

Lessons from the Scottish referendum campaign

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The course of the referendum campaign on Scottish independence is highly instructive for EU withdrawalists. We are indeed fortunate to have this current example of a possible constitutional change from which we can draw many lessons.

The Unionists - Let us start with the opposition to Scottish independence. This has gone through three overlapping phases. In the first phase, unionists did not take the Scottish independence campaign very seriously. After all, it had been rumbling on for many years. For most of the following period the unionists veered between ignoring the issue and appeasement. This latter took the form of conceding devolution and distribution of financial benefits to Scotland. Appeasement still continues and, as the unionists have now woken up to the imminent possibility of an independence vote on 18th September, we can expect more, in the form of promises on tax, fiscal autonomy and other items.

However, we are now in the third phase which both precedes and follows the actual referendum. In this phase, unionists have to take account of the terms of separation and the effect on the rest of the UK. If the Scots vote for independence, the UK government will cease to take account of Scottish interests and solely take account of the interests of the rest of the UK, one of which, of course, will be relations with an independent Scotland. But this change of stance cannot be left entirely until the referendum date without undermining its credibility. The unionists have now had to outline their position and this has impacted on the campaign.

Of course, there are many issues which have been barely discussed, such as the absurd idea Scotland could

have a different migration policy and still have unrestricted movement to the rest of the UK. There are also questions about Faslane, EU membership, pension schemes, etc. – but the currency issue has now been put on the table.

The SNP - It is well known that nearly all referendums have a conservative outcome as the undecided voters decide for the status quo and reject change. The Scottish nationalist campaign, quite correctly, focussed on continuity and reassurance.

Alex Salmond stressed that not much would change. The Queen would remain Queen of Scotland. Scotland would keep the pound and would stay in the EU and NATO. There would be no border or migration controls between Scotland and the rest of the UK.

All this was entirely sensible campaigning.

Salmond's mistake - The problem is that Alex Salmond did not nail down the key decisions which were not his alone to make. He was fighting for an 'enabling' referendum and promising to attend to the details of independence after the vote. So Salmond did not nail down EU membership, Schengen, etc.

The unionists are now fighting a different type of referendum - a "consent-to-specifics" referendum - which is based on the exact terms of independence.

This is where Salmond has gone wrong. He made assumptions about the specifics - in fact, barely discussed them or even thought about them. He seems to have counted on Westminster's continuing appeasement of Scottish interests after a YES vote.

However, there is likely to be considerable rancour in the rest of the

UK if the Scots decide they no longer wish to be in the same country. The position of the UK government will then focus entirely on the interests of the rest of the UK. Salmond's maximum leverage was just before and at the very beginning of the referendum campaign. The focus of the Westminster government on the interests of the rest of the UK is now manifest.

The Currency issue - Once the Westminster government, the main opposition parties, HM Treasury and the Bank of England refused a Scotland-UK monetary union, Salmond seemed non-plussed. It is difficult to see why, considering the five-year long eurozone problems of monetary union dominating financial news. Some of his allies have come up with the idea of 'sterlingization', of Scotland using the pound without any agreement, in the same way as Panama and Zimbabwe use the US dollar. But this is fantasy as regards the financial sector. US banks and investment funds are not headquartered in Panama or Zimbabwe.

The currency issue is critical. If Scotland were a self-contained semi-rural country, as Ireland used to be, it could have detached itself from the UK, albeit with some disadvantages.

However, the Scottish financial sector is enormous and is largely dependent on English bank depositors, English investors and English pension funds – which, for example, account for 90% of Edinburgh-based Standard Life's business.

The idea that English businesses and individuals would keep their principal bank deposits in a bank in a foreign country is far-fetched, even in a monetary union. Think of, say, the Paris municipality or Electricite de

Continued on page 5

Lessons from the Scottish referendum campaign

Continued from page 4

France keeping their bank accounts, pension funds, etc. in institutions in Portugal, even though both use the same currency. So is the idea that county councils, universities and companies and individuals would keep their pension schemes in a different jurisdiction, let alone a different currency, from where their liabilities arose.

