



Scotland's Future - The facts you need

March 2017

Scotland in Union
A positive view of Scotland in the UK

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1. FOREWORD

By Alastair Cameron, Director of Scotland in Union

During the 2014 referendum campaign, many of us made our minds up pretty quickly. We believed that we Scots were better off remaining with our neighbours and working together for the common good of everybody in the UK. For many people, it was a simple decision: the union is economically beneficial to Scotland, we trade more with the rest of the UK than with any other country, including the whole of Europe; we benefit from a fantastic defence system, our pensions are protected within the union, the Barnett formula enables us to spend more on public services than we would otherwise manage; and ultimately, we believe that we have more in common with everyone across the UK than divides us.

I know that for others, coming to a decision was tougher. People wanted to know the facts, and some people felt unsure as to whom they should trust. On big issues like the currency or the future of the NHS, some people didn't know whom to believe.

It's a pattern we saw in the EU referendum and in the US election. People were left to pick their way through competing views and facts (and 'alternative facts'), with accusations of bad faith on either side.

The nationalists are again threatening a referendum on Scottish independence. Before we get dragged into another debate, it's important that people know the facts today, based on authoritative sources rather than spurious internet 'memes'.

That is why we have produced this guide to the questions people are asking about Scotland's future.

Of course, Scotland in Union has a view on the referendum and people can question our impartiality. But we have the confidence of our argument and we want to help people who want to reach a conclusion based on facts.



Street Campaigning in Glasgow

We stand steadfastly for the Union. We oppose a future referendum on Scottish independence, not because we are afraid of the outcome, but because we see it as an unnecessary and divisive distraction from the urgent business of running Scotland to the benefit of all its people. We hope that after reading our guide to Scotland's choices, you will agree.

2. SCOTLAND'S HISTORY: HOW DID WE GET HERE?

There has been more cooperation than conflict between Scotland and England over the last five hundred years

The history of Scotland's relationships with its neighbours is complex, but defining Scotland's history in terms of conflict with England is misleading.¹ The caricature versions of William Wallace, Robert the Bruce and Bonnie Prince Charlie are some way from reality.

It is beyond the scope of this booklet to provide a full history of Scotland and the UK, and Scotland In Union wants everyone to consider what is best for us now, rather than dwelling on the past. However, we believe it is still worth highlighting some of the positive aspects of our shared history and debunking a few of the more prevalent myths.

BEFORE 1707

Prior to the Act of Union, while England and Scotland were frequently in conflict, there were more frequent conflicts within Scotland (and within England, Wales or Ireland) than between England and Scotland. William Wallace, for example, fought for power within Scotland rather than for Scottish 'Freedom'² (and did he not paint his face blue³). Robert the Bruce defeated the English King Edward II at Bannockburn, but he was equally ruthless in disposing of other Scots who threatened his power, men such as John Comyn.⁴

Even before the 1603 'Union of the Crowns', there was cooperation between Scotland and England when their interests aligned in religion (Protestantism) and marriage,⁵ and people moved frequently across the border for various purposes. Between 1603 and 1707, there were several occasions when the Scottish Estates pushed for some form of closer union with England; and other times when England proposed, or indeed imposed, some form of union. The English rejected proposals in 1607, 1668 and 1670 while the Scots were the cause



The Treaty of Union

of the breakdown of talks in 1641, 1643 and 1674. Various forms of union were discussed before an agreement was finally made in 1707.⁶

Contrary to the popular perception of unionism as a distinctly English innovation, perhaps the earliest roots of unionist thought can be found in the works of the great Scottish philosopher, John Mair (aka John Major). Long before the Union of 1707, or even the Union of the Crowns in 1603, John Mair of Haddington argued fervently for a union between Scotland and England. Mair's 'History of Greater Britain', published in 1521 as "*Historia majoris Britanniae, tam Angliae quam Scotiae*", contains many proposals on what such a union might look like, the benefits it would bring, and how it might be achieved.

OUR THREE CENTURIES AS ONE COUNTRY, 1707-2007

The Act of Union: The Act of Union was opposed by some in both Scotland and England, but for most people involved in politics at the time, it was a pragmatic step and was broadly supported especially after guarantees were given on the status of the Church of Scotland. The main opposition was organised in their actions of pamphleteering and forming protests but ultimately was divided in the face of government forces.⁷ The Jacobite rebellions which came later in the 18th Century are romanticised as “the 15” and “the 19” and (of course) “the 45”, but were really wars of dynasty and religion rather than England against Scotland. The Stuarts, after all, wished to control the crown of the united country, not simply to rule Scotland. Many Scots fought on the side of the 8,000 strong government army at Culloden against the Jacobites (7,000 men),⁸ and the ‘Highland Clearances’ of the later 18th Century were triggered by the modernisation of Scottish estates imposed by forceful actions of the British Government.⁹

THE NAPOLEONIC WARS AND EMPIRE



The Battle of Trafalgar

In the Napoleonic period, Scots served alongside other Britons in the British Army and Navy. One of the most famous sailors of the Royal Navy of the time was Admiral Thomas Cochrane, who hailed from Hamilton.¹⁰ Many Scots were in the victorious fleet at Trafalgar,¹¹ and every antecedent of the modern Scottish regiments was present at Waterloo.

Scots were instrumental in, and benefited hugely from, the British Empire. The Scottish were employed in a number of different areas across the empire including administration, engineering, education, medicine and financial activities.¹² Whatever the merits of the imperial approach which the United Kingdom took, there is simply no case to say that it was an ‘English’ empire.¹³

THE SCOTTISH ENLIGHTENMENT

Scotland followed England’s lead in undergoing a period of ‘enlightenment’ and Scottish intellectuals contributed massively to British society. David Hume, questioned philosophical subjects such as religion and human reason whereas Adam Smith, viewed as the first modern economist, promoted a new economic theory based on free trade as seen in “*The Wealth of Nations*”.¹⁴ Other figures such as James Hutton, James Watt and Adam Ferguson also played prominent roles throughout the 18th century. Meanwhile, Scottish culture flourished and was encouraged by patrons from across the UK especially seen in the growth of architecture in Edinburgh.¹⁵

THE TURBULENT 20TH CENTURY

The 20th century saw the UK standing together with allies to defeat the Central Powers and the Axis Powers in the First and Second World Wars. After the Second World War, the creation of our modern institutions of the welfare state, including the National Health Service, was driven by, and reinforced, a strong sense of solidarity across the UK.

