
With this succinct and timely volume Gavin McCrone has contributed greatly to the ongoing debate regarding Scotland’s economic future in the context of next year’s referendum which may lead to the establishment of Scotland as an independent state. What makes his voice even more important is the fact that most of the arguments presented in this debate are based on economics (this has been the case since the discovery of oil in the North Sea off the coast of Scotland, which then resulted in the coining of the famous slogan, “It’s Scotland’s Oil”). From time to time one may hear or read about Scottish grievances caused by the supposed English yoke, or the electoral system which often provides the Scots a government in London that they did not vote for (for example, in the 2010 UK general election, of the 59 seats contested in Scotland 41 were won by the Labour Party, 11 by the Liberal Democrats, 6 by the Scottish National Party and 1 by the Conservative Party; however, the subsequent UK government was formed by a coalition of Conservatives and Liberal Democrats due to the Conservatives’ huge winning margin in England). Nevertheless what matters for potential voters in the referendum is the economic consequences of independence, and therefore questions like: Can Scotland survive on its own? Will Scotland keep the Pound? Could an independent Scotland maintain the current level of public spending, particularly that which has symbolic value, i.e. free prescriptions and no fees for university education for Scottish students? Can North Sea oil and gas pay for Scottish needs now and in the future? Is it better to be a member of the European Union or to follow the path of Norway (a country that is rich in natural resources and which is closely associated with the EU but not a full member)?

McCrone is in a very good position to deal with such matters, and his voice should be carefully listened to. He is a highly regarded and honored economist with an impressive curriculum vitae. His experience is not only academic (he was a fellow at Brasenose College, Oxford for example) but he has also advised the various Secretaries of State for Scotland and been the head of two Scottish Government Departments. Thus he is able to combine two ways of looking at the current state and future of the Scottish economy: from
the central government perspective (Scotland as a part of the wider British economy) and an autonomous government perspective (the Scottish economy as a system with its own needs, deficiencies and assets within the wider British economy as the closest and the most important frame of reference).

So “How well off is Scotland?” asks the author in the opening chapter. The careful answer he offers is rather mixed and goes against some of the well-known assumptions offered by politicians engaged in the so called “Indy debate.” Scotland is definitely a wealthy country, but McCrone offers several accurate qualifications to such an assumption. Probably the most convincing is the one that the wealth of an independent Scotland could not be calculated by the simple addition to the Scottish GDP of its geographical share of the output of North Sea natural resources. If independence indeed happens, complicated negotiations would begin in order to establish the division of the North Sea between the newly created state and rest of the United Kingdom (UK). Hence it can not be assumed that Scotland would actually receive what is now being claimed as Scottish. Scotland also seems to be spending more annually than it raises in taxation (estimates vary but the gap is almost certainly above 10%), which leads to the conclusion that an independent Scotland may register a high (and McCrone argues unsustainable) budget deficit. And oil is not an obvious solution to this problem, as prices, levels and the costs of production tend to fluctuate over time. Prices of gas are more stable but it is harder to transport it to the foreign clients. There is also a question of national debt. An independent Scotland would not start its life with a clear account in this respect as it is also going to be partitioned. As McCrone seems to suggest correctly a simple per capita share of this burden might not be on offer. The other side would possibly argue for a share related to the proportion of the UK’s GDP, which would be a much less favorable solution from the Scottish point of view. A high deficit and national debt must lead to cuts in expenditure and make further debt more costly. And, of course, such a situation would put political pressure on the governments of a potentially independent Scotland.

