The Scottish National Party’s Economic Prospectus for Independence: Out with the Old?

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Abstract
Nicola Sturgeon has promised to restart work on the prospectus for independence. The economic arguments will once again be central. The fact that the macroeconomic, constitutional and political context has changed markedly since 2014 offers the SNP an opportunity to reset its pitch to the people of Scotland. But, it faces huge challenges in doing so, particularly within the timescale the First Minister has set for a second referendum. Some of these challenges reflect a weaker economic outlook than seven years ago. But, holding together a more diverse Yes campaign on key issues such as currency is arguably an even greater challenge. In refreshing its vision of independence, the SNP can take a more far-sighted approach than is possible in most elections. If it can complement this with a credible—albeit tough—transition plan, it not only stands a better chance of winning, but will force unionists to re-think their own strategy.

Keywords: Scottish National Party, Scottish independence, referendum, Brexit, future of the UK

Introduction
IN HER 2021 Programme for Government, Scotland’s First Minister promised to ‘restart work on the detailed prospectus’ for independence. Much of the attention for this renewed prospectus will focus upon the economic case. There are two reasons for this. First, concerns over the implications for the economy, and uncertainties over economic policy issues, were widely thought to be the Achilles heel of the 2014 Yes campaign. Second, seven years on, the economic and political economy context has changed markedly, such that the ‘the perspective of 2014 is no longer that of 2021’.

The decline in oil revenues, Covid-19 and slow economic growth over the last decade create challenging questions for those seeking to break up the Union. But Brexit has done the unionists’ economic case no favours either. Indeed, several commentators who had warned of the dangers of constitutional change back in 2014 have expressed sympathy—or at least signalled a willingness to be more open—to the economic case for independence.

Detailed polling remains patchy, but that which does exist still points to the economy as being where voters require the most convincing. One thing that is clear is the need for a new prospectus from the Scottish National Party (SNP). The party’s 2018 Sustainable Growth Commission was an attempt to update that prospectus in the light of Brexit. Within the business community, it was seen as a measured and thoughtful contribution. But, it did draw some criticism from within the wider Yes movement, particularly for its positions on currency and public spending. Jim Cuthbert, an influential economist within the

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1Interview with Alex Salmond, Sunday National, 18 April 2021.


independence movement, described it as ‘naively neo-liberal’. The inclusion of the Green Party in government adds a new dynamic too, given their views on all manner of issues, from currency options through to the very concept of economic growth as an objective of policy.

In refreshing its prospectus, the SNP will know that it faces a careful balance. On the one hand, a position of continuity on sterling, financial regulation and access to rUK (rest of the UK) markets, will reassure voters (and businesses) concerned about economic upheaval and risk. On the other hand, if the very motivation for a second referendum is the need for Scotland to take a different path to Brexit Britain, then continuity no longer makes sense. A more ‘radical’ strategy might be crucial too in energising the Yes movement.

This article discusses the key challenges and opportunities facing the SNP as it considers its new prospectus. Of course, the UK government seems likely to resist demands for a referendum, but as Kevin Pringle, the former senior Yes campaign strategist, has argued, irrespective of this the SNP must shift the argument to the ‘what’ and the ‘why’ of independence to help build momentum for the cause sooner rather than later. To understand the core issues, it is helpful to reflect upon the tactics from 2014. Whilst there are similarities, in three key areas—constitutional, macroeconomy and political economy—the context has altered significantly.

The SNP’s economic case for independence in 2014

In Takeover: Explaining the Extraordinary rise of the SNP, Rob Johns and James Mitchell track the SNP’s journey from the fringes of Scottish politics to the dominant force it is today. At the core of the journey are two themes—competence (especially economic) and moderation. This journey was long in development. In the 1980s and 1990s, the SNP’s strategy was largely limited to criticising UK economic policy. There were few distinct SNP ideas that painted a picture of a government in waiting. But, in the early 2000s, following poor election results, Andrew Wilson (later to be appointed Chair of the SNP’s Sustainable Growth Commission) and Jim Mather (former Minister for Enterprise, Energy and Tourism) embarked upon a ‘prawn cocktail offensive’—a tour of boardrooms seeking to persuade business leaders of the competence and moderation of the SNP.

One outcome was the development of a decidedly pro-business, pro-economy prospectus for Holyrood. Policies included the freezing of Council Tax, the abolition of bridge tolls and a Small Business Bonus (covering over 100,000 business properties and promising generous business tax breaks). Efficiency savings were to be released from cutting the number of government departments alongside a ‘bonfire of the quangos’. The burden of bureaucracy was to be minimised, ‘ensuring Scottish regulations do not have British gold-plating’. It was on this prospectus that the SNP secured its historic 2007 election victory.

