Scottish Referendum: The Second

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Abstract

Scotland has long had a quarrelsome relationship with the United Kingdom. This has ultimately led to the destruction of the traditional Scottish way of life, when England and Scotland formed the United Kingdom in 1707. Since then, Scotland has effectively been under the rule of a nation that has different values and different goals. This was most recently brought to sharp focus by the British referendum to leave the European Union. In 2016, a majority of voters in Scotland chose to stay with the EU, though England carried the vote to leave. Therefore, despite voting to remain in the United Kingdom in their own Referendum in 2014, many Scottish citizens are increasingly displeased with the balance of power. Because of this, there has been an increasing wave of support for a second referendum for Scottish Independence from the UK. In 2014 voters deemed it impractical for Scotland to split from the UK, as they would have had to deal with not only establishing their own government more strongly, but also with applying to join the EU. With Brexit, that concern is less relevant. Additionally, because Scotland already has a government and bank, it is not inconceivable that they could become independent.

By looking into the process of the Republic of Ireland leaving the United Kingdom, and of applying to join the EU, as well as the other challenges of establishing a new country, this paper will consider whether it is economically feasible for Scotland to secede from its union with the United Kingdom.
Background:

The United Kingdom is made up of four countries: England, Scotland, Northern Ireland, and Wales. Historically, each was a separate nation, and both Scotland and England had its own monarch. After repeated attempts of the English to conquer Scotland, and a failed trading venture that bankrupt Scotland, the two merged under one crown in 1603, though Scotland maintained its own parliament until 1707 (Murray). This was not a happy marriage though, and the Scottish people revolted against the English rule multiple times in the 1700s. The largest was in 1745, and eventually ended in the destruction of the primarily Scottish Jacobite army (Morrill). This resulted in a period of devastation for Scotland, as the culture and traditions that had thrived there for centuries was outlawed. The people were starving and many were forced to leave their homes of generations rather than die in them. There have been no further uprisings against the British government, but there is lasting resentment, especially over the loss of the Gaelic language and the loss of property caused by the ’45 Rising. While this may no longer be the driving force behind a Scottish referendum, it is no doubt on the mind of many voters, especially as recent changes in the school system there has allowed the full history of the Rising of ’45 and the subsequent Highland Clearances to be taught to younger generations (Young). The first Scottish referendum failed to give them independence, as there were concerns about continuing membership in the EU, among other issues, such as trade abilities and currency. However, after the British vote to leave the EU against the wishes of Scotland, there is once again strong support behind Scottish secession. This paper aims to analyze the possibilities of this situation, and make suggestions, but what will actually occur should Scotland hold a second referendum depends on the information that becomes available beforehand, and with the preferences of the total voting
population of Scotland. This paper does not intend to predict outcomes, only to analyze them.

Secession:

When a region or territory secedes from the nation, there are two ways to go about it: peacefully or violently. The Republic of Ireland’s secession from the United Kingdom in 1922 was a violent one. The first step for Irish Independence was a Home Rule Bill, which meant to set up an Irish Parliament separate from that in London. But in order to achieve this, the Irish separatists had to fight in the street against the British government soldier, leading to loss of life and destruction of policy. Finally, in 1922, Ireland gained Independence from Britain (“The History of Ireland”). The violence that brought about Ireland’s independence led to upheaval in Ireland and the rest of the United Kingdom, and is an unfavorable outcome in most cases. Scotland has previously attempted to regain power from the UK using violence, and it destroyed their clans and culture. Even if there was not such catastrophic destruction in their current bid for independence, war would lead to a further decline in GDP as workers are called to fight and money and time dedicated to fighting. This would be especially detrimental today, as the UK as a whole is already facing a decline in its GDP due to Brexit and the challenges that entails. The British government has also allowed the return of the Scottish Parliament a way to appease the Scottish voters, and so it seems unrealistic that they should now turn to war in order to keep Scotland under British control (Hallwood).