The 20th Century also saw the rise of a Scottish nationalist movement, in many respects in parallel to the nationalist movements of Europe (indeed, the leaders of the nascent SNP such as Andrew Dewar Gibb expressed some admiration for the Nazis).¹⁶ Irish and Welsh nationalism also found expression during the 20th Century, with the Republic of Ireland gaining independence in 1921,¹⁷ and Welsh

nationalism peaking during the 1960s and 1970s.¹⁸ In the second half of the 20th Century, Scottish nationalism waxed and waned (for example, in the late 1960s there may have been approximately 120,000 members of the SNP, based on the number of membership cards issued, but this tide had receded by the 1980s).¹⁹

**SOME VERY RECENT HISTORY
– SINCE 1999**

The Labour Government came to power in the UK in 1997 on a manifesto promise to hold a referendum on Scottish devolution, and a clear majority across Scotland voted in favour of a Scottish Parliament with tax-varying powers. Donald Dewar was elected Scotland’s First Minister in 1999, leading a Labour-Liberal administration with wide-ranging powers over the economy, education and health. He, and his successors, Henry McLeish and Jack McConnell, oversaw new legislation and spending on areas such as the smoking ban, free care for the elderly and the abolition of up-front tuition fees. Most significantly for our main topic, the SNP formed the Holyrood government (then known as the Scottish Executive) in 2007, and then gained a majority of seats in the Scottish Parliament in the 2011 election (winning 45% of the constituency vote and 44% of the regional vote on a 50% turnout, and winning 69 out of 129 seats).²⁰ The SNP had an explicit commitment to an independence referendum in their manifesto, and the UK Government agreed that a referendum should be held. The 2014 referendum was won by supporters of the UK, with the final results being 55.3% of votes cast for remaining in the UK, and 44.7% for separation, on an 84.6% turnout.²¹ Electoral Commission returns show that each lead campaign group spent similar amounts, and that Better Together received more small donations than the ‘Yes’ campaign.²²

The SNP bailed out the ‘Yes’ campaign, which had spent more than it had received during the campaign period.²³After the

2014 referendum, the main parties in Scotland, including the SNP, agreed the recommendations of the ‘Smith Commission’, which led to increased powers coming to the Scottish Parliament. These are covered in the next section of this booklet. In recent years, Scots have continued to participate in shared endeavours with others from across the UK. Two of the four UK Prime Ministers since 1997 were born in Scotland. Team GB’s most-decorated female Olympic medal-winner, Katherine Grainger, and second most-decorated male Olympic medal-winner, Sir Chris Hoy, are from Scotland. Scottish members of the UK’s armed forces have served with distinction in every theatre of military operations.

Team GB: 366 athletes including 50 from Scotland

67 medals
13 won by Scottish athletes

scotland in union

TEAM GB

Thanks to UK National Lottery funding, British facilities, UK Sport, support staff and fans across the UK

WE ARE GREAT BRITAIN

WWW.SCOTLANDINUNION.CO.UK

ParalympicsGB: 264 athletes including 33 from Scotland

147 medals
17 won by Scottish athletes

scotland in union

PARALYMPICS GB

Thanks to UK National Lottery funding, British facilities, UK Sport, support staff and fans across the UK

WE ARE GREAT BRITAIN

WWW.SCOTLANDINUNION.CO.UK

IN CONCLUSION

Scotland In Union believes it is more important that we move on together now, rather than dwelling on history. At the same time, our shared history and culture form an important backdrop to the rest of this booklet, which considers where we are now and what is best for Scotland and the UK, based on the present facts.

3. DEVOLUTION: WHERE POWER NOW LIES

Scotland has one of the most powerful devolved parliaments in the world.

In 1999 the Scottish Parliament was created following a referendum and two further bills transferred powers from London to Edinburgh. Since devolution was agreed, there have been two major transfers of power from Westminster to Holyrood: the Scotland Act 2012, based on the Calman Commission and the Scotland Act 2016, based on the Smith Commission.

| Holyrood | Westminster |
|-------------------------------------|--|
| Agriculture, forestry and fisheries | Benefits and social security |
| Education and training | Immigration |
| Environment | Defence |
| Health and social services | Foreign policy |
| Housing | Employment |
| Law and order | Broadcasting |
| Local government | Trade and industry |
| Sport and the arts | Nuclear energy, oil, coal, gas and electricity |
| Tourism and economic development | Consumer rights and data protection |
| Transport (many aspects) | The Constitution |

Fig 1: Power is shared across the two parliaments as above²⁴

THESE POWERS HAVE IMPORTANT PRACTICAL IMPLICATIONS FOR ALL PEOPLE IN SCOTLAND. FOR EXAMPLE:

- Health is completely devolved to the Scottish Parliament and it is the Scottish Government which decides how much is spent on our NHS every year.
- The Scottish Parliament can today change income tax so that we can vary tax bands, create new tax bands and change the thresholds.
- The Scottish Parliament controls taxation on property transactions. This is a power which the then Finance Minister, John Swinney, used in his budget in replace stamp duty with a Land and Buildings Transaction Tax.
- The Scottish Parliament has legislative authority over a wide range of social security, although the SNP government has chosen to delay taking on the administration of their new welfare powers. The Parliament has full control over support for carers, disabled people and those suffering ill health and can increase the level of any benefit (reserved or not including pensions) or create entirely new benefits in any area (except for pensions) that it chooses.
- The Scottish Government has continued the policy of free university education since 2001, and now fully funds tuition fees.
- Holyrood has enacted wide-ranging reforms to our education system, including the introduction of the Curriculum for Excellence, and the current government has made improving falling standards in education its number one priority.
- The Scottish Government has full control over the rail franchise, including creating a publicly-owned operator.

