

# BETTER APART?

Divorce between England and Scotland could be messy in the short term, but long-term policies matter more, says Rob Wood

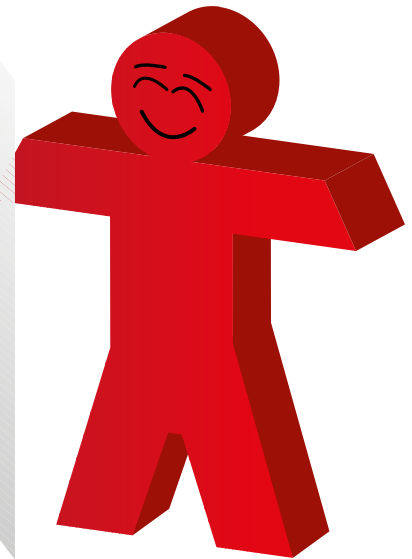
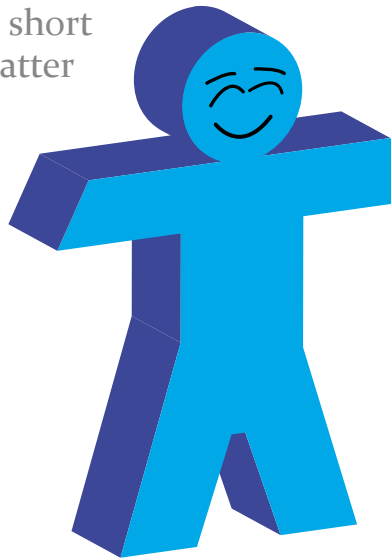
The UK economic rebound looks increasingly solid, but the looming risk to that comes from politics. After several years of worrying about events across the channel, home-grown problems now loom larger. The systemic threats and contagion risks that were the hallmark of the euro crisis have gone. The England and Scotland union now looks more at risk than the euro.

The upcoming Scottish referendum is the clear and present danger. The No to independence campaign is ahead in the Scottish referendum polls. But its lead has fallen in recent months. YouGov, for instance, shows the No campaign's lead has dropped by six points since December.

It is hard to judge what the No lead really is, since the polls differ wildly. At one end are polls from ICM and Panelbase, which show the No campaign leading by around five points. Meanwhile, the latest YouGov survey put the No lead nearly three times higher than that.

If YouGov is right, Scottish independence is very unlikely. The other polls say the possibility is worth taking very seriously indeed. Quebec's independence vote in 1995 is an interesting example here. In the three months before the vote, the polls shifted from a solid majority against independence to the final vote of only 50.6% against.

What about the economic impacts? Ahead of the vote there will probably be only a small economic impact. If the final vote is against independence, then there may be further devolution that gives the Scottish government more leeway to shift economic policy. Though whether that is used well or badly is difficult to know in advance.



The downside of a No vote is that speculation about independence could drag on, much as it did in the 15 years between Quebec's 1980 and 1995 referenda.

A Yes vote would be extremely disruptive. The euro crisis shows the impact a spike in uncertainty could have, both in Scotland and in England, if it were not addressed fast. Beyond that, independent Scotland would, in all likelihood, need austerity, given its dependence on declining North Sea oil. All the main UK political parties have ruled out a currency union post-independence. Alternative solutions could mean more upheaval.

That being said, politicians on both sides of the border would have strong incentives to agree a velvet divorce quickly after a Yes vote. The UK government would negotiate hard, especially as the future electorate would not include Scotland. But it would want to avoid an economic calamity just before a general election. Scottish National Party leader Alex Salmond, having got his big prize of independence, would probably want to agree a compromise very quickly.

Divorces tend to be messy for a time. But, ultimately, the two sides can build normal lives apart. Scotland certainly has the skills and the size to prosper. There are two clear, long-run paths ahead of it.

Going it alone with difficult government finances could give the new Scottish government the incentive to introduce widespread reforms. An independent Scotland would reap all the rewards, or the costs, of its actions, rather than sharing them. If the new government grasped the nettle (or thistle perhaps), Scotland could emerge in the long run as a much more dynamic economy. Certainly, immigration changes could fix looming demographic issues.

On the other hand, some divorces end up in a downward spiral. It is possible that Scotland would lurch to the left with growth-sapping policies. It is also possible to imagine the rest of the UK, shorn of Scottish support for the EU, voting itself out of the single market. It may not be Scotland that suffers long term from a Yes vote.

The transitional issues are a pretty stale debate now. It is the long-term policies that an independent Scotland, and the rest of the UK, would pursue in the event of a Yes vote that really matter. ♦

For more on Scottish independence, please see the Question Time box on page 21

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