# SCOTTISH INDEPENDENCE

## Weighing Up the Economics

Foreword by **Magnus Linklater**

GAVIN McCRONE

# Scottish Independence

*Weighing Up the Economics*

**Gavin McCrone** has studied, written and lectured about the Scottish economy over a period of many years. He was a Fellow and Tutor in economics at Brasenose College, Oxford, in the 1960s. He then spent two decades as Chief Economic Adviser to successive Secretaries of State for Scotland. He was successively head of two Scottish Government Departments – the Industry Department for Scotland and the Scottish Development Department. He returned to his previous career in the 1990s as a professor of economics, first at Glasgow University and then at the Edinburgh University Business School. He is a Fellow of the Royal Society of Edinburgh and was a Vice President of the Society from 2002 to 2005.

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To my family, for whom Scotland’s future is important

# Contents

# Foreword

As the date for a referendum on Scottish independence grows closer, arguments for and against what would amount to the greatest constitutional change in Britain for more than 300 years have grown intense. A sense of something approaching national anxiety can be discerned as Scots of every persuasion seek answers to the fundamental questions that will govern the outcome before they go to the polls in September 2014. Would an independent Scotland be worse or better off? More pertinently perhaps, would it have the capacity to flourish? Or would the ending of the Union expose the country to growing hardship at a time of economic uncertainty?

Professor Gavin McCrone brings more than 40 years' experience to bear on these crucial issues. A an academic and, for many years, a senior civil servant, he has been at the heart of economic plannin in Scotland – most significantly as Chief Economic Adviser to the Scottish Office from 1970 to 1992 – for much of his career.

He approaches the subject from an objective standpoint, examining each aspect with a strong command of statistics and a dispassionate assessment of their merits. More importantly, perhaps, he comes unswayed by bias. On the one hand, he has advised successive United Kingdom governments on economic policy – a background synonymous with the constitutional status quo. On the other hand as a senior civil servant in 1974, he compiled a report for ministers on whether North Sea oil revenue would allow an independent Scotland to manage financially. He concluded not only that they would but that they had the capacity to transform the country's fortunes. His paper remained confidential at the time but, if it had been publicly available, the course of Scottish politics might have been very different.

So neither side can afford to ignore Professor McCrone's analysis. He is, in journalistic terms, 'a reliable source'. More than that, he has the great merit of clarity. He examines each aspect of the independence debate with a combination of straightforward analysis and simply expressed conclusions, providing the bare minimum of statistics, set out in a helpfully comprehensible style.

He addresses head on the questions that most trouble voters – whether floating or not. How wealthy a nation is Scotland? How dependent would it be on oil revenues? Would independence allow the country sufficient flexibility on taxation to bolster its economy? Could it afford to fund the welfare state on which it has grown to depend? Would it gain rapid entry to the EU and, if so, would it have to join the euro? What are the implications of adopting the pound as its currency? Could an independent Scotland have weathered the collapse of its once powerful banks? How viable is its energy policy? Above all, is North Sea oil the key that would unlock its potential or is it a diminishing and unreliable asset?

In addition to these critical issues, Professor McCrone examines the case for other options facing the nation: differing forms of devolution such as the proposals contained in the current Scotland Act; the so-called Devo-Max plan for full-scale fiscal independence; and its less extreme version, Devo-

Plus. He questions the assumptions behind each, making the important point that they would all, in dif~~ferent ways, impinge on other areas of the United Kingdom – not always to beneficial effect –~~ and goes on to develop his own favoured alternative.

The backcloth to these arguments is a decision which will confront every person of voting age living in Scotland. It is a more fundamental one than any they have voted on before. Unlike a general election, where the choice, however far-reaching, can be changed in five years’ time, this one is irreversible. If Scotland does, indeed, secede from the United Kingdom to form an independent state, it cannot then decide to rejoin if the outcome is not to its liking. Equally, if the decision is to remain part of the United Kingdom, then that too is one that will endure for many years – ‘at least for a generation’, in the words of the First Minister, Alex Salmond; and, if any attempt were made to revis it more frequently than that, it would, in all likelihood, be strongly resisted by the other countries of the UK because it would be destabilising for all of them.

It is therefore important that the implications of this critical choice are fully understood by those who will make it. While many people will rest their decision on personal or emotional grounds, optin perhaps to stay within the United Kingdom because of family connections or historical legacy, others will feel equally strongly that it is precisely this history that urges them towards the re-establishmen of an independent Scottish nation.

Whatever the reasons influencing their vote, it is important that everyone who takes part in the referendum has a clear understanding of the implications for Scotland and the rest of the United Kingdom. They need answers to the questions that have arisen on the way towards the final decision and clear guidance on how best these can be answered. This book provides the road map that should b the essential companion for all those charged with deciding the future direction of their country.

Magnus Linklat
June 201

# Preface

In 1707 when the members of the Scottish and English Parliaments passed the Act of Union, parliaments were very far from being representative of the people. But, in 2014, it will be for every person of voting age living in Scotland to decide on their country's constitutional future.

There are many Scots living in other parts of the United Kingdom or abroad who have views on thi matter and feel they should have been able to vote. But, apart from the major complications that would introduce, I agree with the view taken by the Scottish and UK governments that it is right for people living in Scotland to be the ones taking the decision. It is they who will live with the consequences of that decision, whatever it may be.

I have no doubt that Scotland could prosper either as an independent country or if it chooses to remain part of the United Kingdom. But the consequences will be substantial whichever way the decision goes. So long as the issues are properly understood – or at least as well understood as the available information allows – there should be no complaint with the decision. This book weighs up the economic issues – it does not attempt to deal with other important issues, such as defence. It is in the belief that many economic aspects of the decision are not well understood, because people lack th information that they need, that I have written this book.

I have never been a member of a political party and I am beholden to no person or group. I have tried to be as objective as possible in setting out the issues. I realise that this will not satisfy everyon There will inevitably be those who will disagree with some of the judgements I make. But, if so, I hope that the arguments can be assessed on their merits rather than on the basis of preconceived idea In the following pages, there will be criticism of arguments put forward by the present Scottish government, but there will also be plenty of criticism of what Westminster governments have said ar done.

As I write, the independence debate is constantly developing. Scarcely a day goes by without eithe some change in government policy, a fresh set of statistics, the publication of a report on the subject or just comment in the press. Other books are being published or are planned. I should make it clear therefore that this book went to the publisher at the end of March 2013 and I have not been able to offer an opinion or comment on anything that was published after that date.