TAX IN SCOTLAND

When the Scottish people voted in favour of creating a separate legislature, they also supported tax-varying powers. Since 1999, Holyrood has been able to vary tax by up to 3p in the pound, although no Scottish Government to date has used this power.



There has been a growing desire for more flexibility in Holyrood's tax powers and in 2016, the Scottish Rate of Income Tax was introduced for the first time. This means that of the 20p being paid from £1 of basic rate income tax, 10p of that is levied by the Scottish Parliament and this can be varied up and down.²⁵



From April 2017, the Scottish Parliament has the power to set the rates and bands of income tax. The Scottish Parliament is also assigned its share of VAT and has control over Land and Buildings Transaction Tax, replacing stamp duty, Air Passenger Duty and Aggregates Levy.

4. PUBLIC SPENDING

How Scotland's public finances benefit from being in the UK

Scotland is one of the wealthier parts of the UK, with an economy underpinned by the oil and gas industry, the whisky industry, tourism, and the financial services sector. There is very little doubt that Scotland could be an independent country. The real debate over our finances is whether we would be better off, collectively and individually, based on Scotland's current circumstances and expert projections for the near future.

At the moment, the revenue per person raised from taxation in Scotland is just below the UK average, largely because of the fall in oil prices.²⁶ Because we are part of the UK, we are still able to spend more on health and education per head than all the English regions and Wales. In previous years when the oil price has been high, Scotland has contributed more to the UK than it has received – the stability of the Union has allowed us to manage fluctuations in the oil price.

The UK Government's method of allocating funding to Scotland, known as the Barnett Formula, currently benefits Scotland. This has recently helped us manage challenges such as delivering services in geographically difficult areas, areas of low density of population and our traditional greater reliance on public services.

As a result, the gap between what Scotland raises in tax and what it spends is £14.8 billion and this fiscal gap would have to be dealt with if Scotland became independent.²⁷ As a percentage of GDP, Scotland's fiscal deficit (9.5%) is now over double that of the UK's and per head, £2,850 and £850 respectively.²⁸ The Scottish deficit to GDP ratio would be the highest in Europe, even compared with countries such as Greece (7.2%) which has the second worst deficit comparatively.²⁹

It is worth noting that most countries run deficits. However, most countries do not run the kind of percentage deficit which £14.8 billion represents in terms of Scottish GDP. For example, the UK currently runs a deficit of about 4% of GDP.³⁰ However, because Scotland spends more than the UK per head, this leads to a £8.8 billion 'fiscal transfer' – which means that, without the Barnett Formula, Scotland would have to find savings or raise taxes to a total of £8.8 billion a year just to have the same level of deficit as the UK does currently.³¹

Even a spike in oil prices to those forecast by Alex Salmond in 2014 would be highly unlikely to bridge this gap, and reliance on oil would leave Scottish spending at the mercy of a volatile resource which could fluctuate up or down at any time.

An independent Scotland would, of course, be open to pursuing different policies aimed at stimulating growth to bridge the deficit. It has been estimated that an independent Scotland would need growth levels of at least 16% – more than twice the rate of China in recent years – just to maintain the status quo in public spending without increasing taxes. This is a long way off the 3.8% higher growth rate that the White Paper proposed if Scotland became independent over a thirty-year period.³² This growth rate is simply unrealistic for a developed nation, and particularly one with a high proportion of its economy being in the public sector.³³ As a percentage of total employment, 21% of jobs exist in the public sector in Scotland³⁴ which is much higher than the current UK rate of 17.1%.³⁵

As part of the UK, Scottish spending has remained both stable and high despite the fluctuations in oil price and other economic challenges.

PUBLIC SPENDING AND THE NHS

How public spending benefits from being the UK

The health service in Scotland is completely devolved, and the only reforms which can be imposed on it would come from the Scottish Government. The Scottish Government has complete control over the health service budget and the amount allocated is entirely up to them within their budget and the decisions they take on tax and spending.

If Scotland was to vote for independence, then the future challenges of an ageing population and rising healthcare costs would have to be met by Scottish taxpayers and a reduced budget for public spending.



“If an independent Scotland faced a budget deficit anything like that in our projections, spending cuts or tax rises would be needed to put the public finances on a firmer footing.”³⁶

Institute for Fiscal Studies

“In the short term, it is hard to see how independence could allow Scotland to spend more on the NHS than would be possible within a Union where it will have significant tax raising powers and considerable say over spending priorities.”³⁷

The Institute of Fiscal Studies

SPENDING

Scotland's public spending compared to the UK

| Fiscal Statistic | Scotland (per person) | UK (per person) |
|--------------------|-----------------------|-----------------|
| Revenue Raised | 10,000 | 10,400 |
| Public Expenditure | 12,800 | 11,500 |
| Fiscal Deficit | −£2,800 | −£1,100 |

