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what's next for Scotland?**

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INTRODUCTION

Following a vibrant and energetic campaign, on the 18th of September 2014, the Scots have decided to stay within the United Kingdom by a margin of 55,3% against 44,7%. Subsequently, on the 19th of September 2014, David Cameron¹ has established the Smith Commission as part of the response to “The Vow” published on the Daily Record², two days before the Scottish referendum. With a turnout of over 84%, the question of Scottish independence has probably been put to rest for years to come, but a new political debate on the constitutional future of Scotland and of the United Kingdom (UK) has been unfolded.

The purpose of this paper is to bring more clarity over the political process *before* and *after* the referendum. In order to do so, we will proceed in four moments: first, we will identify what was at stake on each side of the Scottish campaigns; second, we will explore major aspects of the Scottish referendum and third, we will explain the Smith Process and its consequences for Scotland. Finally, in the last part, we will raise major conclusions regarding the political future of Scotland and the UK.

As we are dealing with recent political events that lack strong evidence in literature, our research will be based on scientific analysis displayed by the Centre on Constitutional Change³ since the beginning of this process even before the referendum. Additionally, these pieces of research will be further reinforced by the analyses of relevant official documents issued either by Scottish political parties involved into this political process or by the British government. By the means of a systematic analysis of these elements, we hope to deliver a consistent and coherent account of the political process.

YES SCOTLAND *VERSUS* BETTER TOGETHER: WHAT WAS AT STAKE?

The referendum was suggested by the Scottish National Party (SNP) in May 2011 – as the SNP achieved a majority position in government - and it has been legally recognized by the Edinburgh Agreement⁴ signed between the Scottish and British government in October 2012. Nevertheless, the political debate has only started as the two opposing campaigns –Yes Scotland *versus* Better Together– came into play in May and June 2012⁵, respectively. Whereas *Yes Scotland* campaigned for the independence of Scotland and was supported by the Scottish National Party, the Scottish Green Party and the Scottish Socialists; *Better Together* campaigned for the *No* vote and was supported by the three pro-union political parties in Scotland: the Scottish Labour; the Scottish Conservative Party and the Scottish Liberal Democrats.

¹On behalf of the British Government.

² In <http://www.dailyrecord.co.uk/news/politics/david-cameron-ed-miliband-nick-4265992> .

³ In <http://www.futureukandscotland.ac.uk/>.

⁴ The document can be consulted here:

<http://www.scotland.gov.uk/About/Government/concordats/Referendum-on-independence>.

⁵However, the official campaign started on the 30th of May 2014.

During the campaign, all political parties sustained distinctive nuanced propositions for Scotland. Yet, the political debate has revolved around three major issues: fiscal competences, the welfare system (NHS, pension and healthcare) and the pound. In spite of the diversity of the proposals that have been exhaustively debated, many decisive questions have remained unanswered such as the pound, the future of the National Health System (NHS) and the European membership. In this section, we will summarize the arguments put forward by the major proponent of the “Yes” Campaign, that is, the Scottish National Party, and the arguments delivered by the proponents of the “No” Campaign, that is, Scottish Labour; Scottish Conservative Party and Scottish Liberal Democrats.

The “yes” campaign: Yes Scotland Scottish National Party

The Scottish National Party is the party who has incarnated the idea of political independence during the campaign. The SNP is in fact the party who governs Scotland since 2007 with Alex Salmond as the first minister. The SNP has reached a majority position in government in May 2011, which has allowed him to set the issue of political independence on the Scottish agenda as much as to trigger the referendum procedure to be held on the 18th of September 2014. In other words, in the same line of thought of the Scottish government’s report of 2010 - “*Your Scotland, Your voice*”⁶- the SNP has once more reasserted the idea of political independence considering “devo max” as the second best alternative to political independence⁷.