I am grateful to Jeremy Peat, Professor David Bell and Sir David Edward, who have each read chapters, and to my son, Angus, who has read much of the book. All have offered valuable comments Any errors or omissions that remain, however, are my responsibility alone. I am also grateful to my wife who has uncomplainingly tolerated the many hours I have spent absenting myself from other activities to be in my study writing this book.

Gavin McCro
June 201

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# How Well Off Are We?

Economic arguments have formed a large part of the SNP’s case for independence, ever since the growth in support for their party in the late 1960s. For an independence movement this is unusual, although it appears now also to be a factor in Catalonia. Most commonly, when countries split to forr independent states, it is because of differences in culture or serious grievances about the way they have been treated. Whatever the economic consequences, they take the view that they simply do not want any longer to be part of the larger state with which they have been associated. There have been numerous examples – the breakup of the Soviet Union, the collapse of Yugoslavia and even the independence of what then became the Irish Free State and is now the Irish Republic. In this latter case, although the economic condition of Ireland within the UK during much of the previous century and right up to the First World War certainly gave grounds for serious grievance, even there, as with the other countries, little if any detailed argument about the economic consequences of independence or the policies that a separate state might pursue took place. Indeed, what really seems to have broug the issue to a head in Ireland was not so much its economy as the savage and ill-judged reaction of th UK government to the 1916 uprising in Dublin, which resulted in many of the leaders being executed

Scotland has its own distinct culture and history. Moreover, during my lifetime I have witnessed th development of a growing awareness of Scotland’s separate identity and the confidence that goes wit that. Nevertheless, it is not so difficult to understand why the argument about the economy features a much as it does in the Scottish context. Scotland had its industrial revolution early and, during those years, the economy grew rapidly. But this early success left a legacy of problems that was to dominat the economy for much of the 20th century, as it did also in the north of England and South Wales, when the traditional industries of coal, steel, textiles and shipbuilding, together with associated engineering, went into decline. While, in the post-war decades, unemployment remained low by present day or pre-war standards, it was frequently twice the rate for the UK and net emigration was extremely high, amounting over the decades of the 1950s and 1960s to a total of 609,000. Approximately half of this was to the rest of the UK and half overseas. This was equivalent to 30 per cent more than the whole population of Edinburgh.[1] There were serious problems of deprivation in some of the industrial areas, notably in the west of Scotland – a problem that persists to this day. Scotland was, of course, not the only part of the UK suffering these problems. But they gave rise to a feeling in Scotland that the country’s economy was somehow not doing as well as it should and that the UK government in London was not doing enough.

The UK government, through its regional development policy, especially during the 1960s and 1970s, when this policy was at its height with substantial funds devoted to it, attempted to deal with this problem. In addition to substantial grants available to encourage industrial investment in areas o high unemployment, the Highlands and Islands Development Board (HIDB) was set up in 1965 and the Scottish Development Agency (SDA) in 1975. Considerable success was achieved through the intr~~oduction of new industries, most notably, but by no means exclusively, electronics. Indeed,~~ Scotland was the most successful part of the UK in attracting inward investment from overseas and, after Ireland, one of the most successful in Europe. But this did not eliminate the problem and the success with investment in the electronics industry received a severe setback after 2000, when the industry encountered a recession and much of the new investment went to countries with lower labou costs. What had been achieved was not always recognised and the details of successive regional development policies were largely lost on the general public. After the 1979 election, the new Conservative government’s philosophy was against intervention and in favour of giving full rein to market forces. Assistance through regional policy was scaled down, though it still continues, as do SDA and HIDB. But both of these agencies were significantly modified in the early 1990s and renamed Scottish Enterprise and Highlands and Islands Enterprise. Their scope and remit were again changed by the SNP government after its election in 2007.

The election of 1979 was followed by a period of severe economic difficulty in Scotland, as it was also in many parts of England, especially in the north. The tight monetary policies followed by the government resulted in the closure of many industrial firms, not only those in the older heavy industries of shipbuilding, steel, coal and heavy engineering but also some inward investment companies, the motor industry at Bathgate and Linwood, the aluminium smelter at Invergordon and many new businesses that had set up in Scotland. It was at this time that Scotland lost much of its manufacturing industry.

It was ironic that, as North Sea oil production began to flow in substantial quantities, it also adversely affected much of Scotland’s existing manufacturing through strengthening the UK’s balanc of payments and pushing up the exchange rate for the pound, so that many businesses became uncompetitive. Indeed, in these years, the decline of existing industry appeared to outweigh the very welcome benefits to companies that took advantage of the opportunities available from oil-related activity. I thought at the time that policies were needed to try to counter this adverse effect because, even if much of this was inevitable, it resulted in high unemployment and great distress. The result was that the unemployment rate in Scotland peaked at just under 14 per cent in 1986 – much higher even than in the recent severe recession.[2]

The sense of grievance stemming from the difficulties in the economy in past decades has therefor been a major factor in the growth of support for independence, even if now Scotland’s performance relative to the rest of the United Kingdom is significantly improved. Some people felt that Scotland’ economic performance, as part of the UK, was below its potential and started to question whether it might do better on its own.

This feeling received a major boost when North Sea oil and gas were discovered in the 1970s. The vast bulk of the oil discoveries (though not the gas) were off the Scottish coast and, under international rules, would have been in Scotland’s offshore territory were it an independent state. Th importance of this seemed at first to be underestimated by the UK government and it was some time before appropriate policies to give benefit to the state were put in place but, once this was done, the revenues from taxation were very large indeed and of major benefit to the UK Exchequer. No longer did it seem so persuasive to the general public to argue that Scots would be worse off if their country became independent. It was no surprise therefore that support for independence grew.