Figure 2: Fiscal Statistics (2015-16, £ per person)³⁸

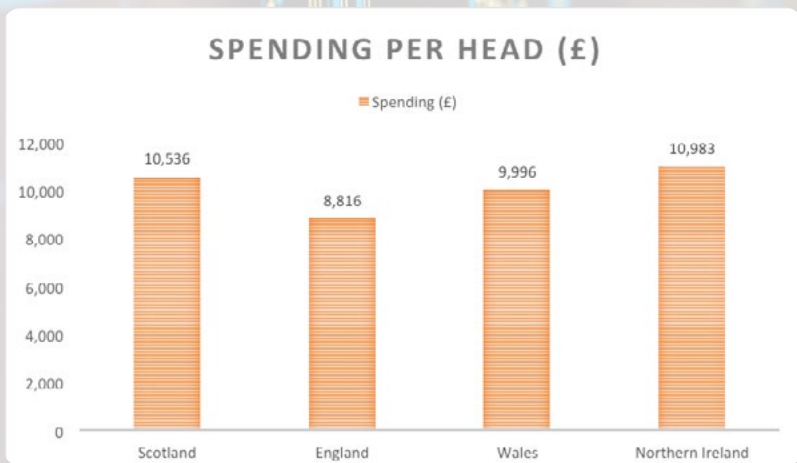


Figure 3: Public Expenditure per head (2015-16)³⁹

SCOTTISH OIL

Oil Forecasts and Revenue

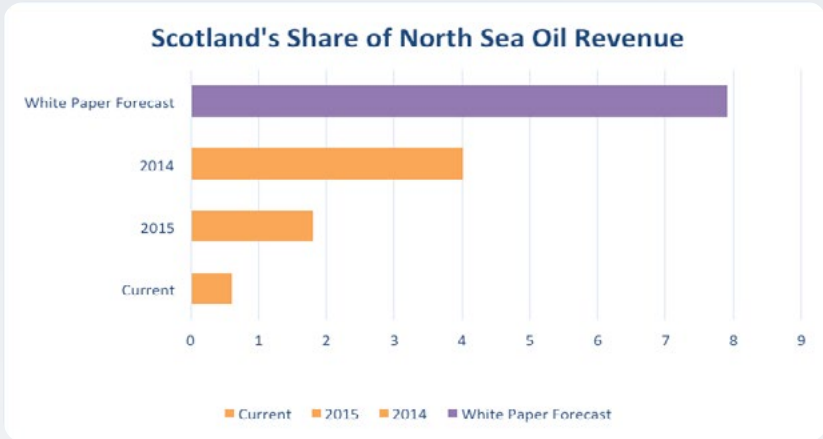


Figure 4: Scotland's share of North Sea Oil Revenue⁴⁰

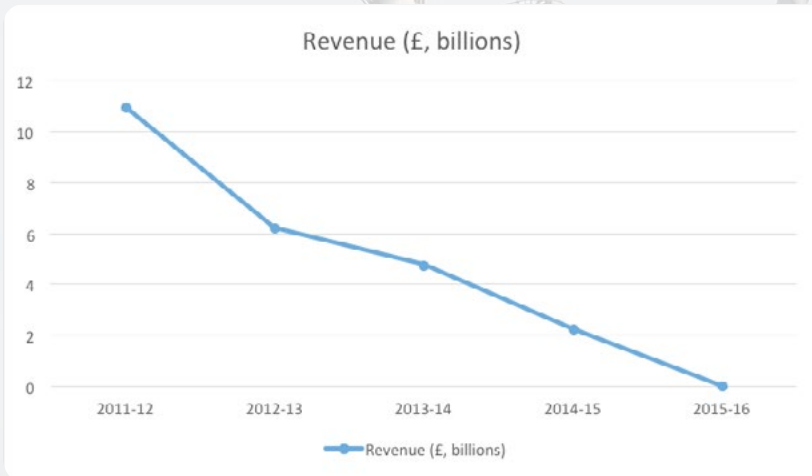


Figure 5: Public North Sea Revenue⁴¹

ANNUAL GROWTH RATES

And Myth Busting

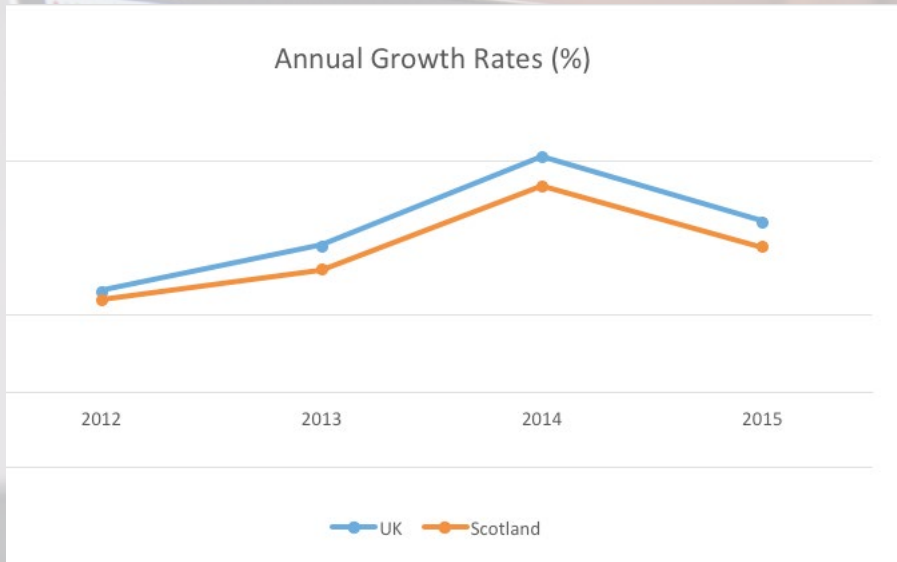


Figure 6: Annual growth rates by economies 2012-15 (%)⁴²

John Swinney on North Sea

“This high level of volatility creates considerable uncertainty in projecting forward Scotland’s fiscal position.”⁴³

A COMMON MISCONCEPTION

Some Scottish nationalists argue that revenue from whisky is miscounted in official statistics, being allocated to England because it is exported through English ports despite being produced in Scotland.

This is not so much misleading as inaccurate — the so-called Whisky Export Duty simply does not exist. Tax on whisky, like other goods, is levied at the point of sale, wherever that might be.⁴⁴

5. PENSIONS AND WELFARE

Pensions would become the full responsibility of the government of an independent Scotland

The UK State Pension

Currently Scotland has 1.2 million pensioners and an ageing population whose levels of support are set and paid for by the UK Government. In the event of independence, the cost of paying existing and future pensions would become the responsibility of the government of an independent Scotland, and funding a new pensions system would be one of the competing spending challenges they would face.⁴⁵ This challenge would be made more difficult by the growing ratio of pensioners against working age population on current demographic trends.



Both the Institute of Chartered Accountants of Scotland⁴⁶ and then-Finance Secretary John Swinney in his 2013 Cabinet paper raised concerns about the affordability of pensions in an independent Scotland.⁴⁷

Social Security:

Where would we find the money for benefits?

While an independent Scotland could choose to invest more in social security in the same way that it could choose any policy path depending on the government of the day, it would be doing so with fewer funds, which would mean even deeper cuts to other public services. The Scottish Social Attitudes survey found that Scots

are only marginally more favourable to increased welfare than England, making this politically difficult.⁴⁸

Since the 2014 referendum, the Scotland Act 2016 allows Holyrood to increase existing benefits (reserved or not) should they wish to while having the minimum levels guaranteed by the UK. This will allow the Scottish Government to pursue a different social security system should they wish but supported by the benefits of the fiscal transfer from the UK.