Additionally, in November 2013, the Scottish government launched a new report - “*Scotland’s Future: your guide to an independent Scotland*”⁸- where the SNP made, once more, the case for political independence, equating demands of “self-government” with “good governance”. In this report, the idea of “*Scotland’s future in Scotland’s hands*” is constantly repeated in order to enhance Scottish’s opportunity to secure more self-government for the benefit of Scotland’s future. Very seemingly, demands of political independence have also been claimed in opposition to “bad” policy choices coming from Westminster.

With the idea of political independence, Alex Salmond expected to reach full self-government, which would allow Scotland to make all the decisions affecting its governance, ranging from external affairs to fiscal, social, economic, welfare and immigration policies. With this political message, Alex Salmond wanted to highlight British constitutional flaws, which prevents Scotland from performing better economically, socially and politically. In that sense, the emphasis has been put on the social and economic advantages of political independence, using consensual examples such as the “bedroom

⁶ The document can be consulted here: <http://www.scotland.gov.uk/Publications/2009/11/26155932/16> .

⁷ “Devo max” would include full fiscal autonomy, as well as devolved powers over employment and competition law; regulation of companies, broadcasting; social security; equalities legislation; energy policy; marine regulation and formal participation rights in the EU policy making.

⁸ The document can be consulted here: <http://scotgov.publishingthefuture.info/publication/scotlands-future>.

tax”, the nuclear base in Trident or the impossibility to collect revenues from gas and oil extraction to justify its political cause.

With insight, we could argue that Alex Salmond has definitely moved from a traditional nationalist approach, largely based on “cultural distinctiveness”, to a much more pragmatic approach, which gives more relevance to social and economic aspects of political independence.

The “no” campaign: Better Together

In a distinctive manner, the “No” campaign came into existence as a reaction to the political challenge of Alex Salmond. The three unionist parties have supported the *Better Together* campaign and Alistair Darling - a British Labour politician –was appointed as the chair of the campaign. As a consequence of this reactive aspect, in a clear contrast with *Yes Scotland*, *Better Together* campaign failed to articulate a well-prepared and consensual proposition. Nevertheless, and in spite of nuanced propositions, all three parties pledged to increase Holyrood’s powers, namely in finance, welfare and taxation.

Scottish Labour

In March 2014, Scottish Labour’s devolution commission issued its final report - “*Powers for a purpose-strengthening accountability and empowering people*” - where it reasserted the will to meet the Scottish people’s legitimate desire for more powers and enhanced accountability within a strengthened union (Scottish Labour, 2014: 1). In this document, Scottish Labour has remembered that it has always been a party of both devolution and the Union. In making the case for more devolution within the Union, Scottish Labour has brought a proposition, which reaffirms the benefits of social solidarity with Scotland staying in the Union.

Faithful to its principles, Scottish Labour has suggested that a new political arrangement for Scotland could only be considered as long as it would contribute to make the Union stronger. To state it differently, for the United Kingdom to be an effective union with Scotland within it, it would be critical that certain core matters remain reserved to the UK Parliament such as financial and economic matters -including monetary policy, the currency, debt management and employment law-; foreign affairs (including international development) and defence; the core of the Welfare State – pensions and the majority of cash benefits and the constitution. Other reserved issues would also include immigration, broadcasting, civil service and abortion.

Beyond these competences that should remain reserved competences, Scottish Labour believes that there is significant scope to strengthen the powers of the Scottish Parliament on tax –varying powers and control over some elements of welfare and benefits policy. Following rigorous examination of the relative merits of devolving tax responsibility, Labour believe that the Scottish Parliament should have the power to raise about 40 percent of its budget from its own resources. This would mean that three quarters of basic rate income tax in Scotland would be under the control of the Scottish Parliament.

Additionally, it would also introduce new Scottish progressive rates of income tax, so that the Scottish Parliament can increase the rates of tax in the higher and additional bands. However, when it comes to tax varying powers and income tax widening, Labour has also reaffirmed that VAT, national insurance contributions, corporation tax, alcohol, tobacco and fuel duties; climate change levy, insurance premium tax; vehicle excise duty; inheritance tax; capital gains tax and tax oil receipts should remain reserved.