## How Wealthy is Scotland?

Scotland’s relative economic position within the UK is now enormously better than it was in the earl 1970s. The strength of an economy is assessed by using statistics that measure the total of goods and services produced. Two measures are widely used – gross domestic product (GDP) and gross value add~~ed (GVA). The difference between the two is not important so long comparisons are consisten~~t.[1] Scotland's gross value added (GVA) per head, at 98.6 per cent of the UK average in 2011, was exceeded only by London and the South East of England (Table 1). At a lower level of aggregation, th north east of Scotland is now one of the most prosperous parts of the UK with a GVA per head of 144 per cent of the UK average, second only to Inner London. This compares with the situation in the late 1950s and 1960s when Scotland's GDP per head was around 10 per cent below the UK average and in some years even lower, making it one of the poorest parts of the UK.[3] In contrast, Wales and the Northern Region of England both seem to have fallen somewhat further behind over the same period, with GVA per head 75.2 per cent and 75.9 per cent of the UK average respectively. Net migration is now into, rather than out of, Scotland and unemployment at the latest count was fractionally below th UK average.[4] This turnaround is partly a consequence of the 1960s and 1970s regional policies, including the work of Scottish Enterprise and Highlands and Islands Enterprise, but also the remarkable growth in Scotland of the financial services sector and employment across a range of industries associated with the development of North Sea oil and gas, especially in the North East. In addition the decline of the older industries has now reduced them to a size where they are no longer such a drag on the performance of the economy.

Scotland is therefore quite a wealthy country, whether compared with the rest of the United Kingdom or internationally, because the United Kingdom itself is one of the wealthier countries in Europe and indeed the world. Alex Salmond has claimed that, if Scotland was independent, it would be the sixth wealthiest country per head, based on OECD statistics.[5] He arrives at this conclusion by adding to Scotland's GDP a Scottish geographical share of the output of the North Sea. This increase Scottish GDP by some 21 per cent[6] and results in Scotland's GDP per head being exceeded in Europe only by Luxembourg, Norway, Switzerland and Monaco.

However this should not be accepted without qualification. In the first place, he uses Scotland's share of the North Sea as estimated by Professor Alex Kemp of Aberdeen University, which would give Scotland about 90 per cent of the output and tax revenue.[7] The whole of the UK's offshore area has hitherto been treated for statistical purposes as a separate area and without any divisions. Kemp's estimate is derived by applying the international rules for division of offshore territory between state It is the best estimate one can get but, as he himself points out, it is not something that is agreed by the rest of the United Kingdom. Negotiations would therefore be needed, as they frequently are between countries, and that may not prove such a simple matter.

Secondly, GDP from oil and gas includes the profits of the oil companies and the income of those working offshore. Company profits will be distributed to shareholders, the majority of whom are not resident in Scotland, and some of those working offshore also come from other parts of the UK. All o that would be taken account of were we to have estimates of Gross *National* Product (GNP), where income paid abroad and income received from abroad are both calculated to give a net figure, but no allowance for this is made in GDP. Unfortunately GNP is much more difficult to estimate and no suc estimates have been made for Scotland. The truth of the matter is that Scotland's GDP would, indeed be some 21 per cent higher, if the output of the North Sea were included but, leaving aside tax revenue, which is dealt with in the next part of this chapter, it would not make much difference to the living standards of people in Scotland.

**Table 1**

*Gross Value Added in 2011 by Country and Region*

| | GVA per head Index UK = 100 | Growth in total GVA since 2010 % | Share of UK total GVA % |
|---|---|---|---|
| United Kingdom | 100.0 | 2.4 | 100.0 |
| England | 102.3 | 2.3 | 83.9 |
| North East | 75.9 | 1.5 | 3.1 |
| North West | 85.1 | 1.9 | 9.2 |
| Yorkshire and Humber | 81.6 | 1.9 | 6.8 |
| East Midlands | 86.6 | 2.1 | 6.1 |
| West Midlands | 83.8 | 2.0 | 7.1 |
| East of England | 92.7 | 2.9 | 8.5 |
| London | 170.7 | 2.1 | 21.1 |
| South East | 107.2 | 3.1 | 14.3 |
| South West | 91.5 | 2.3 | 7.6 |
| Scotland | 98.6 | 1.9 | 8.1 |
| Wales | 75.2 | 2.2 | 3.5 |
| Northern Ireland | 79.2 | 2.5 | 2.2 |

*Source: Office of National Statistics, December 2012*

Nevertheless, the argument for independence on economic grounds is still made. Scotland's growth is compared unfavourably with other countries of similar size, many of which have quite different economic circumstances. It is also compared unfavourably with the UK, where growth of output (as measured by GDP or GVA) has been faster than in Scotland over a long period; but this ignores the fact that it is not the growth of output in aggregate but output per head that is a guide to the wellbeing of the population. Inward migration has been much higher in the south of England than in Scotland and it is therefore not surprising that output in aggregate has risen faster for the UK as a whole than for Scotland. But, at the same time, the gap in output per head has narrowed so that in Scotland it is now almost equal to the UK average, showing that Scotland's position has improved when compared with the UK as a whole.

## Does Scotland Pay its Way?

Taxes across the United Kingdom, apart from those that are the responsibility of local authorities, are collected by HM Revenue and Customs on behalf of the Treasury. Apart from local authority taxation tax rates are the same across all countries and regions of the UK, although this may change when, under the recent Scotland Act, the Scottish government becomes responsible for part of income tax. The amount of revenue raised in the various parts of the UK therefore depends mainly on their respective wealth and level of incomes. Public expenditure, on the other hand, is disbursed without any regard for wealth, incomes or tax revenue of a particular part of the UK, with the aim of giving a broadly comparable level of public service. This ought to be related in some way to need and, in the case of spending programmes such as social protection that are UK wide, this will be the case.

Under this system, there is no need to take account of how far revenue raised in any part of the UK covers the public expenditure in that country or region, since the budget is framed for the UK as a whole. It is not easy, therefore, to establish for which regions or countries expenditure is higher than the revenue raised and for which it is lower. Although there have been a number of academic studies that have given estimates, until recently there were no official estimates except for Scotland. The Sil ~~Commission on devolution in Wales and the Northern Ireland executive have, however, now produce~~ figures for their territories and both show much larger fiscal deficits than for Scotland.[8] In Wales, public expenditure per head, though higher than the UK average, is not as high as for Scotland but, reflecting the lower GDP per head, tax revenue is much lower, and, for Northern Ireland, expenditure per head is higher than for Scotland, while revenue per head, as for Wales, is lower. No official estimates have been published for English regions, except for identifiable public expenditure. These show that the northern region of England also had public expenditure per head above the UK average and, since its GDP per head was similar to that of Wales, I would expect it also to have a substantial fiscal deficit.