"There is some truth in the claims made by both sides. Scotland is inclined to be a little more generous on welfare, though perhaps not necessarily as much as is sometimes suggested. But it is also not sure it wants to take on all the burden of paying for it."⁴⁹

Professor John Curtice,
Strathclyde University

Consumer costs

Spread across the UK or Scotland-only?

Being part of a single UK market has allowed businesses operating in Scotland to spread costs across a larger customer base and help reduce consumer prices. A number of significant bosses have noted that the cost of doing business would be higher in the event of Scottish independence, because of geography and differences in tax and regulation. These would inevitably be passed on to consumers through higher prices.



BUSINESS VIEWPOINTS

What businesses say about consumer costs

“Already it costs more money to get groceries to people in Scotland, our taxes are higher and our margins are lower. Our systems are set up for one single UK market. These are not arguments for or against independence, but a simple recognition of the costs that change would bring.”

Andy Clarke, former chief executive, Asda, December 2013⁵⁰

“When we are talking about two separate countries it is most probable that retailers will start pricing differently.”

Sir Charlie Mayfield, chairman, John Lewis Partnership, September 2014⁵¹

“But it is more expensive to do business in Scotland today. Business rates are higher, distribution costs are higher. If Scotland was to be an independent country, with businesses run separately in Scotland – as inevitably will be the case – prices would be higher.”

Justin King, former chief executive, Sainsbury’s, September 2014⁵²

“We think there is a real risk in terms of higher costs, the uncertainty about a currency union and the difficulty of making investment decisions. Smaller, more complex markets often mean passing higher costs on to consumers.”

Sir Ian Cheshire, former chief executive, B&Q, September 2014⁵³

6. JOBS AND TRADE

Scottish Jobs and the UK Economy

Most of Scotland's key industries, including shipbuilding, North Sea oil and gas and financial services, benefit from, and even rely on, being part of a single UK market. Not only is there free movement of capital across the UK, but free movement of people means that someone born in Scotland can potentially work anywhere in the UK without any need for a work permit or visa. In an independent Scotland and with Scotland in the EU, we may have free movement within the British Isles but not free movement of labour.

According to the latest figures, Scotland's has a strong labour market but still lags behind the UK average. For the period September to November 2016, 73.4 per cent of the population was in employment compared to 74.5 in the UK while 5.1 per cent are unemployed compared to 4.8 in the UK.⁵⁴

Scottish independence raises the unwelcome prospect of barriers to trade such as a trade border with England, higher borrowing costs, different regulations and currency exchanges for Scottish business. Many business leaders have warned that the higher costs of business could force businesses to reduce staffing levels or relocate south of border. Financial services firms such as Standard Life or the Alliance Trust could be particularly prone to this, as they would choose to move their headquarters to the jurisdiction where most of their operations are regulated.⁵⁵



None of this means that Scotland cannot become an independent country or that, in the words of John Swinney, we are "too wee, too poor, too stupid"⁵⁶ to become independent, but it does mean that there would be, in the words of Nicola Sturgeon, "deeply damaging and painful consequences"⁵⁷ from the trade disruption following the breaking of an economic union.

"Although the fact of, the timing and outcome of any further referendum on Scottish independence is very uncertain, such a referendum would greatly increase the risks the Group currently faces as a result of the EU Referendum. An affirmative result would result in significant additional constitutional, political, regulatory and economic uncertainty and would likely significantly impact the Group's credit ratings and funding and other costs and the fiscal, monetary, legal and regulatory landscape in which the Group operates."⁵⁸

RBS Annual Report 2015

"This line of argument does not take us to a case for Scottish independence in the EU. The risks to relationships for the financial sector with counterparts and customers of one type or another in the rest of the UK would intuitively appear at least as great as the risks from a hard Brexit while remaining within the UK. The uncertainties for the sector following independence look even greater than those following a sharp Brexit."⁵⁹

Jeremy Peat and Owen Kelly

SCOTTISH JOBS

Views from Employers in Scotland

| Sector | Number of Jobs |
|----------------------------------|----------------|
| Financial Services | 100,000 |
| Oil and Gas | 132,000 |
| Defence (including shipbuilding) | 38,000 |

Figure 7: Scottish Employment Statistics by Sector ⁶⁰

The reduction in spending could also mean a smaller public sector with resulting job losses. Scotland's public sector makes up 21 per cent of the workforce compared to 18 across the UK.



Weir Group - *"The report by Oxford Economics suggests that the current independence proposals may add substantial costs, at least in the short term and perhaps for many years to come. That is obviously concerning for anyone who wants to see the Scottish economy continue to succeed. For businesses, the conclusions seem clear: the costs of independence are guaranteed but the benefits are uncertain. That has the potential to make Scotland less competitive, not more."*⁶¹

Aggreko - *"It is likely that we would have to deal with significant additional administration cost and complexity in our UK operations, which we currently run as a completely integrated unit, sharing fleet and people without impediment. Following Independence, our UK business operations would have to be split into two separate trading entities, and every time we moved an item of fleet across the border, invoices would have to be raised, and balance-sheets adjusted; we would have to account for tax purposes for our employees' days spent either side of the border. Second, we assume that an independent Scottish Government would wish to have its own distinctive approaches to the taxes and regulations which we currently deal with on a UK level; if Scotland were independent there would potentially be different rates of VAT, personal and corporate tax, different approaches to employment rights, pensions and health and safety. Managing these differences would add complexity and cost to our UK business."*⁶²

Standard Life - *"We have started work to establish additional registered companies to operate outside Scotland into which we could transfer part of our operations if it was necessary."*⁶³

BREXIT

What will it mean for Scottish Trade?

It is unclear what the UK trading relationship will be with Europe and other global markets following the EU referendum in 2016 but being part of the UK gives Scotland tariff-free access to its biggest export market.