Even a peaceful secession is likely to have some costs and complications. This is because most constitutions do not have allowances for the secession of regions or territories from the whole (Bordignon and Brusco). Offering the option of secession would decrease the stability of
the country, so it is not beneficial to the foundation or daily existence of the country. If there is no “easy” way for a territory or region to secede, each is more likely to work together with the others towards the betterment of the whole country, rather than focusing on regional problems and concerns. This is especially true of the United Kingdom, as it was originally formed of four distinct countries, each with its own hierarchy, government, and culture. The result of this omission is that situations such as the one in the Republic of Ireland can and do occur. However, as Ireland has had its independence for fewer than a hundred years, it can be hoped, and maybe assumed, that such a situation will not be repeated willingly by either Scotland or the British government.

Understanding both the likelihood and outcomes of secession requires three types of data: data on the territory’s desire to secede, data on the socio-economic composition of the territory, and the relevant factor to the rest of the nation’s cost/benefit of losing that territory (Hechter). The second of these is the more readily available, though through polls and deeper analysis, the other two can likely be found or estimated at. There are also certain social indicators that can predict the likelihood of a territory seceding, shown in Figure 1 (Hechter). If Scotland has or develops each of the conditions shown in this tree, then their threat of secession will be considered credible. This leads to the model that this paper uses to layout possibilities and their outcomes.

**Model:**

One way to model this situation is using Game Theory, an area of economics that analyzes the strategies of players to determine optimal outcomes based on each player’s preferences and options. It also eliminates threats that are considered incredible, helping players to better predict
the movements of others. For the purpose of this paper, Scotland’s situation has been simplified into two games showing two different situations. The first mirrors the situation between the Republic of Ireland and the British government in the early 1900s, which resulted in fighting and the eventual secession of the Republic of Ireland. This game shows Britain’s strategies as either Allowing Scotland to leave peacefully should it choose to secede, or fighting a war to Block Scotland from leaving the UK. As discussed, this is an unlikely occurrence, but it represents one method of secession, and so is considered anyway. Scotland has the choice of either leaving or remaining in the UK. Figure 2 shows the payoffs according to each strategy. In selecting these payoffs, it has been assumed that Scotland would prefer to secede, while Britain would prefer Scotland remained. However, both would be worse off should war erupt between them. The Nash Equilibria here are where the British Government chooses to Allow, Scotland chooses to Leave, and the British Government chooses Allow and Scotland chooses to Remain. In this model, Britain has a weakly dominant strategy to Allow Scotland to leave, while Scotland shows no dominant strategy. This means that because Scotland knows the payoffs and strategies for the British government, it is more likely to choose to leave, because the British Government is most likely to Allow, and Scotland’s payoff is higher if it Leaves when the Government Allows.

The second game is based on the current situation between Britain and the EU, where Britain will leave with either a “deal” or a “no deal” Brexit situation. As with the Brexit example, a “deal” situation in this game means that Scotland will be able to secede with trade deals, borders, currency and other similar issues having already been discussed between Scotland and the UK, allowing for a smoother and easier transition. A “no deal” or “hard” exit is one where Scotland leaves abruptly and with no negotiations, meaning that border, currency, and trade concerns,
among others, will remain undiscussed prior to secession. If Britain refuses to deal, and Scotland is faced with a “hard” exit, they would be worse off than if they were to remain in the United Kingdom, at least in the short term, thus resulting in a negative payoff. Britain would prefer that Scotland Remains in the United Kingdom, as it has for hundreds of years. Britain benefits from Scotland’s oil and natural gas revenues, and from the taxes collected there. If Scotland does Leave, Britain would suffer from a No Deal situation, as trade would be cut off and public perception would likely see Britain as being harsh and controlling. However, that cost would be equalled out by the revenues that Scotland would continue to provide, as well as the additional labor force. This means that Britain has the same payoff regardless of its choice if Scotland chooses to Remain. If Scotland Remains with Britain promising a “no deal” situation, then it will be worse off than it is now, as relations between Scotland and the British government would likely be strained, and they have a preference to leave. These payoffs are listed in Figure 3. When this game is solved, it shows that the British Government has a weakly dominant strategy to allow a Deal with Scotland, and that Scotland has a dominant strategy to Leave. This creates a Nash Equilibrium where the British Government chooses to Deal with Scotland, and Scotland chooses to Leave.