Once in government, further policies built around this same prospectus were implemented. A raft of business advisory groups was established, including a First Minister’s Council of Economic Advisers. A new Economic Strategy was published, focussing all the public sector on a national purpose to ‘improve Scotland’s sustainable growth rate’. Targets were set for boosting GDP, including matching UK growth by 2011 and a group of small EU countries by 2017. International companies, such as Amazon, were enticed to Scotland with generous public support. Another outcome of this approach was the emergence of a detailed prospectus for independence built around the same themes of competence and moderation.

On competence, the economic case articulated Scotland’s strengths, from oil and gas through to financial services, and argued that a government in Edinburgh would make better (and more informed) decisions.

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The SNP-led government regularly inserted itself into UK economic debates, pitching itself as a more credible steward of economic policy. At the same time, a narrative was developed that Scotland could join an ‘arc of prosperity’ of northern European states enjoying better economic performance. Corporation tax was to be cut—for 3 pence—to attract investment. Air Passenger Duty was to be cut in half (and then abolished completely) to improve business connectivity. A more effective tax system was promised to reduce costs for small businesses. An independent Scotland would ‘prioritise tax powers, regulation and Scotland’s new global status to develop growth sectors and growth companies, widen the export base, attract investment, and support local firms to move into new and emerging markets’.

On moderation, the economic case centred upon continuity. Under the 2014 plan, Scotland was to gain ‘full fiscal autonomy’. Economic regulation, labour market policies and consumer protection would also come under Holyrood’s control. But elsewhere, power was to be strictly limited. Scotland would retain the pound and the Bank of England would continue to set interest rates for what would now be a Sterling Zone. Government borrowing would be constrained by a ‘sustainability pact’ with the UK. Financial regulation would be harmonised and trade with the rest of the UK (and EU) would continue in a single market.

**What will change in a refreshed prospectus?**

Some of the arguments underpinning any refreshed prospectus will look familiar. The SNP will argue that Scotland has the economic strength to be a successful independent nation. Andrew Wilson, now Chair of the Sustainable Growth Commission, argues that ‘Scotland would be the richest newly independent country in history if it voted Yes’.

Scotland undoubtedly has a prosperous economy, particularly in the context of an unequal UK economic model, ranking third behind London and the Southeast on many indicators. Internationally, Scotland typically sits as a middle-ranked OECD economy. The SNP will also point to the successes of other small independent countries—including New Zealand, Norway and Denmark—as a vision of what Scotland could become. Perhaps most powerful politically, the SNP will once again stress that independence provides an opportunity to do things differently, including reversing Brexit and on economic policy more broadly.

Likewise, any refreshed perspective is likely to be criticised by many of the same arguments used by the 2014 Better Together campaign. They will counter that Holyrood already has substantial powers to impact upon day-to-day life in Scotland, including on the economy. They will also seek to argue that Holyrood’s economic track record has been mixed in recent times. Growth in Scotland, even before the pandemic, had been lagging behind the rest of the UK. Ambitions across a range of areas, from business start-ups through to exports, have been unfulfilled. Opposition parties have pointed to some issues, such as the collapse of Burntisland Fabrication (BiFab) and the Ferguson Marine shipyard/CalMac ferry controversy, as having taken the shine off the SNP’s reputation for competence. Arguments will also be put forward that for all its strengths, the Scottish economy has areas of weakness that could be exposed under independence.

Identifiable public spending per capita is around 20 per cent higher in Scotland than in England, paid for, in part, by the Barnett Formula which gives a spending advantage over all parts of the UK except Northern Ireland. Moreover, just as the financial crisis of 2008–09 provided an important backdrop for the 2014 debate, Covid-19 will provide unionists with an illustration of—in their eyes—the benefits of ‘pooling and sharing’.

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10BBC Debate Night, 9 June 2021; https://www.bbc.co.uk/programmes/m000x7gn (accessed 2 January 2022).

So, many aspects of debate will tread on familiar ground. But in other areas, the debate has changed markedly. This article looks at three different aspects: constitutional, macro-economic and political economy contexts.

The constitutional context

In 2014, the choice was between independence and a relatively stable status quo (albeit with the promise of ‘more powers’). But the status quo now looks uncertain too. The transfer of ‘more powers’, as promised in the ‘vow’ days before the referendum alongside Brexit, has not just turned many of the political arguments on independence on their head, but has changed the economic arguments too.

