

It's a brave Scotland that goes its own way – 14 September 2012

Being miserable is a Scottish national pastime, but pride is in order. At the London Olympics, Team GB participants from Scotland were more than twice as successful as those from the rest of the UK and nearly three times as victorious as Australians or those from the euro zone.

Scottish hearts, always romantic, have pounded faster. It needed only 4.2 Scots competitors to gain each medal, versus 9.3 per medal from the rest of the UK, 11.7 from Australia and 12.1 from an aggregate of the 17 euro zone countries. The 13 medals won so efficiently by Scots contributed 20 per cent to the UK total – not bad for a country that accounts for 8.4 per cent of the UK population and 8.1 per cent of UK gross domestic product.

But should Scots be happy about the medals or sad their athletes competed in Team GB uniforms? This has temporarily confused the increasingly heated debate over full independence for Scotland, a nation that has been contained within the UK since 1707 with England and Wales (Ireland joined later, and the Irish south broke away later still).

The next few weeks will determine whether dissolution of the UK is a real near-term possibility. The Scottish National Party (SNP), which won an outright majority in the devolved Scottish Parliament in 2011, must work out rules and questions for the long-dreamed-of independence referendum in late 2014. The date is important; the SNP hopes to ride nationalist fervour surrounding the seventh centenary of the Battle of Bannockburn. In June of 1314, the flower of Scotland decisively defeated the English. It hasn't happened since.

If all goes to Alex Salmond's plan as First Minister, a positive vote will be binding on the UK government. The rules for the vote and the question or questions to be put will be decided very soon. One question to support independence: yes or no, will mean the game is on. Two questions, full independence or just more devolution, mean the SNP is playing for more time.

The immediate problem for the SNP is that most polls show only a third of Scots residents will vote for full independence.

To economists like me this is not surprising: it is hard to attach a value to national pride. Economics professors giving evidence to a House of Lords committee investigating the independence question have seen no certain gain for Scotland from separation, and considerable risks.

This aggravates those campaigning to break up the Union. Scottish independence is sold as a deeply romantic right, but there is an insidious edge: voices wanting to keep the Union are warned off as near to treason. The battle lines are firming, dividing peoples and families, and reason is the loser.

The sporting success within Team GB has in fact matched Scotland's economic achievements within the Union. In 1707, Scotland was much poorer than England, despite pockets of enterprise (awakening the entrepreneur in John Law, the economics genius of the era) and organised risk capital (including the Bank of Scotland, founded in 1695). The early 18th-century English propagandist Daniel Defoe saw "the poverty of Scotland and the fruitfulness of England".

These days Scottish income per person is short the English equivalent by only the price of one coffee a day – in 2010-11 £20,200 rather than £20,974, and only outstripped by London and the south-east. The economic theory of convergence has played out.

The leaders of the 17-member countries of the euro zone, embarking on their still unstated quest to forge a European political federation to secure their embattled currency, the euro, must wonder why there is any campaign to break up the UK.

They would love to be in Scotland's situation, enjoying an unchallenged common currency, even if it that were to mean having their Olympic athletes compete under a euro zone banner. That may come to symbolise their ultimate sacrifice in saving the euro.

Scottish history shows just how committed the parties need to be to gain a durable union. Militaristic attempts to unify Scotland and England were set aside by the 1550s, soon after England formally annexed Wales. Peaceful efforts gained momentum when the Scottish king, the Stuart James VI, succeeded to the English throne as James I of England in 1603, in the so-called Union of the Crowns. But the next century was riven by religious and political struggles, Catholics against Protestants and the divine right of kings against parliamentary rule. This led to many false starts, until the protestant-led Glorious Revolution in 1688 that brought William and Mary as co-monarchs to the thrones of the two countries, resolved most of the religious and political vetoes.

The critical catalyst came soon after, in the late 1690s, when the Scottish enterprise to colonise the Isthmus of Panama, otherwise known as the Darien scheme, failed. The Company of Scotland had raised

£400,000 to found the colony of Caledonia – a quarter of the money circulating in Scotland or a fifth of Scottish wealth. Widespread starvation after a run of poor harvests added to traction. So too did the prospect of better times if English trade barriers (applying also to its colonies) were removed and if compensation was paid for the Darien losses (for which the English were blamed).

History shows the result in 1707 was comprehensive. England and Scotland agreed to an incorporating Union, dissolving the former states into a new state, with a union of their parliaments, the adoption of a common fiscal and commercial framework and replacement of the Scots pound with the pound sterling.