The Scottish Office and, following devolution, the Scottish government have published annual estimates of government expenditure and revenue since 1991 with figures that go back to 1986. It is far from a straightforward task. While the Treasury publishes figures for ‘identifiable expenditure’ b country and region, this cannot include those items such as defence, foreign embassies and interest o the National Debt for which there is no breakdown. A share of these items can only be allocated usin some ratio such as population. The revenue side is even more difficult. Many people living in Scotland and companies operating in Scotland are not taxed in Scotland but in some other part of the UK. The revenue which relates to Scotland is derived from information collected by HM Revenue an Customs but has to be estimated. The resulting figures have been criticised, especially by the SNP in the early years. However they have been much improved, are now the responsibility of the SNP government and give as clear a picture of Scotland’s present budgetary position as can be obtained.

What they show is that taxation revenue from Scotland is approximately equal to its population share of the UK. This is not surprising given that Scotland’s GDP per head is only very slightly belo the UK average. But public expenditure per head is over 10 per cent above the average for the UK (se Table 2).[9] It has been above the UK average for many years, certainly going back to the 1960s and, according to my calculations, even earlier.[10] In the 1960s, there was a deliberate decision by the then Conservative government to increase public expenditure in Scotland and in the northeast of England, because of their difficult economic circumstances and need for development.[11] The extent to which Scotland’s public expenditure per head has been above the UK average seems to have narrowed over the years, from about 20 per cent above in the 1990s to 15 per cent above in the mid 2000s and 10 pe cent above in the latest year. But comparisons are difficult because improvements have been made ir the methodology. In earlier years, the comparison was only based on ‘identifiable’ expenditure but, i recent years, the estimates have included a population share of defence, national debt interest and international services. This larger denominator narrows the gap and makes it difficult to get a continuous series of figures on a consistent basis. Using the Scottish government’s figures for identifiable expenditure only, the gap will still appear to be of the order of 14 per cent.[12]

Before 1979, Scotland’s share of public expenditure was determined as a result of annual discussions between the Secretary of State for Scotland and the Chief Secretary to the Treasury. But, since 1979, it has mainly been determined by the Barnett formula and comes in the form of a block grant. The workings of this formula are obscure to most people. But in fact the Barnett formula is quite simple. It is no more than the application of Scotland’s population ratio to that of England to determine any change in public expenditure that Scotland receives when public expenditure increase or decreases in England. As such it was thought by many people, myself included, that it would resul in a gradual narrowing of the gap between public expenditure per head in Scotland and the UK average. This has been referred to as the Barnett squeeze.

In the event, this has not happened as rapidly as expected. This is due to several factors. First, the formula is only applied to the annual change in public expenditure and this is quite small when com~~pared with the inherited amount from previous years. The formula does not adjust the inheri~~ted amount at all, even if there were a decline in the Scottish population. Secondly, it relates only to the part of public spending controlled by the Scottish government and not even to all of that, since expenditure on agriculture is separately determined. The biggest single component of public expenditure in Scotland is social protection, which is the responsibility of the UK government and is not subject to the formula at all. This exceeds spending on health and education combined, the two largest programmes funded by the Scottish government. Thirdly, the formula has, on occasion, been bypassed if there seemed a pressing need to do so – for example, if there was a national negotiation o wages in some sector of public service such as the NHS.

The upshot is that Scottish public expenditure per head was still £1,197 per head higher than the U average in 2011–12.[13] This not only results in expenditure being substantially higher than tax revenu (excluding tax revenue from the North Sea) but is a source of periodic and growing complaint in England, where it is taken to mean that Scotland is subsidised by the UK. Only if public expenditure the various parts of the UK was seen to be clearly related to need could it be properly defended again such complaints. But no needs assessment has been carried out since a Treasury study in the late 1970s. This was done then in preparation for the devolution scheme in the 1970s, which was never implemented. It appeared to show that, at the time, Scottish public expenditure was indeed higher tha an assessment of need would justify. Scotland obviously does have special needs – particularly the higher costs associated with providing services in remote communities with a scattered population an the poor health record and deprivation in some urban areas, especially in the west of Scotland. But incomes in Scotland are now much closer to the UK average than in the 1970s, when the assessment was done, and, although in the absence of an up-to-date needs assessment no firm conclusion can be drawn, it seems unlikely that it would fully justify the level of public expenditure that Scotland currently receives as compared with other parts of the UK.

The counterpart of the Calman Commission in Scotland, which led to the enhanced powers for the Scottish government contained in the 2012 Scotland Act, was the Holtham Commission in Wales.[14] Using the formula used for distributing public expenditure in England and applying it to Wales and Scotland, Holtham concluded that Wales, although also receiving public expenditure per head above the UK average, received too small a share of UK public expenditure and Scotland too much. This wa largely because Scotland’s income per head (as measured by GDP) was much higher than that of Wales, which was well below the UK average.

If this were all there was to this subject, one would have to conclude that the government of an independent Scotland, responsible for all taxation and public expenditure, would find itself with a ve substantial budget deficit, amounting to 14.6 per cent of GDP in 2011–12 according to the Scottish government’s own figures in *Government Expenditure and Revenue Scotland 2011–12* (GERS). But that takes no account of revenue from North Sea oil which would accrue to an independent Scotland. the revenue from the geographical share that would belong to Scotland as an independent state is included, following Kemp’s analysis, this reduces the deficit to 8.1 per cent of GDP in 2010–11 and t 5.0 per cent in 2011–12 – still high but less than the UK deficit of 7.9 per cent in the same year.

**Table 2**

*Total Public Expenditure Per Capita – Scotland and UK 2007–08 to 2011–12*

| | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 |
|---|---|---|---|---|---|
| Scotland (£) | 10,786 | 11,302 | 11,829 | 12,133 | 12,134 |
| UK (£) | 9,497 | 10,184 | 10,764 | 11,008 | 10,937 |
| Difference | 1,289 | 1,118 | 1,065 | 1,125 | 1,197 |
| *Relative UK=100* | *113.6* | *110.0* | *109.9* | *110.2* | *110.9* |

*Source:* Government Expenditure and Revenue Scotland 2011–12, *March 2013*

Both of these deficits are, of course, unsustainable. They are a consequence of the financial crash of 2008 and the recession that followed. This caused tax revenue to fall and expenditure on benefits to rise as unemployment increased. The austerity measures imposed by the UK government are intended to get the UK deficit down but the economy has shrunk, partly as a consequence of the austerity, and economic growth has been badly affected, so that the targets for reducing the deficit have become elusive.