As for welfare policies, Labour has suggested that housing benefit – which would allow Scotland to abolish the bedroom tax; attendance allowance –paid to disabled over 65s– and the work programme –which manages services for the unemployed- should be devolved. All other pensions and benefits should stay at Westminster. Finally, Labour has pledged for the maintenance of the Barnett Formula and has asked for a better distribution of powers within Scotland asking for the empowerment of local governments.

Scottish Liberal Democrats

Scottish Liberal Democrats have produced their own report “*Federalism: the best future for Scotland*” (Scottish Liberal Democrats, 2012) where they have, once more, reasserted their belief in the maintenance of Scotland within a federal solution. Under this federal plan, the Act of Union, between Scotland and England would be replaced with a declaration of federalism. In fact, for Scottish Liberals, home rule in Scotland would work even better if it were part of a move towards a federal UK where every part of the United Kingdom would have similar levels of responsibility.

Moreover, under the Liberal Democrat’s Scottish “home rule” vision, Holyrood would raise and spend most of its own taxes (income taxes, bands and rates) and borrow on its own terms. Fiscal federalism is clearly mentioned in the report, as it would support a move towards federalism. For the Liberal democrats, fiscal federalism would be assisted by a new needs-based payment system, to be agreed by the federal United Kingdom Government, the Scottish Parliament and the relevant assemblies to ensure fiscal equity across the UK. Within this particular context, the Barnett Formula would continue to operate until a new formula is agreed.

On the other hand, a federal United Kingdom Government would retain major areas of competency – foreign and defence affairs, the currency, national emergency, immigration, trade and competition, pensions and welfare, macro-economic policy and the preservation of the UK single market for business. Under federalism the home rule governments across the UK would normally work on matters of their own responsibilities but a reinforced form of partnership between different tiers of government should be considered for a new category of powers additional to “reserved” and “devolved” powers - “partnership” powers- which would require the co-operation of both home rule and federal governments. These areas of partnership powers would include skills and employment, research and innovation, strategic planning of welfare services, energy resources, election law and administration, marine policy and cross-border transport.

Finally, in the same line of Scottish Labour, the autonomy and power of local councils should be reinforced. That is, Scottish Liberals recommend the decentralization

of power by proposing extensive autonomy for local government and for local communities. This would include the financial freedom for local authorities; the removal of the powers of ministers to overrule local authorities; the devolution of powers over council tax and business rates and a general power of competence for local government, allowing councils to set their own plans, reflecting the priorities of their electorates.

Scottish Conservative Party

For the Scottish Conservative Party, the event of a third referendum has been perceived as an opportunity to build a stronger Union with a clear division of responsibility and accountability. Indeed, in face of a new process of devolution, the Scottish Conservative Party has tried to react positively, asking for the empowerment of the Scottish people, on the one hand, as well as for the empowerment of the Scottish institutions, on the other. In a complementary manner, they have also managed to link the Scottish issue with demands of a greater institutional reform across the UK.

On their report, "*Commission on the Future Governance of Scotland*", the Scottish Conservative Party portray themselves as a modern conservative party that recognizes the benefits of a stronger Union with a stronger Scotland. In this report, they have tried to emphasize the advantages of partnership between the UK and Scotland and they have argued for the strengthening of Scottish devolution in fiscal and welfare responsibilities (Scottish Conservative Party, 2014).

Among their key recommendation, we could highlight the devolution of income tax powers, which would see the Scottish Parliament accountable for 40% of the money it spends. Moreover, they have recommended that the Scottish Parliament should be able to decide on rates and bands as much as it would get responsibility on welfare issues, which are related to devolved areas, such as housing benefits and attendance allowance. Beyond this new responsibility, the Scottish Parliament would be conferred the power to supplement welfare benefits legislated for at UK level.