Depositors will recall the example of Iceland, where a popular referendum refused to repay foreign governments who underwrote foreign depositors. Then there is Cyprus where foreign depositors received a 'haircut' at the insistence of the EU. So, either Scottish institutions and banks will migrate to England or their depositors and investors will withdraw their money to England. Neither can afford a mismatch of liabilities in one country and assets in another, with not just currency risk but political (expropriation) risk as well.

No Scottish independence - All this, therefore, means that regardless of which way Scots vote, there will be no real Scottish independence following this referendum. However Scots express their wish, the details of a separation agreement will lead to a mass exodus of English money before or after the agreement and leave the Scottish financial sector either in exile in England or in ruins. Salmond would have to face the fact that independence at present was a non-starter.

Lessons For "Brexit" - Where does this leave EU withdrawalists?

Essentially, withdrawalists have to avoid Salmond's mistake of assuming that a referendum on the EU will be of the 'enabling' type, where a vague general proposition is put to the electorate with the details to be filled in by the executive at a later date.

Europhiles will make every effort to

turn the referendum into one of "consent-to-specifics" where at least the key details and facts are in the public domain and thus in the hands of the electorate. This could be devastating for EU withdrawalists if the withdrawal case does not rest on clear proposals with all the principal details stress-tested in advance.

If the UK left the EU, some of the problems an independent Scotland would face would not be relevant. There are no currency issues and no EU defence issues.

However, there are a great number of issues that do need to be addressed. For example, it is by no means agreed among EU withdrawalists that withdrawal should be by giving notice under Article 50 of the Lisbon Treaty. Also, it is suggested that the UK should return to EFTA and remain part of the EEA, thus reassuring business that it will still be in the Single Market. Some argue that Britain legally remains in the EEA even if it left the EU but it would be advisable to get the leaders of the EFTA countries to go on record beforehand that they would welcome British membership. This whole area needs to be nailed down, not just agreement on what is to be done, but clear demonstration that it *can* be done.

Then there is the question of 'free movement' within the EEA and this is generally supported by business, albeit without taking account of the wider costs to society. Concern about immigration is one of the drivers behind dislike of EU membership. This will have to be addressed, possibly under Article 112 of the EEA agreements, so as to heavily restrict EU immigration.

Another issue is existing EU migrants in the UK. Are they to be allowed to stay indefinitely - with all the costs - or will there be a phased withdrawal of residence rights? How will this impact British residents in the rest of the EU, both existing and

prospective? There is little evidence that this has been thought about.

EU institutions - At present the attitude of the EU institutions to the prospect of a British withdrawal is still in the first phase - they do not take it seriously. If the possibility of British withdrawal becomes likely, they may move to some appeasement or not. It depends on their cost/benefit analysis. However, in the event of a British decision to leave, it must be clear that the EU institutions would then be focussed entirely on the interests of the rest of the EU. They will also be in some form of psychological distress.

Assumptions - Certain assumptions among withdrawalists rest on quite shaky foundations. For example, it is said it would be easy to conclude a free trade treaty with the EU and that, in any case, Britain imports more than it exports to the EU so it would have leverage. But, some 40% of British trade is with the EU, while the proportion of EU trade with the UK is less than 20%. Europhiles could argue that Brussels would have more leverage than British withdrawalists currently assume.

Then there is the question of existing EU law, the hundreds of treaties with third parties concluded by the EU, and many other items. EU withdrawalists cannot afford to be in a position where there is a cacophony of alternatives offered to the electorate on major issues.

But the blunders of Alex Salmond are helpful. EU withdrawalists must not only win the 'enabling' question. They must also get their exact offer to the electorate agreed over a wide range of issues, and demonstrate that it has been thoroughly stress-tested and can be carried out.

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