But how realistic is the Scottish figure for the deficit of 5.0 per cent? It is of course hypothetical since, as part of the UK, Scotland does not have to balance its public revenue and expenditure. Alex Salmond has said that it shows that Scotland is in a stronger financial position than the UK. Is that really so? A number of qualifications have to be made.

In the first place, it is still a deficit and a deficit that is unsustainable. If Scotland had to balance its own budget, measures would be required to reduce it. Secondly, it is dependent on a geographical share of North Sea revenues accruing to Scotland. A more detailed discussion of the importance of North Sea oil will be found in Chapter 7. Suffice it to say here that there are many uncertainties. The Scottish government's assumptions about the North Sea, as explained earlier, use the geographical share of the North Sea based on the median line as estimated by Professor Alex Kemp but, as he himself said in evidence to the House of Commons Committee on Energy and Climate Change, the median line would be taken as the starting point and negotiations would follow, as they have done with other countries bordering the British part of the sea.[15] All this would take time and could involve arbitration.

Whatever the outcome of such negotiations, the revenues from the North Sea are of course substantial but they are also very volatile, depending on the output from the North Sea in any one year, on the price of oil and on the profits made by the oil companies. They have varied from about £1 billion a year to over £12 billion. At their peak in the early 1980s, they were very large indeed whereas, from the mid 1980s, when the price fell sharply, they were much reduced and, in the early 1990s, would have been insufficient, had they accrued to Scotland, to cover the fiscal deficit. Even over the last three years, they have shown great volatility from £12.9 billion in 2008–09, falling to £6.5 billion in 2009–10 and rising again to £8.8 billion in 2010–11 and £11.3 billion in 2011–12. For the future, one can only speculate. Oil production peaked in 1999 and, although it is expected to remain substantial for many years, it is now well below its peak level and expected gradually to decline. Revenue depends of course not just on output but also on the price and prices have proved very volatile. For the future, the outlook for prices is particularly uncertain – on the one hand, the rapid development of countries such as China and India may push prices up but, on the other, the exploitation of shale gas, which is now a major factor in the United States and may become one in Europe, could keep them down. Even if, as many expect, prices stay high, profitability may fall as companies exploit more marginal fields and the costs mount of removing structures from fields that have ceased production. These various factors are discussed in Chapter 7 but they have led the Office for Budget Responsibility to forecast quite a steep fall in tax revenues for the years ahead.

It is the stated policy of the present Scottish government that, when conditions allow, the North Se revenues, or at least a proportion of them, would be paid into a special fund.[16] In this, they are influenced by the example of Norway, which set up such a fund in 1990. This too is discussed in Chapter 7. Given the likely variability in revenue from taxation on oil, putting the proceeds into a special fund would mean that its volatility would not affect the annual budget. It also makes sense because using oil revenues to finance ordinary public expenditure amounts to running down a capital asset to finance current spending.

But, while paying the North Sea revenues into such a fund would be very desirable, the governmen of an independent Scotland could not do without this revenue to finance its budget, so long as the balance between expenditure and revenue remained as it is now. Setting North Sea revenue aside for special fund would therefore only mean that even more draconian steps would have to be taken to eliminate the budget deficit. In the longer run, the situation may be different – one would hope so – but this would require quite a transformation in the Scottish economy, either by reducing the need fo such a high level of public expenditure or somehow increasing other tax receipts through economic growth.

There is a further uncertainty over the balance in what would become the budget of an independen Scotland. The figures in *Government Expenditure and Revenue Scotland 2011–2012* allocate the UK' interest payments on the National Debt on a per capita basis. For an independent Scotland, the National Debt would first have to be split with the rest of the UK. It could be done on a per capita basis but this might be resisted by the UK government on the grounds that, as Scotland's GDP was increased by the addition of output from the North Sea, it would be reasonable to allocate the Nationa Debt by the share of GDP. That would make it some 21 per cent higher than a per capita allocation.

The GERS estimate for interest on the National Debt in 2011–12 was £4,072 million but, if it was split by GDP, including the North Sea share, it would raise the interest cost to around £4,930 million There would also be uncertainty over the rate of interest that a Scottish government would have to pay. It probably would not be, as assumed in GERS, the same rate of interest as for the UK. Theoretically, the rate of interest on Scottish debt might be either higher or lower than for the rest of the UK. But the rate on UK debt is currently at a historic low and there must be doubt over whether this would be matched for Scottish debt, unless agreement was reached to issue common sterling bonds for both countries. That would require stringent conditions on fiscal policy to be met that satisfied both countries. Otherwise, as a newly independent country, Scotland would have to establis its credibility as a borrower, not only with the rating agencies but also with potential lenders. Even a one per cent addition to the rate of interest paid on new borrowing would significantly increase the cost to Scotland. A number of factors are important here – not least whether or not Scotland has its own currency and whether, if it continues to use sterling, there is a credible lender of last resort. The issues are dealt with in a later chapter. The consequence of all these reservations is that it would be unwise to assume, in the event of Scotland becoming independent, that its deficit would actually turn out to be as is given in the GERS estimate. It could scarcely be lower but it might easily be higher.

It would be wrong to leave this subject, however, without considering what might happen in future under the present arrangements, whether or not there is an enhanced degree of devolution. Quite apar from the view expressed by the Holtham Commission, there has been an increasingly strong view in England that, under the Barnett formula arrangements, Scotland receives a more generous share of public expenditure than is justified. Sooner or later this may lead to some action by a future UK government. This is counterbalanced by a fear in Scotland that, since the Barnett formula is only a population ratio, it will eventually result in the squeeze that was earlier expected. As already explained, it is impossible to tell whether the present level of public expenditure, and in particular th extent to which it is above the UK average, is justified in the absence of a proper needs assessment. S far, pressure to address this issue has been ignored, with the government saying it has no plans to alte the formula. But a time may well come when this line can no longer be sustained and a revised syster is i~~ntroduced that allocates expenditure more closely in relation to need. If that happens, it shoul~~d be based on a full needs assessment across all the regions and countries of the UK and carried out by an independent body, acceptable both to the three devolved administrations and to the government of th UK. Scotland would very probably then find itself required to reduce its public spending. I have always taken the view that, sooner or later, this would be inevitable but that the adjustment should be planned over a long period and at a time when the economy was buoyant. It would clearly be painful and would have major political consequences if attempted in circumstances such as the present.