Figure 8: Scottish Export Destinations ⁶⁴

It is estimated we export nearly four times as much to the UK as we do with Europe. ⁶⁵

If Scotland was to separate from the UK and was successful in joining the EU, any tariffs that are applied to trade between Europe and the UK would apply between Scotland and the UK. Meanwhile, Scotland's trade rules would be set by Brussels. ⁶⁶



7. CURRENCY AND BORROWING

If we did separate, would an independent Scotland be able to keep the pound?

The UK Pound

The pound sterling is issued by the UK's Central Bank, the Bank of England – which is really the Central Bank of the UK. The pound is backed by UK Government guarantees and the Bank of England acts as the lender of last resort. Scottish banks issue their own UK Sterling notes; to be able to do so they must deposit reserves with the Bank of England.



There would be various options open to Scotland if it were to separate from the UK. These are shown below:

KEEP THE UK POUND, IN A CURRENCY UNION

How would it work?

Scotland would continue to use the pound but adjustments would have to be made because the loss of fiscal union would mean that Scotland wouldn't have a say in monetary policy discussion.⁶⁷

What would be good about it?

The continued use of the pound would give Scotland stability during the period of immense change that independence would bring. The Bank of England would remain a 'lender of last resort'.

What are the risks?

The Bank of England would have control of interest and exchange rates so Scotland would have no ability to influence policy if an economic problem arose that didn't affect the rest of the UK.

KEEP THE UK POUND, WITHOUT A CURRENCY UNION ('STERLINGISATION')

How would it work?

As the pound is an international traded currency, Scotland could continue to use it without forming a currency union with the UK.⁶⁸

What would be good about it?

No need for new currency which would be a time consuming and difficult process.

What are the risks?

There would be no access to the Bank of England without a currency union, which means there would be no Lender of Last Resort (LOLR). This means a potential financial crisis would be more damaging to Scotland and would severely restrict the ability of the government to borrow. Financial Services organisations would not be able to headquarter within Scotland.⁶⁹ It is believed that combining 'sterlingisation' and EU membership would not be possible.⁷⁰

THE EURO

How would it work?

The Scottish Government could either create a free floating currency determined by the market or fix it to the pound to secure its value in the beginning which is seen as the less risky option of the two options.⁷¹

What would be good about it?

Essential for joining the EU.⁷² Eurozone growth remains steady as it begins to move away from the problems that has plagued it during the last decade.⁷³

What are the risks?

Reaching the 3% ratio of debt to GDP required to join the Euro would require crippling austerity as current Scottish debt levels are far too high.⁷⁴ Interest rates would be set by the European Central Bank which attempts to set a 'one size fits all' policy so Scotland would have no control over monetary policy.

A NEW CURRENCY

How would it work?

The Scottish Government could either create a free floating currency determined by the market or fix it to the pound to secure its value in the beginning which is seen as the less risky option of the two options.⁷⁵

What would be good about it?

Through the creation of a central bank, Scotland would be able to set their own interest rates and be able to lend in a last resort situation.

What are the risks?

Need substantial reserves to prevent currency speculators 'attacking' the currency especially if it is pegged to Sterling or the Euro.

Cost of set-up.

Need to exchange money to use in rUK and also trade with it if the currency is free floating.

The issue of Pensions and wages being in the Scottish currency, but most costs and mortgages will be in Sterling.

*"If you were forced to join the euro as a price of joining the EU, then I would have very strong second thoughts. It's too high a price. Your economy should not be ruled by Frankfurt, which is what would happen if you had to join the euro."*⁷⁶
Joseph Stiglitz, Nobel Prize and economics adviser to the Scottish Government

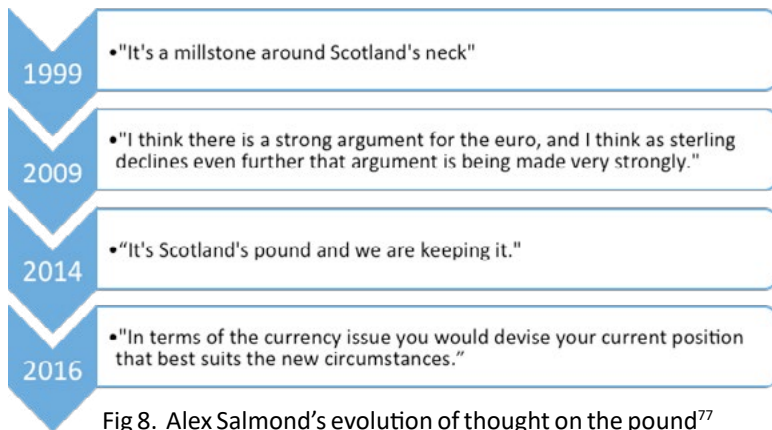


Fig 8. Alex Salmond's evolution of thought on the pound⁷⁷

JOINING THE EURO

Conditions of joining the European Union

The European Commission is clear that "All Member States of the European Union, except Denmark and the United Kingdom, are required to adopt the euro and join the euro area. To do this they must meet certain conditions known as 'convergence criteria'.⁷⁸

These criteria are specifically set out by the EC as follows:

- An inflation rate of not more than 1.5 percentage points above the rate of the three best performing Member States
- Government deficit not exceeding 3% of GDP
- Government debt not exceeding 60% of GDP
- Long-term interest rates not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability
- Stable exchange rate

Even if Scotland were able to defer membership of the Euro (like Sweden) it is likely, as a new member, that it would be required to sign up to the provisions of the European Fiscal Compact (which the UK is not a signatory to). This would commit Scotland to a 3% deficit limit and debt to GDP ratio of 60%. These would be extremely tough tests for a newly independent Scotland to meet.

8. SECURITY, INFLUENCE AND INTERNATIONAL SUPPORT

Is Scotland safer as part of the UK?

All of the UK plays its part in defending our shared airspace, patrolling our surrounding seas, integrating intelligence networks and helping to protect us all from threats such as terrorism, cyber security and organised crime.

A defence policy pooled across the UK and controlled centrally by the UK Government has kept Scotland safe for hundreds of years and allowed us significant influence in establishing peace and security in other parts of the world. As part of the UK, we are also leading members of NATO, influential players in European intelligence networks and have a permanent seat on the United Nations Security Council.