Trade:

Besides the preferences leading to the payoffs listed above, more fact based factors must be considered when examining secession. One major economic question to secession is the possibilities of trade. Without trade, there is no economy at all, as an economy is a flow of goods and services from those who have them to those that need them. As Scotland is part of an island,
trade is even more critical. Islands have very limited resources, and in order to get more resources to improve living situations and total utility, there must be open lines of trade to other areas. One of the best avenues to trade in the European Continent is membership in the European Union. As Scotland has been a part of the European Union through the United Kingdom, they are following EU rules and regulations and meeting the required standards. Guy Verhofstadt, European Parliament’s chief negotiator on Brexit confirmed that there would be no problem with an independent Scotland rejoining the European Union, even after the United Kingdom leaves, which is set to take place before a Scottish Referendum (McCafferty). The only requirement that Scotland might have to work towards is “a functioning market economy and the capacity to cope with competition and market forces in the EU” (Anonymous). However, this is unlikely to pose a major struggle for Scotland, as they do have goods to export, such as oil and natural gas, and a strong economy apart from that of the United Kingdom. Figure 4 below shows the relationship between the economic growth in Scotland compared to that of the UK as a whole (“Economic Growth.”). Scotland’s has been less volatile over the last decade, and in early 2018, the Scottish economy was growing faster than the British economy, even excluding the oil and gas industry (“Scottish Economic Growth Outpaces UK.”). Figure 5 shows that Scotland’s economic growth is comparable to that of other small countries that are members of the EU, including: Austria, Denmark, Finland, Ireland, Luxembourg, Portugal and Sweden (“Economic Growth.”).

Besides oil and natural gas, Scotland also has agricultural goods to trade. Scotland’s agricultural industry produces a fair amount of beef and sheep, 30% and 20% of the UK’s breeding herds, respectively. It also has more than 12% of the UK’s cereal area, and the UK has the third largest cereal crop in the EU. Most of the UK’s seed potatoes are also from Scotland, as
well as some used for human consumption ("What We Produce"). This means they should still have goods to export, as well as oil and natural gas reserves. Supporters for an Independent Scotland in 2014 argued that the revenues from that oil were squandered by the British Parliament in Westminster, and that if Scotland was independent, the revenue and taxes from the oil industry could be returned to Scotland as investments for the future (Gray). As of 2014, it was estimated that the remaining oil and gas reserves in Scotland were worth over £1 trillion. Scotland’s economy by no means depends on oil, as even without oil and gas, in 2014 the economy was equivalent to that of the rest of the UK. This is good, as oil prices fluctuate, and there is a growing demand for more sustainable energy. However, oil and gas revenues could provide a boost for Scotland to help with the initial hurdles caused by separating from the UK.

Joining the EU would help Scotland with its trade, which would help to boost its GDP through an increase in exports. As Scotland has been a part of the European Union through the United Kingdom, and they are following EU rules and regulations and meeting the required standards. In fact, as there is no precedent within the EU of a territory of a member state becoming independent, it is even possible that Scotland would not have to reapply to join the EU. This would greatly simplify matters, and speed up the transition (Douglas-Scott).

The Scottish National Party, or SNP, has claimed that it has a four point plan to boost trade. This includes establishing a Board of Trade in the Scottish Government, setting up a new trade envoy scheme with permanent trade representation in Berlin, doubling the number of Scottish Development International staff working in Europe that support investment and trade opportunities for Scotland. The trade envoy scheme will request that well known Scottish citizens will help to boost exports, and add more representatives for trade and investment hubs in
Berlin, Dublin, London, and Brussels. (“How will the SNP Boost Trade and Exports in Europe?”).