In spite of a "newly" devolutionary stance, the Scottish Conservative Party have also made it clear that the state pension should remain with the UK and that the centralization of powers from local to central government should be reserved, although real devolution should be given to individuals with a greater role for civic society and to local government. In fact, it is central to Scottish Conservatives that power should be devolved away from governments and Parliaments to people and communities.

In conclusion, we could argue that this third referendum was not about choosing between the current *status quo* and political independence. Rather, it consisted of choosing between devolving significant extra powers on tax and welfare policies, on the part of the *No* campaign, and political independence, on the part of the *Yes* campaign. This explains why the Scottish campaigns have contributed to the debate and have had a major influence on the final decision to be made on the 18th of September.

At their fullest extent, the pro-unionist proposals on tax and welfare devolution were clearly significant and would have direct impact on Scotland's citizens, whether through benefits received, taxes increased and higher economic growth. In addition, all

three parties would take steps to strengthen the powers of local government and introduce modest new policy-making powers for the Scottish Parliament. However, on the other side of the political spectrum, the SNP's response to the pro-union parties' proposals on more devolution has been very simple: the pro-union parties cannot be trusted to deliver and only political independence will allow Scotland to prosper.

SCOTTISH REFERENDUM 2014: WHAT CAN WE LEARN FROM IT?

Communication strategies

As for the evaluation of the campaigns, the tone and content of the two campaigns varied greatly (Mitchell 2014). In fact, whilst supporters of independence have offered a much more positive and imaginative message, supporters of the Union have focused on the perils of independence, on the economic uncertainties and on the problematic state of public finance in an independent Scotland. Moreover, *Yes Scotland* has offered a vision that went well beyond dry constitutionalism and did so with verve and energy whereas *Better Together* has fought a fairly conventional campaign based on expertise drawn from party election campaigns.

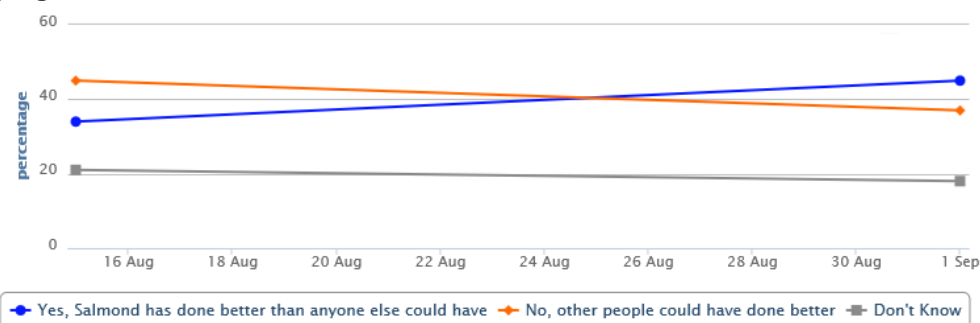
Alex Salmond (SNP) has invested in grassroots campaigns in stark comparison with his opponents who have opted for a traditional campaign that has focused on the Holyrood bubble and conventional media coverage. Very seemingly, *Yes Scotland* has been remarkably confident and consistent, in spite of the many bad moments, most notably following the first debate between Alex Salmond and Alistair Darling. Furthermore, *Yes Scotland* has not panicked to the polls. It has anticipated most of the challenges and proved to be technically prepared to answer unexpected questions.

In global terms, the *Yes* campaign has been perceived in a positive manner⁹-60% positive in September 2014- compared to the *No* campaign -60% negative in September 2014¹⁰-, which has been perceived in a negative manner (What Scotland Thinks 2014). By the same token, Scots have appreciated the performance of Alex Salmond more with 45% of Scots stating that he was the right person to lead the *Yes Campaign* compared to Alistair Darling with 52% of Scots claiming that he was considered a bad choice to lead the *Better Together* campaign (see chart lines 1 and 2 below).

⁹In <http://whatscotlandthinks.org/questions/do-you-think-the-yes-scotland-campaign-so-far-has-been-positive-or-negative#table>.