The idea of union did not have broad popular support – indeed many towns and villages protested against it and there are many records of riots. Today's proponents of Scottish independence see those who made the Union happen as, in the words of poet Robert Burns, "such a parcel of rogues in a nation", who "bought and sold for English gold" the Scots and their freedom .

In 1707 English and Scots commissioners were appointed to negotiate the terms of the Union. Research shows the Scottish commissioners, led by the Duke of Queensberry, not only won the guarantee of the continuance of existing civil laws and courts in Scotland, but also gained a settlement for past injuries ("the entitlement", which included payment by England of public salaries and pensions owing, and the Darien losses), a period of lighter taxation before Union-wide taxes would apply (the salt and malt tax concessions) and a transfer reflecting that the existing debts of each country entering the Union would become the debts of all within the Union (the "compensation", as wars had disproportionately boosted the English national debt) .

My ancestor John Erskine, sixth Earl of Mar, was a commissioner and Queensberry's lieutenant – keeping the negotiators on course. He argued for the tax concessions, to ease the initial adjustment costs and maximise later gains within the economic union. True, Mar did profit after the Union as the UK's Secretary of State for Scotland. But after Queen Anne died and George I, the first Hanoverian, was invited to be the UK monarch, Mar lost his position and income.

Already bitter that tax concessions were not delivered as negotiated and seeing the Union's continued unpopularity, he precipitously led an ill-fated rebellion in 1715 to re-install the Stuarts as monarchs and to undo

the parliamentary and economic Union. No wonder he was nicknamed “Bobbing John”. Exile and ignominy followed.

More important than rethinking their distortions of history, those today proposing Scotland go it alone need also to confront critical questions: how to retain free trade with the rest of the UK and Europe, what currency to use, and what to do with the oil revenues that geographically are Scottish? Answers are needed before Scots can envision if independence could be worthwhile.

Pragmatism means the pound sterling will be retained (though whether this will be “sterlingisation” or a negotiated currency union is unclear). Less prudently, it seems the oil revenues will fund otherwise unsustainable public spending. There seems no support for building a fund to provide stability when oil prices fall, or to cushion the shock when the oil runs out.

But it is becoming less clear how an independent Scotland will secure continued good trading access to the rest of the UK and Europe. The SNP assumes Scotland will automatically join the European Union. Inconveniently, the UK government is making noises about leaving the EU. And an independent Scotland is unlikely to meet the fiscal criteria for EU entry.

Membership of the less prestigious European Economic Area (EEA) may be a more attainable goal, joining Norway, Iceland and Liechtenstein. For independents, this is only the first international treaty decision that will have to be made. The UK has 14,000 multilateral or bilateral treaties.

What many Scots realise is that Scotland enjoys both the benefits of the Union and considerable devolved power, at least enough to hold Scottish heads high. Parliament reopened in Edinburgh in 1999. Now, after the 2008-09 Calman Commission found the first decade of Scottish devolution had created more benefits than costs, further powers may be devolved. For instance, under the UK Parliament’s Scotland Bill 2012, the UK Treasury is consulting on the powers, and limitations, needed if Scotland is to issue its own sovereign bonds within the Union. Sotto voce, the consultation makes clear Scotland faces major additional costs if it issues bonds without an implicit promise from the UK to bail it out of future debt servicing difficulties. The pro-independence camp needs to explain why it is worth incurring such costs.

The debate has a lunatic fringe north and south of the border. The Scottish Nationals rant that former Conservative prime minister Margaret Thatcher ruled from London in the face of an anti-Conservative vote in Scotland. Some English Tory MPs so hate the mass of mainly Labour Scottish MPs, which at times helped Labour win government on a minority share of the UK vote, that they favour letting Scotland go (as reported in “Union busters”, Review, March 9, 2012).

The latter is a typically superior view of everything Scots, which has endured since before the Union. But the anti-English passions within Scotland are more worrying, as they may become vindictive, especially if polling continues to suggest a referendum will fail.

Calm is needed. Economics and marriage guidance counselling would give similar advice. The time to break up the Union was in 1715, marking a seven-year itch, and not in 2014. And even in 1715, it would have been a mistake.

Before the brutish reality and depressing lack of enterprise presented by Scots cinema in the 1996 film *Trainspotting*, there were some great romantic movies. One that really hit home for me was filmmaker Cary Parker’s *The Girl in the Picture*, set in mid-1980s in Glasgow, about the difficult relationship between a photographer and his girlfriend. It captures how Scots can best get along with the English in a continuing Union. Meeting up again with the lass after a falling-out, the photographer announces: “I don’t want to be happy. I want to be miserable with you.”

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The Australian Financial Review