Actually, since Scotland’s population is only about 8.4 per cent of the total population of the UK, a redistribution of spending between the four countries of the UK to accord with a needs assessment would make little difference to England and would scarcely be noticed by the average voter. But that would certainly not be the case in Scotland. It may be, therefore, that the present arrangements will endure for a considerable time, simply because the UK government might not think it worth the hassl of making a change or of incurring political problems in Scotland, when the constitutional issue is in the minds of the electorate.

What this means, however, is that, whether Scotland remains part of the UK under any scheme of devolution or becomes independent, there is likely to be pressure on its level of public spending. Independence would involve uncertainty both over the level and volatility of oil revenues, for which the prudent policy would suggest that relying on them to balance the budget should be avoided and a part of them at least paid into a special fund. Remaining a devolved part of the UK, on the other hand is likely to mean that eventually the level of expenditure will have to be justified through a needs assessment. The crucial difference is that, as an independent state, Scotland would be entirely responsible for its budget from the time that it became independent and would have to live within its means. But, as parts of a larger state, the revenue and expenditure of the individual countries and regions that form the UK would not need to balance. With broadly comparable taxes, the richer areas would contribute more than those that were poorer and expenditure would not be related to the revenue of a particular country or region but to what is required to provide a comparable level of public services.

# 2

# Devo-Max, Devo-Plus and the Status Quo

The independence debate has seen the publication of several schemes that could have formed the bas of a third option in the 2014 referendum to give greater devolution. It is commonly said that more devolution is what the majority of Scots would vote for, had the option been available. Indeed, an Ipos/MORI poll conducted in June 2012 found that 41 per cent of those responding favoured Scotlan remaining part of the UK but with increased devolution, 29 per cent favoured Scotland remaining par of the UK with the same powers as at present and 27 per cent wanted Scotland to become a fully independent country. The referendum, however, will be a straight choice between independence and the status quo, with no third option.

What might such an option have amounted to? It is worth considering this, even if it is not an optic in the referendum, because, in recognition of popular pressure, some members of all three unionist parties are working on options for greater devolution, which may lead to implementation after the referendum. At present, neither the details nor the implications of a third option are well understood; nor are many people yet fully aware of what the status quo would amount to because the Scotland Ac 2012 has not yet taken effect and will take some time to do so. The status quo does not therefore mea continuing with devolution as it has been since 1999. That is no longer possible.

### The Status Quo

If independence is rejected in the referendum and the UK government brings forward no further proposals to enhance devolution, the Scotland Act 2012 will form the basis of the system of government in Scotland. This will increase the powers of the Scottish Parliament as set out in the UK government's White Paper 'Strengthening Scotland's Future',[1] which closely followed the recommendations of the Calman Commission on Scottish devolution set up by the three unionist parties in the Scottish Parliament.[2]

Much of the Act is concerned with working arrangements between the two governments but the most important provisions, and those that concern us here, are those that are designed to give greater responsibility to the Scottish Parliament for raising revenue. It has been a major criticism of devolution since 1999 that the Scottish Parliament had responsibility for a large part of public expenditure in Scotland but very little for raising the revenue to finance it. That resulted, it was argued, in insufficient accountability for the spending decisions that Parliament made. Under the system that has applied since 1999, the only taxes for which there is any responsibility in Scotland ar council tax and business rates. The Act setting up the Parliament gave power to vary the standard rate of Income Tax either up or down by 3 pence in the pound but this power was never used. As a result, only 14 per cent of expenditure for which responsibility lies in Scotland is financed by taxes set in Scotland.[3]

The principal change is that, in future, the Scottish Parliament will be required to set a Scottish rat of ~~income tax each year to replace part of the UK income tax. From April 2016, the UK governm~~ent will reduce the main UK rates of income tax in Scotland by 10 pence. The block grant will be reduce by a similar amount to compensate, leaving the Scottish Parliament to determine what rate of income tax to levy, in place of the 10 pence, to finance its expenditure. Responsibility for the structure of tax rates will remain with Westminster but, if changes are made by the UK Parliament to the structure of income tax rates, a principle of 'no detriment' will apply. This would result in compensating changes to the block grant to ensure that Scottish government revenue is not affected.

This power over income tax represents a large flow of income – if the Scottish tax rate were 10 pence in the pound, it would raise £4,500 million or 17 per cent of the Scottish budget.[4] The Scottish rate of tax will apply to all those defined as Scottish taxpayers. This includes those resident in Scotland and those whose principal connection with the UK is with Scotland.

The Calman Commission found that the cost of applying the Scottish rate of tax to income from savings and distributions would be prohibitive and recommended instead that half of the tax revenue from this income should be assigned to the Scottish government. The White Paper accepts that applying the Scottish rate of tax to income from these sources is impractical but argues that assigning tax revenues does not enhance accountability. For this reason, neither assignment nor power to alter the rates on income from savings and distributions were included in the Act.

However, in addition to a share of income tax, the Act gives the Scottish Parliament complete responsibility for stamp duty tax on land and property (but not on documents or stock exchange transactions) and for tax on landfill. The revenue from these two taxes, however, is relatively modest compared with income tax. The Calman Commission recommended devolution of two further taxes – the tax on air passengers and that on aggregates. The revenue from them would also have been fairly modest but they are not included in the Scotland Act 2012; the former is presently being reviewed an the latter is subject to legal challenge in the European Courts. However, the Act also gives the Scottis government power to levy any new taxes, subject to approval by both the Scottish and UK Parliaments.

The effect of devolving the three taxes in the Scotland Act, together with the responsibility that already exists for council tax and business rates, is to increase to about 35 per cent the share of budge revenue for which the Scottish Parliament and local authorities would be responsible.[5] The White Paper argues that the revenue from these devolved taxes would finance a similar share of the Scottish government's budget to that of the devolved legislatures in Belgium, Italy, Spain and Australia.

In addition to these tax powers, the Act gives the Scottish Parliament substantial new powers to borrow. Under the arrangements that have applied since 1999, Scottish Ministers have had only limited power to borrow for short-term current spending and this power was never used. In future, because income from taxation is less predictable than from the UK block grant, the new arrangement involve a degree of risk that has not hitherto existed. To allow for temporary shortfalls resulting from this, as well as deviations between forecast revenues and expenditure, Scottish Ministers are to be given power to borrow up to £500 million for cumulative current debt. In addition, they will have power to borrow up to 10 per cent of the capital budget in any one year, with a limit of £2.2 billion o the total stock of borrowing for capital investment.[6]

This regime would reduce the share of public expenditure financed by the block grant to 65 per cent. At present, as Chapter 1 explained, this grant is determined by the Barnett formula and has attracted much criticism, especially in England. But, apart from reducing the share of public expenditure that it would finance, there are no proposals to change it.