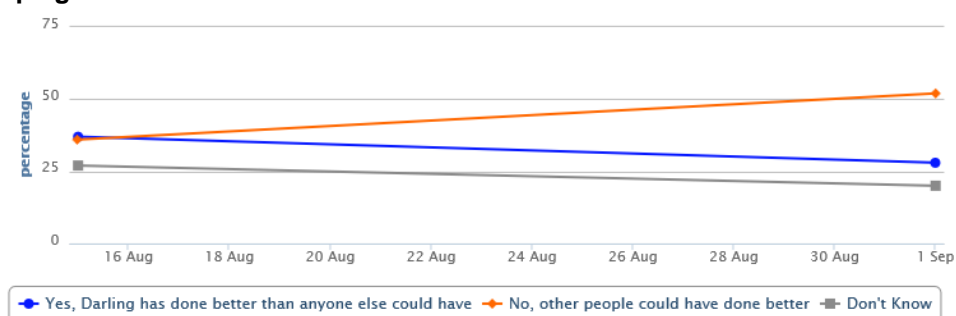
¹⁰In <http://whatscotlandthinks.org/questions/do-you-think-the-better-together-campaign-so-far-has-been-positive-or-negative#table>.

Chart line 1: Do you think Alex Salmond has been the right person to lead the Yes campaign?



Source: What Scotland Thinks 2014¹¹

Chart line 2: Do you think Alistair Darling has been the right person to lead the No campaign?



Source: What Scotland Thinks 2014¹²

In conclusion, we could argue that irrespectively of the final result obtained on the 18th of September, the Yes Campaign has shown greater dynamic and confidence than the No campaign as well as Alex Salmond was the most appreciated campaign leader, when compared to Alistair Darling.

The turning point of the campaign

Regardless of the contrasts that have been pointed out and which, up to a certain extent, benefit the Yes campaign, the turning point of the campaign took place on the 5th of September 2014, as the YouGov poll showed a 51%: 49% Yes lead in referendum voting intention. This, coupled with polls published on the next days, sowed panic in the ranks of the No side (Jeffery 2014). As an immediate reaction to this result, Gordon Brown intervened on the 8th of September for the first time, speaking of the endorsement of the three pro-Union leaders –David Cameron, Nick Clegg and Ed Miliband- to deliver additional devolution to Scotland until May 2015.

¹¹In <http://whatscotlandthinks.org/questions/do-you-think-alex-salmond-has-been-the-right-person-to-lead-the-yes-campaign#line>.

¹²In <http://whatscotlandthinks.org/questions/do-you-think-alistair-darling-has-been-the-right-person-to-lead-the-no-campaign#line>.

Additionally, on the 16th of September 2014, the three party leaders produced the “Vow”, as record on the front page of Scotland’s *Daily Record*¹³, which reaffirmed the commitment to deliver additional devolution on Brown’s timetable, and gave additional pledges on the NHS in Scotland and on the continuation of the Barnett Formula that determines the funding available to the Scottish Parliament. The pledges on the NHS and Barnett were designed to temper the claims on the Yes side that the NHS was in danger of being privatised if Scotland remained in the UK and the current levels of funding for Scotland would be at risk if Scotland voted *No*.

By doing so, the *No* campaign was now delivering –for the first time– a more positive agenda for Scotland to stay in the Union. Given the clear margin of the *No* victory at 55,3% to 44,7%, it seemed to work. Nevertheless, that agenda was unplanned and as a consequence lacking in appreciation of the possible spillovers it might have elsewhere in the UK. Subsequently, on the 17th of September, Gordon Brown spoke emotively to the Scots and more specifically to the undecided, which represented more than 10% of the votes. With this speech, Gordon Brown remembered the patriotic legacy of the Scottish Labour, on the one hand, and reaffirmed the destructive effect of nationalism, on the other.