The Smith Commission led to the transfer of new economic powers for Holyrood, and the current Scottish Parliament looks radically different to that of 2014. Responsibilities now include most of income tax, several ‘smaller’ devolved taxes, assignation of around half of Scottish VAT revenues (delayed until after Covid-19) and new borrowing powers. Over £3 billion of social security powers are also being transferred. This has led unionist politicians to claim that Scotland now has ‘one of the most powerful devolved parliaments in the world’, although this is disputed by many pro-independence supporters. Whilst unprecedented in the context of devolution, these reforms have paled into insignificance relative to the constitutional upheaval of Brexit. With Scotland voting to remain in the EU, it was no surprise that the Scottish government swiftly identified ‘a material change in circumstance’ to motivate calls for another independence referendum.

In what ways will these constitutional changes impact the SNP’s future economic prospects? Any hope by unionists that further devolution would ‘cement Scotland’s place in the Union’ have been dashed. Expectations too that more financial accountability might help to shine a spotlight on the SNP’s track record have not been borne out either, with MSPs noting that the new powers have made scrutiny at

Holyrood ‘broader but also more superficial’. The transfer of powers has also shown that different decisions can and will be taken in Scotland. The Scottish government’s five band income tax system (including a new starter rate) might be modest in how it impacts most taxpayers, but the signal of the intention to do things differently is clear. On social security, the launch of a new ‘child payment’ of £10 per week (rising to £20 and extending to eligible children under sixteen this coming year) offers the SNP a further demonstration of what it will argue are more progressive policy choices.

However, the new Smith powers have highlighted that greater responsibility brings risks too. Weaker economic growth, in part owing to the downturn in North Sea oil revenues, has seen Scottish tax revenues lag behind those in the UK since 2016. As a result, although the Scottish government has sought to raise more tax in Scotland, through the freezing of thresholds and an additional 1 pence on the higher and top rates of income tax, any expected revenue benefits from this policy are largely being wiped out by a weaker tax base. Perhaps most significantly, recent events have highlighted the costs of transition from constitutional change. On the one hand, the sight of protests by the Scottish fishing industry in Whitehall was political dynamite for the SNP. But on the other hand, such scenes offer a visible real-world illustration of the challenges of structural economic change. Start-up costs are also more visible now, post-Brexit. Back in 2014, the Scottish government declined to publish detailed start-up costs, although it did seize on suggestions that they may be as little as £200 million. ‘Independence Day’ was to be in eighteen months. A few years on, we now know that the start-up costs of devolving eleven social security benefits are

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now on track to exceed £600 million, with the powers not to be fully transferred until near the middle of this decade.

Finally, Brexit has clouded the economic debate on independence. Most economists predict that Scotland will be worse off as a result of Brexit. In 2014, unionist politicians warned that a Yes vote would see Scotland fall out of the EU. It is no surprise that these arguments have been turned against them and added fuel to the economic case for independence. But, this is a double-edged sword for the SNP. Yes, Scotland will be damaged by Brexit from new barriers with its largest international trading partner, but trade between Scotland and the EU was £16.4 billion in 2019, compared to £52 billion to the UK. If the SNP’s argument is that a ‘hard border’ with the EU is bad for the economy, Scotland inside the EU, but outside the UK, raises questions over switching one ‘hard border’ for another.

The macroeconomic context

They say that economic forecasters exist to make weather forecasters appear accurate! Despite this, the 2014 campaign was dominated by detailed predictions—on both sides—about what might happen to the incomes of the people of Scotland, often down to the last pound. In 2014, unionist politicians warned that a Yes vote would see Scotland fall out of the EU. It is no surprise that these arguments have been turned against them and added fuel to the economic case for independence. But, this is a double-edged sword for the SNP. Yes, Scotland will be damaged by Brexit from new barriers with its largest international trading partner, but trade between Scotland and the EU was £16.4 billion in 2019, compared to £52 billion to the UK. If the SNP’s argument is that a ‘hard border’ with the EU is bad for the economy, Scotland inside the EU, but outside the UK, raises questions over switching one ‘hard border’ for another.

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UK gilts through Quantitative Easing supporting emergency government borrowing during the crisis. Many economists will argue that an economic prospectus built upon sharing a currency, with no central bank of its own, looks less attractive now than in 2014. Similarly, any hope of a substantial ‘oil fund for Scotland’ looks much more difficult with oil revenues a fraction of what they were.

**The political economy context**

The final theme—and arguably the most significant—is the changing political dynamics since 2014. These dynamics and how they impact upon the economic arguments pop up on both sides of the debate. As highlighted above, the 2014 prospectus evolved out of a decades-old SNP strategy built around competence and moderation. Full fiscal autonomy was the prize, but within a model of shared rUK/Scotland macroeconomic stability and membership of the EU. Macroeconomic policy divergence would be at the margin, but if a key argument for independence is that Scotland needs to diverge from post-Brexit Britain, a political strategy based upon economic continuity and moderation seems much less applicable.