While these changes in taxation and borrowing will increase the accountability of the Scottish

Parliament, they do not do anything to give the Scottish Parliament power and responsibility over macroeconomic policy. Indeed, the White Paper explicitly reserves this to Westminster. That does no mean, of course, that the Scottish government cannot adopt policies that improve the performance of the economy. Ways in which Scotland's economic growth might be improved with the Scottish government's existing responsibilities are discussed in the next chapter. Suffice it to say here that those who look for some independence in macroeconomic policy must accept that responsibility over demand management through monetary, fiscal and exchange rate policies must inevitably rest with th state and, in Scotland's case, even with devolution, that state is still the UK.

**Devo-Max**

Devo-Max has never been very clearly defined but it presumably means almost total fiscal separatio of Scotland from the rest of the UK. Contributions would still be required to meet the costs of common services such as the royal family, defence, servicing the national debt and foreign embassie monetary union with the rest of the UK would continue and foreign exchange reserves would be held for the UK as a whole. The main feature of such an arrangement would be that there would be no social pact. If Scotland were wealthier than other parts of the UK, it would not be expected to contribute support to them and, if Scotland was poorer, it could not expect any help from them. No attempt would be made to equalise social provision, and welfare benefits, including State Pensions, might be at different rates from their equivalents elsewhere in the UK.

It is not easy to find examples of this kind of arrangement in other countries. The Campbell Committee said it was not aware of any.[7] The case that seems to come nearest to it is that of the Basque country and Navarra in Spain and this is referred to by the Scottish government.[8] The Basque country has a higher GDP per head than the Spanish average and has a population of only 2 million, 5 per cent of the Spanish total. In a recent paper for the David Hume Institute, César Colino argued tha this system has been profitable for the Basque country because of its relative wealth.[9] Unsurprisingly it has attractions for the areas that are richer than the rest of the country but is considered unjust by the others.

Even here, however, there is not complete fiscal autonomy. In accordance with EU rules, there can be no separate rate of VAT and the Spanish state retains responsibilities for social security, justice, defence, foreign affairs, transfers to the EU, macroeconomic policy and regulation of the financial sector. A contribution for these central services is paid by the Basque country to the Spanish state. Indeed even with this large amount of devolution, 50 per cent of Basque public expenditure, mainly for State Pensions and unemployment benefits, remains the responsibility of the central government which also raises 40 per cent of the public revenues.[10] The Basque country therefore remains subject to fiscal decisions made by central government, including the policies to reduce the Spanish budget deficit. The Spanish government has also had to defend its fiscal arrangements for the Basque countr against appeals from the European Commission at the European Court of Justice.

Could such a system work in Scotland? As was shown in the last chapter, public spending per head is some 10 per cent above the UK average, while revenues, excluding oil and gas, are no more than equal to the average. So, unless the Scottish government received a geographical share of oil and gas revenues, there would have to be some sharp cuts in public expenditure. The geographical share of North Sea revenue would approximately cover the higher level of spending but, so long as Scotland remained a part of the UK, the rest of the UK might see it as unreasonable to give Scotland so much o the North Sea revenue and resist any change. At present the offshore area is not divided between different countries in the UK but is treated as a resource for the benefit of the whole state. The UK government would probably want that to continue.

Under Devo-Max there could still be no separate rate of VAT and welfare and social security woul be ~~problematic (a discussion of welfare devolution is in Chapter 8). There could also be a strong~~ political reaction from any part of the UK that felt it was disadvantaged by the financial arrangement for Scotland. Indeed, it could well be that, rather than accept such an arrangement, the rest of the UK might prefer to let Scotland become an independent state.

Some experts have argued that fiscal independence would encourage the Scottish government to pu a greater emphasis on economic growth, so that its economy performed better. Professors Andrew Hughes Hallett and Drew Scott were subjected to close questioning on this by a committee of the Scottish Parliament in early 2011 after asserting that there was evidence of this from other parts of th world.[11] But the evidence is not very convincing and, in Scotland's case, politicians of all parties share a commitment to try to improve the country's rate of economic growth. If they were aware of measures that would improve the country's performance, they should already be adopting them.

## Devo-Plus

Several suggestions have been put forward for giving Scotland more devolution than will be provided by the Scotland Act 2012 but not going as far as Devo-Max. Indeed, there have been so many proposals that many people may find them confusing. The following paragraphs outline and discuss three such schemes from:

- n interparty group of Liberal Democrat, Labour and Conservative MSPs chaired by Jeremy Purvis and published by Reform Scotland;[12]
- committee set up by the Liberal Democrats, chaired by Sir Menzies Campbell;[13]
- report for the Institute of Public Policy Research (IPPR) by Professor Alan Trench.[14]

This last, which was only published as this chapter was being written, seeks to outline a system that could be applicable to all three devolved administrations in the UK and contains the most comprehensive discussion of what is possible. All of these see major advantage for Scotland in remaining part of the UK but consider that there is a case for additional fiscal powers to make devolution more acceptable. Both the Purvis group and the Campbell Committee would like the Scottish Parliament to be entrenched by legislation, so that it could only be dissolved if it agreed, and the UK Parliament's power to legislate on devolved matters removed. The Campbell Committee would see this as a step towards a proper federal constitution for the UK.

The Purvis group's proposals, which are in three stages, go much further than the others and raise some of the same difficulties as were noted with Devo-Max. All three sets of proposals include complete devolution of income tax but the Campbell Committee would retain the same system of allowances and reliefs throughout the UK and does not consider that taxation from savings and investments could be devolved. It suggests assignment of the revenue instead. Purvis proposes devolution of corporation tax by 2020, something the SNP Scottish government would also like; the Campbell Committee, on the other hand, do not consider it an appropriate tax to devolve; and Trench outlines the substantial difficulties for both companies and tax authorities. He refers to the dangers o companies shifting their profits to the part of the UK with the lowest tax and concludes that it would only be possible if profits were allocated between the constituent countries and regions of the UK on the basis of payroll.