“[...] The vote tomorrow is not about whether Scotland is a nation; we are, yesterday, today, and tomorrow. It’s not about whether there is a Scottish parliament; we have it, after a referendum ten years ago. It’s not about whether there are increased powers; we are all agreed to increase the powers. The vote tomorrow is whether you want to break and sever every link and I say let’s keep our UK pension, let’s keep our UK pound, let’s keep our UK passport, let’s keep our UK welfare state.”

(...) And let us tell the undecided, those not sure how to vote, let us tell them what we have achieved together. And let us tell also those people who have been told unfairly by the nationalists that, if you vote No, you are a less than patriotic Scot. Tell them this is our Scotland. Tell them that Scotland does not belong to the SNP, Scotland does not belong to the Yes campaign, Scotland does not belong to any politician – Mr Salmond, Mr Swinney, me, or any other politician – Scotland belongs to all of us.[...]”

In Gordon Brown’s speech of the 17th of September 2014

On the 18th of September 2014, 84,59% of the Scots went to the polls and the outcome of the referendum was clear: 55,3% of the Scots against 44,7% decided to stay within the Union. In face of these numbers, we could argue that the support for the SNP and the Yes campaign did not go hand in hand. Alex Salmond was about to be beaten by the last minute pro-union intervention and announced his resignation on the 19th of September 2014. On that same day, David Cameron, on behalf of the British government, announced the establishment of the Smith Commission, which would be responsible to convene cross-party talks on more devolution.

How did Scotland vote and why?

In order to understand why Scotland has rejected political independence, we will

¹³See *Daily Record* of the 16th September 2014 in <http://www.dailyrecord.co.uk/news/politics/david-cameron-ed-miliband-nick-4265992>.

rely on two opinion polls that have been conducted immediately after the referendum on the 18th and 19th of September 2014 (Curtice 2014a and 2014b). The first poll was conducted by YouGov¹⁴ on the 18th of September and the second exercise was undertaken by Lord Ashcroft¹⁵ on the 18th and 19th of September. Both exercises allow us to confirm the presence of four patterns that were evident in the polls throughout most of the campaigns: women, older people, those in more affluent circumstances and those who were born elsewhere in the UK were all relatively reluctant to vote Yes.

According to the Ashcroft poll, 47% of men voted Yes, compared with 44% of women (see picture 3 below). In a similar manner, YouGov's figures are closer to those averages, with 51% of men voting yes and only 42% of women. Additionally, the two polls break down their respondents by age rather differently, but both identify a big difference between the voting preferences of older voters and the rest of the population. Indeed, just 27% of those aged 65 and over voted Yes, while only 53% of the 33-44 year old, 59% of 25-34 years old and 52% of those in the 16-24 age group voted Yes.

Also not surprisingly, Conservative voters were the most Unionist, with 95% voting to reject independence. Of the other pro-Union parties, 63% of Labour and 61% of Liberal democrats voted against political independence. Moreover, nearly four in ten of those who voted Labour or Liberal Democrat in the last Westminster elections voted Yes. Meanwhile one in seven SNP voters – 14% - opted to remain in the UK against 95% who voted for the political independence of Scotland. Those who voted SNP in the last general election comprised just over half (53%) of the total Yes vote.

Table 3: how did Scottish people vote?

%	All	Men	Women	AGE						2010 WESTMINISTER VOTE			
				16 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 +	Com	Lab	SNP	LD
Yes	45	47	44	51	59	53	52	43	27	5	37	86	39
No	55	53	56	49	41	47	48	57	73	95	63	17	61

Source: Opinion poll from Lord Ashcroft 2014¹⁶

As for the place of birth, according to YouGov, only 26% of those who were born in England, Wales or Northern Ireland voted Yes, little more than half the equivalent figure (49%) amongst those born in Scotland. In contrast, the division of the vote amongst those who were born outside the UK was much less distinctive, with 41% saying they voted Yes. Finally, the level of Yes support was strongly correlated with the level of unemployment. Indeed, in areas with relatively high unemployment, Yes support averaged 51%; whereas in those with low levels of unemployment it reached 39%.