The lightning rod for these debates will be the currency. The 2018 Sustainable Growth Commission attempted to strike a balance between continuity and demands for a more significant break by proposing an initial period of using sterling informally—known as ‘sterlingisation’—before moving to a new currency when conditions allowed. Sterlingisation would ensure no currency risk and facilitate trade with the rest of the UK, but it carries risks too. It would imply a limited central bank and lender of last resort, and market-driven constraints on fiscal policy. It has never been tried in a country of Scotland’s size or income level. Some commentators have raised doubts too over whether it would be compatible with re-joining the EU. Arguably more importantly, sterlingisation (or the 2014 idea of a currency union) has been criticised by some in the Yes movement. In April 2019, delegates at the SNP’s spring conference voted in favour of a new currency ‘as soon as practicable’. Scotland’s former First Minister, Alex Salmond, has argued that ‘the construction of currency in rapid time is now a major priority because of the way the economics of the world have changed in the last seven years’. Add to the mix the Green Party’s strong opposition to retaining sterling, and the political dynamics on this issue of most importance to voters appears to be shifting.

It is not just on key structural questions that the political context has changed significantly, but the overarching economic approach too. As discussed, the 2014 prospectus was pro-growth with tax cuts for business and ‘more efficient’ regulation (albeit balanced by a commitment to investing in public services). But there has been a shift in priority within the SNP. The policy to cut corporation tax has been dropped. The commitment to halve Air Passenger Duty has been abandoned. The economic priorities embedded in any future independence prospectus will look quite different.

The political economy landscape has also changed significantly on the unionist side. Recent months have seen the growth of a more interventionist—or ‘muscular’—agenda. This has been evident in debates over the Internal Market Act and the Shared Prosperity Fund. This may create challenges for the SNP if the UK government is seen as taking a positive and proactive role in Scotland’s economy. But, there are risks for unionists too, not least claims that the UK government is bypassing devolution and showing lack of respect for the Scottish Parliament.

**The strategic questions for the SNP**

These changes in perspective carry upside and downside risks for the SNP. Brexit, combined with a re-elected Conservative government in Westminster, offers the SNP an opportunity to develop a narrative of a more European, progressive economy post-independence. But a more difficult backdrop of the greatest economic shock in a generation, coming on top of questions that were arguably not answered sufficiently back in 2014, provides significant challenges. So where will the areas of focus

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for the SNP need to be as it looks to re-start its independence planning?

The first agenda item for any new prospectus will need to be a clear statement of a renewed philosophy for an independent Scottish economy that extends beyond hazy lines of argument centred around ‘reversing Brexit’. A lack of detail will arguably be ineffective at bringing voters on board and will create space for unionists to fill the gap by painting an unfavourable picture of a future independent Scottish economy. But, if the SNP has moved on from its 2014 ‘competence and moderation’ vision of independence, what specific policy opportunities will it seek to emphasise? The Sustainable Growth Commission offered some insights, including over thirty specific policy ideas, from the creation of a new Productivity Commission through to a Commission on Gender Pay Equality. But, not all the Commission’s recommendations have been embraced by the Yes movement. Instead, policy discussions have tended to focus upon aspirational ambitions such as a universal basic income or four-day working week.

The second agenda item will be to decide upon the balance of offering up a specific SNP vision of independence versus one inclusive of the wider Yes movement. Back in 2014, in part because of the limited electoral success of other pro-independence parties at that point, the SNP prospectus was largely seen as the Yes prospectus. The Scottish government’s White Paper was full of policy ideas generated over years of work from within the SNP. But, 2014 galvanised a wider Yes movement. The Green Party now has seven MSPs and two government ministers. The future of the Alba Party might be uncertain, but with Alex Salmond as leader it will continue to gather media attention. On issues such as oil and gas, the policy divide across the Yes campaing is just as wide as policy divisions amongst pro-Union parties. This adds a new dynamic less evident in 2014. Of course, herein lies a return to a familiar trade-off. The SNP’s past moderation tendencies will contrast with the wider Yes campaigns demands for a bigger break with the UK in order to ‘do things differently’.