**Banking/currency:**

Banks are another important part of an economy, as they support the flow of debt and credit, which allows an economy to grow and change far more quickly than it could if all transactions required physical tender. A central bank is an especially important part of an independent economy. It is able to help maintain stability and growth, and limit the damage caused by recessions. This is done through the use of monetary policy and setting interest rate targets. It is also a lender of last resort, should commercial banks find themselves low in liquidity.

Part of having an independent central bank is having an independent currency. Scotland already prints its own Pounds Sterling, but it would likely have to move away from it in the case of independence, as part of instituting an independent central bank. It is possible that they will be able to return to the Pound Scots, which was used prior to the merger with England (“What Effect would Scottish Independence have on World Business?”). There are three banks in Scotland that print Pounds Sterling: the Bank of Scotland, the Royal Bank of Scotland, and the Clydesdale Bank. Each note printed at these banks states that it can be exchanged for the value described on the note, though they are not actually legal tender in either England or Scotland (Ferguson). Each bank is therefore promising to exchange its notes for the equivalent amount of legal tender. This already creates problems for people traveling from Scotland to England, as many English businesses will not accept Scottish notes, as they are both less familiar and not
actually legal tender in and of themselves. Therefore, it will likely not be such a disruption if Scotland becomes independent and switches to its own currency. It also means that Scotland already has the ability to print money, and has banks that could back it. The challenge here would be for Scotland to establish a central bank if they should choose to develop their own currency. As all three banks are commercial, and yet have been printing notes for hundreds of years, it would be likely that a new and separate bank would have to be created (Ferguson). These banks would then either continue to print their own notes in addition to those that would be official legal tender of the country, or stop printing altogether.

If Scotland chooses not to set up an independent central bank, it could possibly keep the British pound, though that would require consent from the UK and would leave Scottish monetary policy outside of Scottish decision makers ("What Effect would Scottish Independence have on World Business?"). If Scotland does rejoin the EU after becoming independent, it may also consider adopting the Euro. However, there are nine nations that currently do not use the euro, including, of course, the United Kingdom. Adopting the euro would allow Scotland to have more access to debt relief, though it would also suffer if other countries in the union were to create a drag on the euro, as has happened in the past. When first separating from the United Kingdom, this sharing of debt might help to float the Scottish economy until it is able to establish itself. However, in the long run, it is likely that Scotland would run into some of the same complaints that it has today with the UK; that its wealth is being spent in other places, rather than being returned to Scotland to the advancement the country itself. With there being so many member so the EU, it is a given that one or two will not be doing as well as others economically, and so will be drawing on the strength of the other nations as Greece did from 2008 until 2018
One reason Scotland might opt against creating its own currency is that the entire burden of their debt of nearly £13.4b would fall on them, as it has not since the formation of the United Kingdom (Carrell). £13.4b is 7.9% of GDP, while the UK’s deficit is equal to only 1.9% of its GDP (Carrell). Carrying debt does not necessarily negatively impact a country in the short term, but if the Scottish debt grows, it could become a concern, especially with independence. Additionally, if Scotland becomes independent and is able to spend its revenues on improving infrastructure and technology, it could see an increase in efficiency and GDP.

Another potential reason Scotland might refrain from creating its own currency is the potential negative impact on tourism, as it can be frustrating for travelers to carry around several different currencies. Tourism makes up around 5% of Scotland’s GDP, and more than 7% of its employment, and so should be a consideration in strategizing for independence (“Scottish Tourism Industry.”). Already, travelers from outside Europe must carry euros and pounds in order to visit the United Kingdom and Ireland, and more currencies besides if they should decide to visit such countries as Poland and Slovakia, among others. Additionally, the extra border crossings can be frustrating and time consuming. Impacting such a major industry could reflect badly on Scotland’s GDP, and so should be considered when choosing a currency. This problem could be limited by the use of cryptocurrency. It is not yet popular enough to be of real use as a primary currency, but it is an option for a country that is potentially looking at setting up a new currency in the near future.
Infrastructure:

Scotland may also have to improve infrastructure as well as its trading routes. This could be especially challenging if they are not able to rejoin the EU, thus denying the easy access to trade with the continent. Investing in infrastructure will help to boost their GDP, and may lead to an increase in production and tourism. Currently, almost all Scotland’s road network is made up of two lane highways, with 80% of the roads in Scotland being listed as minor, meaning they are two lane highways or smaller (Scottish Transport Statistics, No 36, 2017 Edition.). This limits the amount of travel that the road system can support, limiting the amount of goods and people that can be moved through the country. This could also boost the tourism industry by making desirable sites more easily accessible and spreading tourism and the money it generates through more of the country. Land is also more available in Scotland than it is in much of England, due to the lower population density. There could be incentives for more people and businesses to move north, especially if Scotland does rejoin the EU. This is more likely if there is more infrastructure in place.

An independent Scotland would also have to increase governmental systems and buildings. Scottish Parliament was essentially dissolved in 1707 when Scotland and England merged under one government to form the United Kingdom. It was then reconvened in 1999, and has since taken over some decisions making for Scotland from the British parliament in Westminster. Powers currently held by the Scottish Parliament include agriculture, education, health, law, economic development and assorted taxes (“What Are the Powers of Scottish Parliament?”). This already gives Scotland a fair amount of control over its people and how the nation is run, but there are still plenty of powers reserved for the British Parliament. These
include: social security, pensions, foreign policy, trade and the oil and gas industry, as well as the Constitution and most of the taxation (“What Are the Powers of Scottish Parliament?”). Scotland accounts for only a small part of the total population of the United Kingdom, so if there is a bill or proposal that is undesirable for Scotland that is supported by the other members, Scotland does not have the voting power to stop it. If Scotland became independent, it would have to develop offices and committees to take care of such things as new taxes and policies, but it would be able to focus on those that are the most beneficial to Scotland as a whole.

Conclusion:

The United Kingdom has been a powerhouse in the world for hundreds of years now, and has been able to reach such heights through the people that make it up. Since its beginning in 1707, Scotland has been a major part of that. However, when considering both the cultural differences as well as the potential economic benefits Scotland could experience, both from reinvesting its revenues and from being able to once again be a part of the European Union, it begins to make sense that Scotland might wish to secede from the UK. Beyond that, as shown using Game Theory and an analysis of major factors to a successful economy, there is no significant reason that it would be unwise for Scotland to become independent. They already have a Parliament and the ability to print currency. The Scottish National Party has a plan to increase trade outside of the British Isles. While there are certainly difficulties inherent to becoming independent, such as garnering support within and without of the region itself, Scotland is already moving in the right direction. With the right leaders and the right strategies, there is no reason that an independent Scotland should not be a successful Scotland. The question at the beginning of this
paper was whether it is economically feasible for Scotland to secede from the UK. After the models and analysis contained in this paper, the conclusion is that it is economically feasible.

Additional research could be done on this subject, especially using more complicated game theory models, such as using games of incomplete information and sequential move games. These might be more able to accurately reflect the situation that Scotland and the British government may find themselves in. As more information about the strategies to be pursued by an independent Scotland becomes available, there will likely be adjustments to these models, as well as new problems or questions.
Appendix:

Figure 1
Source: Hechter

Figure 2

<table>
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<tr>
<th>Britain/Scotland</th>
<th>Remain</th>
<th>Leave</th>
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</thead>
<tbody>
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<td>1,0</td>
<td>0,1</td>
</tr>
<tr>
<td>Block</td>
<td>1,-1</td>
<td>-1,-2</td>
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Game Matrix, Britain vs. Scotland, War

Figure 3

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<th>Britain/Scotland</th>
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<th>Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal</td>
<td>1,0</td>
<td>0,1</td>
</tr>
<tr>
<td>No Deal</td>
<td>1,-1</td>
<td>-1,0</td>
</tr>
</tbody>
</table>

Game Matrix, Britain vs. Scotland, Deal
Figure 4
Source: “Economic Growth.”

Figure 5
Source: “Economic Growth.”
Works Cited