Only the Purvis group proposes eventual devolution of a geographical share of North Sea revenues The Campbell Committee argue that the whole of Britain's offshore area should be under a single regime and not divided, while Trench suggests that a population share of the revenues could be allocated to the Scottish government. None of the three propose devolution of VAT, as different rates of this tax within a single member state are not permitted under EU rules, but Trench suggests that th revenue (apart from the contribution that goes as revenue to the EU) could be assigned to the devolve administrations. None of the schemes propose devolving responsibility for national insurance. This accords with their views on welfare expenditure. Although the Purvis group would like the Scottish government to be given a larger role in welfare, all three accept that the bulk of welfare expenditure, including the State Pension, should remain with the UK government. In the end, taking account also o the other smaller taxes it wishes to see devolved, the Purvis group's proposals would result in almost all of the expenditure of the Scottish government and local authorities eventually being covered by taxes raised in Scotland. The other two sets of proposals would result in around 55 per cent being financed by taxes raised in Scotland; they would therefore need to be supplemented by a significant but smaller block grant.

Both the Campbell and Trench proposals recognise that the block grant, as determined by the Barnett formula, is no longer acceptable to the whole UK and that it should move to a system based o an assessment of need. This would still give Scotland a bigger grant than a straight equalisation of fiscal revenue, such as applies in some federal countries, but the adjustment would be likely to invol a significant cut. The assessment should be carried out for all four countries of the UK and, ideally, for the English regions as well, and it is important that it should be done by an independent body in which all the administrations have confidence.

**Assessment of Devo-Plus**

How realistic are these proposals? It would certainly be possible to go beyond the changes made in th Scotland Act 2012. The Scottish Parliament could be made responsible for a greater share of income tax than the 10 pence envisaged under the Act. The case against this, as the Calman report argues, is that it could be unwise to have the Scottish government too heavily dependent on one tax, the procee of which could be volatile. Moreover, if the UK government had no locus at all in setting income tax in Scotland, it would have to rely on other taxes – particularly VAT – to provide for servicing the UK national debt, for defence and for dealing with emergencies such as arose in recent years to support the banks. Such expenditure could be substantial and subject to variation, as unexpected needs arise. These considerations point to some share of income tax remaining with the UK Parliament.

The Purvis group envisages the eventual devolution of fuel duty and excise duties but this is not proposed by the Campbell Committee and Trench only considers it for duties on alcohol and tobacco But he shows there would be considerable difficulty even with them because they are levied not at th point of sale but of production or import. They would probably have to be replaced by a new tax altogether and, if it was a sales tax, that might conflict with EU rules on VAT. If the issue of accountability is a major concern, as I believe it to be, it would be possible to follow the practice in some other countries and assign the proceeds of VAT (as proposed by Trench) and some of the small taxes to the Scottish Parliament but without freedom to alter tax rates. Some people regard tax assignment as pointless if tax rates cannot be altered. But it would tie Scottish public expenditure more closely to the revenue actually generated in Scotland, enable the block grant to be much smalle and perhaps give less scope to taxpayers elsewhere in the UK to complain about unfair funding for Scotland. And, if the Scottish government was able through its policies to encourage the growth of th economy, some benefit from that would accrue to it through higher tax revenue.

Corporation tax is a contentious issue. The SNP government has made it plain that it would like th tax devolved.[15] There are a number of countries – Switzerland is an example – where corporate tax rates are set by the regions (in Switzerland's case, the Cantons). Following the judgment of the European Court of Justice in the Azores case, the EU only permits different rates of corporation tax within one member state if the region in which the tax is lower is not subsidised for this purpose by the ~~rest of the state. Otherwise it would be regarded as a state aid and subject to the competition~~ rules on state aids. The Holtham Commission on a funding settlement for Wales has proposed a rebate or a lower rate of tax where levels of GDP are well below the average of the state.[16] That would make it part of regional policy to encourage investment in poorer areas, even if it had to be financed by the region itself. Since Scotland's GDP per head is very close to the UK average, this would not apply, even if such a scheme were eventually implemented elsewhere in the UK.

In a UK context, I have always regarded devolution of corporation tax rates as raising major difficulties. The strongest case is that made for Northern Ireland, where it can be argued there is a competitive disadvantage because the standard rate of corporation tax in the neighbouring Irish Republic is only 12.5 per cent. The SNP government's desire to have control of this tax seems to stem from the Irish Republic's success in using it to attract inward investment but it has also resulted in companies simply basing their registered offices in Ireland (the so-called 'brass plate effect'). Even in such cases, of course, Ireland has still benefitted from tax on the revenue declared at the registered office.

If Scotland had ambitions to follow this example while still part of the UK, it would help to attract investment to Scotland so long as the difference in tax rates was substantial but much of this might be at the expense of other parts of the UK and would be particularly resented in Wales, the north of England or other regions, where GDP per head is lower than in Scotland. They would probably make a case for equal treatment. Even then, it could produce major distortions. For these reasons, I would expect it to be strongly resisted by the UK government. Moreover, the Scottish government already has power over business rates, which yield almost £2 billion a year and can be altered as it thinks fit. A lower rate of corporation tax would reduce revenue for the Scottish government, which Trench estimates at a loss of £1,724 million a year, if it were cut to the Irish Republic's rate. Unless it provided such a stimulus to the economy that it made up for the loss, this would be a problem for the government and, even if there was a significant stimulus, it would take years to make up for the lost revenue.

Oil and gas revenues were proposed for devolution by the Purvis group for the third stage of its scheme. But, as argued already in relation to Devo-Max, so long as Scotland remained part of the UK there would be no formal need for any division of the offshore area and I suspect that the UK government would want to continue to treat it as a resource for the whole UK. I would therefore expect strong resistance from the UK government.

## Conclusion

Devo-Max offers the opportunity for greater independence in economic policy but it would probably provoke major resistance from other parts of the UK. This would be especially so if policies were seen as unfair or discriminatory. But the important point about Devo-Max is that, like independence, it would end the social pact with the rest of the UK whereby there is pooling of resources to achieve equality of social provision. Scotland would also have serious difficulty in funding its above-average level of public expenditure unless it received the geographical share of tax revenues from the North Sea oil that it could expect as an independent state. Such terms seem unlikely to be acceptable to a UK government so long as Scotland was part of the UK. Differences in corporation tax and some other taxes as well as in levels of benefit would also create distortions and anomalies, which could provoke a strong reaction from other parts of the UK. Devo-Max is an attempt to have complete financial independence, apart from monetary policy, while remaining in the UK. That is unprecedented elsewhere, even in the Basque country which comes closest to what the proponents of Devo-Max