The third agenda item, and arguably the most challenging, is how much detail to set out on transition timelines and costs. On the one hand, Scotland’s Future—at 670 pages long—certainly offered more detail than provided by the ‘Leave’ campaign prior to the 2016 EU referendum. But in key areas, such as the public finances, information was limited. There was, for example, almost no discussion of contingencies should the outcome of negotiations with the UK or EU not turn out as hoped. On currency, pronouncements by the UK government to refuse a currency union were dismissed as ‘not being credible’. There was no plan B. In contrast, the current First Minister has been much more open in saying that the transition to independence will include ‘challenges’, but how much to say about such challenges? The experience of Brexit, and the awareness developed in 2014, means that voters are informed on economic issues and will be wary of vague promises. More importantly, strategists will be wary of the risk of a ‘winners curse’ if the transition to independence turns out to be that bit harder than anticipated and could undermine confidence in the vote and the job of building a new state. Key areas of focus will be any timeline to transition to membership of the EU, the practicalities of the border with rUK, plans for fiscal sustainability and the development of a credible currency plan. Back in 2014, the Scottish government relied heavily upon independent experts—including Nobel Prize winners Joe Stiglitz and the late Sir Jim Mirrlees—for assistance, and no doubt will do the same again.

The fourth and final agenda item will be communication, particularly with the business community in Scotland. On the one hand, speaking to business leaders, they appear—at this stage—content to sit on the side-lines. This is of course, in part, because these debates remain hypothetical. At the same time, many larger companies undertook detailed contingency planning back in 2014 that could be re-enacted. But, there is also certainly more openness to a conversation about independence post-Brexit. This creates a potential upside for the SNP. However, against that, media reports regularly point to the relationship between the Scottish government and the business community as being frayed in recent years. How accurate this is remains open to debate. What it is possible to conclude is that ensuring businesses do not take a proactively negative view on independence will be crucial—not just to winning a referendum, but ensuring the best possible start for a newly independent Scotland.

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Of course, there are also significant questions for unionists. Will they concentrate on the risks of independence, or will they offer a positive economic case? And on that latter point, might this involve more powers for Holyrood or a more interventionist approach in Scottish affairs by Westminster? These are worthy of an article in their own right. But how the UK government and unionist parties will respond will, in turn, shape the strategy of the SNP. Over the next few months, the Fiscal Framework for Scottish devolution is to be reviewed. How expansive the review’s findings are, including on ‘new powers’, will offer a signal about how open the UK government is to using greater devolution (once again) to fend off independence sentiment. At the same time, the launch of the Shared Prosperity Fund in 2022 will mark the next wave in a more interventionist approach to unionism and will, in turn, set an important backdrop for any prospectus for independence.

Conclusions

The British Social Attitudes Survey found that just 6 per cent of those who reckoned the economy would be worse under independence stated that they would vote in favour of leaving the UK. Setting out a prospectus that convinced even just a small percentage of marginal voters to believe that their future prosperity was better served by independence will be crucial to victory in any future referendum.

On the one hand, the fact that so much of the economic and political context has changed since 2014 offers the SNP and the wider Yes movement an opportunity. The SNP will hope that a vision, more positive and progressive compared to the post-Brexit model being offered by the Conservatives, will be key to securing the support of these marginal voters. On the other hand, it is hard not to overestimate the task at hand facing the SNP. The 2014 prospectus was the natural evolution of over a decade of policy thinking and strategy. At the same time, by emphasising continuity, many difficult questions on currency, financial regulation and the border could be largely set aside. There was also little need to differentiate the SNP’s vision of independence from the wider Yes movement. All of this has changed. The economic context, from North Sea oil through to the Covid-19 pandemic, has increased the challenges that a newly independent Scotland would face (even if in the long-run one believed that its economic fortunes would be improved).

How much detail to set out will be a key question for SNP strategists. One approach would be to say as little as possible and focus upon non-economic aspects of the debate. A second approach would be to set out a broad range of possible choices and economic models for an independent Scotland (encompassing all the Yes campaign) without favouring one option. Both approaches carry risks, not least in being able to provide the reassurance to the all-important marginal voters, particularly with unionists stressing uncertainty. The third approach, and the most likely, is to follow a similar approach to 2014 and to set out what the SNP believes to be the best approach for a post-independent Scottish economy on day one, but to leave open the door for alternatives.

Whether this third approach can be delivered in a little over two years—as per the First Minister’s timeline—is a big ask, but it’s an opportunity too. In setting out a vision of an independent Scotland, the SNP is in a unique position to take a more far-sighted approach than is possible in most elections. If it can also develop a coherent economic strategy for transition, it not only stands a better chance of winning, but it will also increase the prospects of its vision of a successful independent Scotland being realised. If this can be done, and although it remains a big if, it will be the unionists who face the greatest risk from this new prospectus.

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