is a clear majority in public opinion for a constitutional situation beyond the status quo. This majority is more or less evenly split between independence and devo-max. As the two sides in the debate develop their referendum strategies it is clear that the devo-max group is the key group (the ‘median voter’ in political science language) needed to make a majority either for a UK Government focused on the merits of the status quo or a Scottish Government seeking Scottish independence.

**Political Strategies around the Economics of Scottish Independence**

More specifically the UK Government is seeking to persuade those inclined towards devo-max that the status quo is a better (or, perhaps, safer) option than independence. The Scottish Government is seeking to persuade devo-max sympathisers that the step from maximum devolution for Scotland within the UK to Scottish independence is not a leap into the unknown, but rather something that has many similarities with current arrangements within the UK.

The conception of independence advanced by the Scottish Government is one in which independence would be ‘embedded’[^1] in a range of continuing relationships with the residual UK. The Scottish Government’s November 2013 White Paper sets out many areas in which such continuing relationships would exist: in national defence, in a common travel area, in a common research area, in reciprocal relationships between the BBC and a Scottish Broadcasting Service and, most prominently, in a formal sterling currency union involving a common central bank, common financial services regulation and fiscal coordination on debt and deficits.

This conception of embedded independence has many echoes with equivalent conceptions of independence in other places with strong pro-independence parties like Catalonia, the Basque Country, Quebec, and Flanders. In each of these cases proponents of independence argue that independence is about recalibrating rather than ending relationships with the residual state. There is no doubt that this is a principled position which reflects shared history and a recognition of wider interdependencies that limit the extent of purely national sovereignties. There is no doubt too that there is a tactical element: to offer reassurance to devo-max sympathisers that independence would not be a rupture but rather an adaptation of current relationships with the rest of the UK.

The UK Government has treated ‘embedded independence’ with scepticism in its series of Scotland Analysis papers, generally stating that there is no guarantee that the continuing relationships envisaged by the Scottish Government would be approved by the residual UK. There is a strong element of principle in this, both in the recognition that the residual UK Government might pursue national interests following a Yes vote that did not align with those of the Scottish Government, but also in a different conceptual understanding of national independence which is shared widely at the centre of the UK political system: that independence with

[^1]: I am grateful to my colleague at the University of Edinburgh, Dr Nicola McEwen, for this terminology.
continuing relationships is not ‘real’ independence. ‘Real’ independence – as defined also in the UK political system’s other big constitutional debate, that of the UK’s relationship with the EU – involves national control of defence, borders and, of course, currency and with it monetary and fiscal policy.

But there is also an element of tactics: to suggest that the only form of Scottish independence that the residual UK would be prepared to negotiate is (its conception of) ‘real’ independence without the continuing relationships envisaged by the Scottish Government. The objective is to remove the sense of reassurance ‘embedded’ independence might offer to devo-max sympathisers, instead to convey a sense of high risk and strong uncertainty, and with that to present independence as a stark choice likely to draw devo-max sympathisers into support for the status quo as a less bad option [it is also possible that pro-union parties will individually or together offer a vision of further-reaching devolution within the UK which will add an element of carrot to the stick of this stark choice between ‘real’ independence and the status quo].

Knowing the Economic Consequences of Independence
The tactical logics operating on both sides recognise a further feature of public attitudes as Scots consider the referendum: that the clearest correlate with a Yes voting intention is optimism about the economic consequences of independence, and the clearest correlate with a No voting intention is a more pessimistic assessment of the economic consequences of independence. Each side has incentives to point up either the potential economic positives (on the Yes side) or negatives (on the No side) of independence and may succumb to temptations to amplify (or, in the language of politics, spin) the issues at stake in ways that claim certainties where none exist and that may obscure rather than illuminate the issues for referendum voters.

The following comments are offered as correctives to this tendency to over-amplification.

- The economic consequences of independence are not knowable with precision. They will depend on the outcome of negotiations in the event of a Yes vote (both in residual UK and EU contexts), the policy stance taken by the Scottish government, the outcome of the 2015 UK election, and the response of economic actors (companies, markets, rating agencies, international organisations) to all these.
- Formal currency union between an independent Scotland and a residual UK is perfectly feasible. Currency unions between independent states are technically difficult to establish and run. They can require strict limits to fiscal autonomy, and they can need painful adjustments if the component economies move out of sync. But whether or not they are established and last has less to do with economics than with political will. Seen from an economic perspective the Eurozone is hugely problematic. Its economies are much more out of synch than Scotland’s is with the rest of the UK. Yet it endures because the political will is there for it to endure, both in the governments of the strongest members like Germany and the weakest like Greece. Were there such political will in the Scottish/residual UK context, a sterling currency union would likely be far less problematic than the Eurozone.
This was a key but perhaps under-appreciated message in Governor Carney’s recent speech and discussion in Edinburgh, in which he said ‘whatever arrangements were put in place, whatever changes were to happen, we would fulfil them’. However, such political will appears not to exist on the UK Government’s part; and it is undermined on the Scottish Government’s part by the reference in the White Paper to possible alternative currency arrangements Scotland might in future pursue.

• Many businesses operating in Scotland have deep concerns over a range of issues to do with the possibility of Scottish independence, above all uncertainties about the currency that an independent Scotland would use and about whether Scotland’s EU membership would be interrupted. Concerns over the former appear more justified given the stance of the UK Government (and opposition) on formal currency union than the latter, notwithstanding Commission President Barroso’s recent statement. Barroso’s was a personal, not a Commission statement, made by an outgoing Commission President with no influence on what might happen in the event of a Yes vote, on a matter where there is neither treaty provision nor precedent. Contrary to Barroso, the conclusion of almost all independent expert analysis is that Scottish EU membership would be uninterrupted, though the process of attaining membership as an independent state and the terms of that membership would likely be subject to difficult negotiations.

• We will likely see a range of interventions from the business community in the coming months, as we have seen in the last weeks, with many (especially those with a substantial part of their businesses in the rest of the UK) expressing concern about the prospect of independence and others (probably fewer and especially those with wide international operations) expressing a broadly indifferent or even (depending on the sector) optimistic views. Such a mix and balance of views is not surprising. But they do need to be put into perspective and not treated either as harbingers of economic doom or of great future prosperity. A more dispassionate analysis, like Standard and Poor’s recent intervention, is useful as it identifies both challenges and opportunities without resorting to extremes of judgement. So while independence could well bring substantial and painful adjustments, including possible business relocations with associated effects on employment, Scotland would not become in any general sense an unattractive location for business. As Standard and Poor put it, Scotland would maintain ‘all the attributes of an investment-grade sovereign credit characterised by its wealthy economy … high quality human capital, flexible product and labour markets and transparent institutions … In short the challenge for Scotland to go it alone would be significant, but not insurpassable’. Scotland’s voters would benefit from more such interventions which eschew the tactical logics and often exaggerated content of the two sides in the Scottish debate.

Professor Charlie Jeffery, March 2014

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4 www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1264946&SctArtId=217545&from=CM&nsi_code=LIME#.