In one of the chapters, the author asks just how independent an independent Scotland would actually be or – to put it in other words – does independence make any sense in the current highly globalized
and interdependent world? Two cases are especially interesting in this regard. The Scottish National Party have often argued for competitive levels of corporate income tax after independence, trying to emulate the Ireland’s success in this respect (faced with many critics outside of the country). It used to be a part of the concept called “the arc of prosperity” – a geographic area containing a small number of well-to-do north-western European countries. Nowadays the SNP’s critics often ridicule this idea, by deriding it as “the arc of insolvency.” As McCrone emphasizes, current developments in the European Union tend towards the deepening of fiscal integration and the harmonization of income taxes may follow it. So this could be a non-starter. The second case is the question of what currency is going to be used. Since membership in the eurozone has ceased to be viable, the Scottish Government has stated many times that its aim is to keep sterling and therefore to form a monetary union with the UK. Here McCrone skilfully compares Scotland’s possible position with that of many countries in the euro-zone. Having a member on the board of the central bank (in this case the Bank of England) does not guarantee monetary policies that are to everybody’s advantage. There is also the question of a noticeable lack of balance between the Scottish and UK economies. What is suitable for a relatively small Scottish economy might not work for its “giant” neighbor. Therefore Scotland in the longer term should have its own currency but pegged to the euro or the pound, McCrone convincingly argues. And these are only a few of the problems with regard to currency and monetary policies.

Even more fundamental doubts follow on further pages. Among them is the problem of EU membership. The core of McCrone’s argument in this respect is: Scotland should apply for membership, conclude negotiations as quickly as possible, be realistic during them (to expect the “inheritance” of a share of the controversial British rebate would be unrealistic) and remain in the free trading outer circle of member states (McCrone’s intuition is that the EU is heading towards a two-tier structure divided by membership in the euro-zone). Such aims are, broadly speaking, what the current Scottish government is also proposing.

Until recently one of Scotland’s main sources of income and a reason for its national pride was the financial services sector. Nowadays,
after troubles at the Royal Bank of Scotland and the Halifax Bank of Scotland, tough questions need to be asked concerning the future of such activities (e.g. Who the lender of last resort would be? What size banks would an independent Scotland be allowed to have?). As McCrone perceptively notices, the pro-independence side of the debate has so far failed to give the necessary answers to potential voters. He also urges the “Yes” camp to offer a complex housing policy (not necessarily based on the private ownership of homes and flats) in order to avoid the repetition of the overheating of the real estate sector, which was one of the causes of the last banking crisis.

As has been already mentioned, North Sea natural resources are perceived as one of the cornerstones of Scottish prosperity after independence. It is a rather feeble cornerstone as the prices can not be predicted and what is certain about output is that it will almost certainly decrease. (Besides, McCrone tends to think that oil in particular is not so much a source of future welfare but rather an already wasted opportunity, as, for instance, a special fund along the lines of the Norwegian model was not created. In his opinion – shared with other economists – the income from oil also contributed to the high exchange rate of the pound, which in turn influenced the collapse of the British manufacturing sector). The other cornerstone is the production and exportation of clean energy from wind, water and – potentially – tidal power. But here, too, any long-term predictions are impossible. At this very moment, one can not say if English and Welsh clients would want to buy Scottish energy as such factors as the hydraulic fracturing revolution, clean coal-fired power plants or cheaper imports from elsewhere may materialize even in the near future. Thus none of these two sectors can serve as a guarantee for a safe economic future.

Among the recently published books on Scotland’s potential independence the one written by McCrone stands apart. It is informative, readable and neatly organized. Of particular importance is that it does not offer easy answers to the problems it deals with. A reader might instead find here a set of well directed and perceptive questions that already should have been posed (and if possible answered; the SNP’s white paper on independence may provide some of these answers) by those who lead the “go it alone” coalition. What McCrone wants (himself not being a priori opposed to independence)
is a straightforward debate necessary for well informed voting in the referendum. And such a debate means the voters would know that a “yes” is a jump into the unknown. Such a jump would not necessarily end at the bottom of an abyss, but any voter should be conscious that were Scotland to become independent a long and bumpy road may lie ahead (or at best a harsh adjustment period). It may or may not lead to safety. The author also has enough foresight to know that even a majority “no” vote will not result in the continuation of the current status quo (after the referendum parts of the Scotland Act 2012 would come into effect; questions about further adjustments to devolution would be raised; discussion about a new British-wide regional policy would begin etc.). Should Scotland be an independent country, then? That is the question...

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