The UK currently spends £36 billion on defence, the fifth largest amount in the world,⁷⁹ including new investment in ship-building on the Clyde, and military bases in Scotland and across the UK.⁸⁰

An independent Scotland would face the prospect of creating its own smaller and weaker military and security infrastructure or seeking to recreate a more fragmented common defence policy with the rest of the UK.

THE UK PASSPORT AND HELP OVERSEAS



British citizens have access to one of the biggest networks of consular support in the world, with 216 posts in 144 countries.⁸¹ The UK Government uses its influence to help Britons abroad when they need support, and in extremis deploys the UK's Armed Forces to protect or evacuate them. The 2011 evacuation of Libya, where hundreds of oil workers including many Scots, were taken to safety as civil war erupted, is a case in point.⁸²

Currently, British citizens living outside the UK can pass on their nationality on to their children, but not to subsequent generations. If this were to continue to apply after Scotland became independent, it would mean that the grandchildren of British citizens living in an independent Scotland would not have British citizenship.

AID AND INFLUENCE

The UK is one of only six countries to meet the UN's goal of apportioning 0.7% of GDP to overseas relief (along with Sweden, Norway, the Netherlands, Luxembourg and Denmark).⁸³

We rank second behind the US in the international measure of 'soft power'⁸⁴ and are one of the leading signatories of the Paris Agreement on climate change targets.⁸⁵

TRIDENT

Defence spending and Scottish jobs

The UK is one of nine countries known to have a nuclear deterrent⁸⁶ and is a signatory of the Treaty on the Non-Proliferation of nuclear weapons.⁸⁷ The others include Russia, North Korea and Pakistan.

Spending on nuclear weapons currently accounts for six per cent of our defence spending.⁸⁸ The submarines which carry the nuclear weapons are based at HMNB Clyde at Faslane, supporting for hundreds of local jobs. Current plans are to base the entire UK submarine fleet at Faslane, in addition to the nuclear deterrent.



A Trident Submarine

The UK's nuclear weapons safety record is unblemished, with no recorded leak of nuclear material from a military nuclear weapon, ever. Indeed, there has never been an accidental nuclear weapons detonation by any country, and the way in which the UK's weapons are stored makes it effectively impossible for an accidental detonation to occur – missiles are only armed in flight.⁸⁹

The 2014 white paper on independence proposed keeping Scotland in NATO, which considers nuclear deterrence as a core policy. Public opinion in Scotland is evenly split on issue of nuclear weapons.⁹⁰ It is worth considering that even if an independent Scotland removed nuclear weapons from Scotland yet remained a NATO member, then a nuclear armed major power enemy would still be likely to target major cities in Scotland.

9. BORDERS AND THE EU

A hard border between Scotland and England?

Every day, there are 60,000 car journeys between Scotland and England and 40,000 tonnes of freight pass through without border checks.⁹¹

If Scotland separated from the UK, the exact nature of the crossing between Scotland and England would depend on a number of still unknown factors, such as the nature of the UK's Brexit deal and the success or otherwise of Scotland's attempts to join the EU.



The Scotland and England border

It is likely that there would be significant goodwill in the negotiation of the border, but if policies on immigration and trade were to diverge significantly between the UK and an independent Scotland, the threat of a 'hard border' (with fences, crossing points and passport control, and possibly visas) is a real one, and no one can rule it out.

As the UK is leaving the EU, would an independent Scotland automatically become a member of the EU?

As part of the UK, Scotland has been inside the EU since 1973, but there has never been any official recognition of Scotland as an EU member in its own right. While it has been suggested Scotland could stay in both the UK and the EU, there has been no serious suggestion from any senior European officials that Scotland could automatically continue as a member of the EU after the UK has left. Senior politicians in some EU members have suggested they would block Scotland's entry to the EU, partly to suppress their own nationalist movements.⁹² For example, Spain, with its Catalonian secessionist movement, has been quick to emphasise that the UK should negotiate Brexit as a single entity.⁹³

If Scotland was to join the EU as an independent country, it would lose the vetoes and exemptions which were previously granted to the UK. It is highly likely that Scotland would have to meet the standard terms for EU entry, including deficit reduction to 3% of GDP, (currently 9.5%, thus requiring unprecedented austerity) and adoption of the Euro.⁹⁴

*"If the United Kingdom leaves [the EU], so does Scotland. Scotland has no competences to negotiate with the EU. The Spanish government rejects any negotiation with anyone other than the United Kingdom." Mariano Rajoy, Spanish Prime Minister, June 2016*⁹⁵

10. CULTURE AND EDUCATION

Scottish culture within the UK

Scottish culture is celebrated and enjoyed all over the UK and the world. From Burns and ceilidh dancing, to Rod Stewart and Harry Potter, Scottish culture, literature, music and history are not suppressed by being part of the UK. Indeed, the UK has given them a platform to thrive, particularly in recent decades.



Spending on culture has been devolved to Holyrood and benefits from the extra public spending we enjoy as part of the UK. Independence could mean deep cuts to spending on culture as public funds are reduced.

The other side of the coin is that Scottish actors, musicians and other artists - such as Ewan McGregor, Sean Connery and Alan Cumming have seen their careers take off through collaboration with others from across the UK, or by access to a loyal UK fan base.

The BBC

If Scotland was to separate from the UK, it is likely that viewers in Scotland would have to pay subscriptions to access the BBC (while a Scottish government might set up a tax-funded 'Scottish Broadcasting Corporation' or similar). Viewers in Ireland can access BBC Northern Ireland through pay-tv formats like Sky or Virgin, which they pay for on top of their TV licence, and the subscription model was seen as most likely during the 2014 campaign.

"One way or another, after independence, Scottish viewers would have to pay to receive BBC services. Those who will vote for independence identify and expect many gains. But many of the advantages that the most creative and inspiring talents in Scotland have enjoyed for 300 years – of making a massive impact on a big stage to global acclaim – will be lost."

*Lord John Birt, former Director General of the BBC, August 2014*⁹⁶



University funding and research

Scottish research punches well above its weight and our researchers have played their part in some of the world's most exciting scientific discoveries, from Dolly the Sheep to Higgs Boson. Much of this work has been undertaken while working in, and alongside colleagues from, the rest of the UK (for example, John Logie Baird developed the television while living and working in the South of England and Alexander Fleming's discovery of penicillin was made at St Mary's Medical School, in London.)

Currently, Scotland commands more than 12 per cent of the UK life sciences research budget with only eight per cent of the population.⁹⁷ Many academics fear independence would disrupt this relationship and reduce the funding options open to Scottish scientists.

Sport

While Scotland competes on its own in some competitions, Scottish elite athletes in most sports benefit from being part of the UK and having access to sports facilities and other support available through Team GB or other bodies. For example, attempts to take the number of Olympic medals won by Scottish-born or Scottish-based athletes in Team GB and suggesting that would be Scotland's total is highly misleading: at Rio 2016, 15 of the 18 medals won by Scots were in team events.⁹⁸ At the same time, Team GB benefits from the presence and participation of these Scottish stars.

"But it would not be quite as simple as just saying, 'there is a Scottish athlete, they have won a gold medal, therefore that's a medal for Scotland'. Most of the athletes have had to move to facilities which are often out with Scotland. I had to move down to Manchester because there was not an indoor facility in Scotland. I went to Manchester, trained with the British team and benefited from that."⁹⁹

Chris Hoy, six-time Olympic champion cyclist, May 2013

"When it comes to the Olympic Games and you get the chance to represent Team GB, it makes it extra special. You're one big team and we're all together. It's a great feeling to know when you step on that ice that you're a part of Team Great Britain and not just Team Scotland."

Eve Muirhead, women's bronze medal winning curling team captain, September 2014

Social attitudes: more that unites us

There is no evidence that Scots have attitudes to social issues which diverge significantly from those of the UK as a whole. Socially as well as culturally, economically and historically, Scotland is very much part of the UK. The British Social Attitudes Survey, one of the most esteemed in the country, continues to suggest that Scottish attitudes and opinions are converging rather than diverging with the rest of the UK. It has been found that few differences exist.¹⁰⁰ The number of people in England who believe that English votes should determine English laws has not increased in number since the 2014 referendum, demonstrating there has been no real sign of an English backlash to the SNP and their policies.¹⁰¹

11. CONCLUSION

What is best for Scotland and the UK?

Scotland is a nation with a proud history and a promising future.

When the United Kingdom was formed over 300 years ago, Scotland was part of it because it was in Scotland's interests at the time. Since then, being part of a bigger economy and allowed us to prosper. It made us more secure and safer. And it has deepened the social bonds with our neighbours, friends and families across the UK.

Throughout this partnership, our Scottish identity and institutions have endured. We have our own parliament. We have always had our legal and education system. Our culture has thrived. From football to rugby, our distinct sports teams have competed as Scotland, but our athletes have also benefited from, and contributed to, the successes of Team GB.

We have built new institutions, including the NHS and the welfare state, and our UK defence forces which fought off national threats in two world wars and continue to protect our interests today. We are part of the fifth biggest economy in the world.¹⁰²

In Scotland, we truly have had the best of both worlds and can continue to do so.

The collapse in the oil price has created a fall in revenues from one of our key industries, North Sea oil and gas. Without the protection of the UK, an independent Scotland would have had to shoulder the burden this price collapse on our own. Separating now would see Scotland starting with a £15 billion deficit, and some painful choices as to how to deal with an £8.8bn deficit gap – the real potential 'black hole' in our finances - due to the loss of Barnett Formula support.¹⁰³

The UK's decision to leave the EU has made many people reassess our place in the UK. But the facts and figures show that Scotland's interests are still best served in the UK. Economically, socially, and on the world stage, the UK makes just as much sense for Scotland as it did 300 years ago.

Those who suggest we should leave the UK and head for the EU have a perfectly legitimate position but also have some important questions to answer: Why would we choose access to the European single market when we do four times as much trade with the UK? Why would we want to open our borders to 27 EU countries but close off our nearest neighbour? Why would we want to ditch the pound and perhaps adopt the euro, and why should we want to sever our links with Westminster only to hand power over to Brussels?

Finally, Scotland plays a part in supporting the UK. Financially, at present the rest of the UK supports Scotland, but this has not always been the case, and there are other advantages to the UK of keeping Scotland. Were Scotland to leave the UK, this would diminish both. Not only would Scotland suffer, but so would our neighbours in the other nations of the UK, and the UK's diminished international influence would be welcomed mainly in Moscow.¹⁰⁴ The case for Scotland remaining in the Union is not merely based on Scottish self-interest, but also on supporting the UK as the UK supports us in Scotland.

Scotland was right to vote to stay in the UK in 2014 and people are right to reject nationalism again today. We need to keep making the arguments for partnership and choose the best future for Scotland.

12. SCOTLAND IN UNION

Some more information

Scotland In Union is a non-party movement which unites people around a positive view of Scotland in the UK, and assists them in taking action.

Scotland In Union is a not-for-profit organisation. We have supporters from all points on the political spectrum, and many diverse views about how to improve life in the UK and in Scotland. We all believe that staying together is in the interests of the people of Scotland, the people in the rest of the UK, and the world more generally

Three ways to play your part:

Support us

Please register your support for our campaign against another referendum and share this with all your friends and family on social media. We need to let the people's voices be heard.

<http://www.scotlandinunion.co.uk/supportus>

Volunteer

Scotland in Union relies greatly on friends, supporters and volunteers. If you would like to register your support in a range of volunteer activities then please follow the link below:

<http://www.scotlandinunion.co.uk/standupagainstanotherreferendum>

Contribute

What we can achieve depends on what resources we have as we are funded entirely by contributions from our supporters. If you can support us financially, please follow the link below:

<https://scotlandinunion.nationbuilder.com/contribute>

Contact us

Email: info@scotlandinunion.co.uk

Twitter: [@scotlandinunion](https://twitter.com/scotlandinunion)

Website: www.scotlandinunion.co.uk

Facebook: <https://www.facebook.com/scotlandinunion/>

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