Moreover, according to Lord Ashcroft polls, the economic circumstances have also determined the voting behaviour since the higher level of Yes support has been found in council areas with higher levels of unemployment. In other words, Yes support averaged 51% against those with low levels of unemployment which reached 39%. There were

¹⁴ For further information, see the following link: <http://yougov.co.uk/publicopinion/archive/10934/>.

¹⁵ For further information, see the following link: <http://lordashcroftpolls.com/2014/09/scotland-voted/>.

¹⁶ In <http://lordashcroftpolls.com/wp-content/uploads/2014/09/Lord-Ashcroft-Polls-Referendum-day-poll-summary-1409191.pdf>.

similar differences between places with a high (51% Yes) and low (40% Yes) proportion living in one of Scotland's most deprived neighbourhoods and between areas with a relatively large (40%) and small (51%) proportion of people engaged in professional and managerial occupations.

As for the reasons that led people to vote Yes, we can identify 5 major reasons (see picture 4 below): disaffection with Westminster politics (74%); the NHS (54%); tax and public spending; oil (20%) and jobs (18%). On the other hand, on the No camp, the most relevant factors included the pound (57%), pensions (37%); NHS (36%); tax and public spending (32%); defence and security (25%).

To state it differently, whenever asked to identify the most relevant reason to vote yes on the yes camp and no on the no camp; *“the principle that all decisions about Scotland should be taken in Scotland”* came first for the Yes voters (70%) whereas *“the risk of becoming independent looked too great when it comes to things like the currency, EU membership, economy, jobs and prices”* came first for the No voters (47%). Therefore, whereas the principle of “self-government” has been highly decisive for the Yes voters; the dangers and the uncertainties of political independence have determined the No vote.

Table 4: major reasons for voting yes and no

<i>% naming among reasons</i>	YES voters	NO voters
The NHS	54	36
The pound	7	57
Jobs	18	21
Prices	3	13
Disaffection with Westminster politics	74	4
Pensions	10	37
Defence & security	16	29
Benefits	13	7
Oil	20	6
Tax & public spending	33	32
EU membership	12	15
None of the above	4	7

Source: Opinion poll from Lord Ashcroft 2014¹⁷

To finalize, if we had to summarize the lessons to learn from this referendum, we could mention that the SNP has delivered the most appealing political project of self-government to the eyes of the Scottish electorate. Very seemingly, they have managed to offer the most adequate communication strategy to seduce Scottish citizens. Nevertheless, the absence of clear answers regarding sensitive issues such as the EU membership; the maintenance of the Sterling; the protection of the HNS and the many insecurities of political independence, on the one hand, and the last minute pro-union commitment towards devolution, on the other, have dictated the final outcome of the referendum.

¹⁷ In <http://lordashcrofcpolls.com/wp-content/uploads/2014/09/Lord-Ashcroft-Polls-Referendum-day-poll-summary-1409191.pdf>.

THE “NO” VOTE AND THE SMITH COMMISSION

On the aftermath of a “no” vote, on the 19th of September 2014, David Cameron has established the Smith Commission and Lord Smith of Kelvin¹⁸ agreed to oversee the process to take forward the devolution commitments, with powers over tax, spending and welfare all agreed by November and draft legislation published by January. Subsequently, on the 26th of September, Lord Smith wrote to the political parties currently represented in the Scottish Parliament –five at the total- calling for submissions on further powers for the Scottish Parliament within the UK by 10th of October. All five Scottish political parties have been engaged in formal talks since the 22th of October and have committed to “Heads of Agreement” that have been published on the 27th of November.

The Smith Process

The starting point for the discussions in the Smith Commission was the devolution of additional powers over taxation, with a second area of emphasis around welfare powers. That starting point was set by the commitment of the Conservative, Labour and Liberal Democrat parties prior to the referendum to move quickly to establish additional powers for the Scottish Parliament, reflecting the common ground in the content of the proposals each had published in the preceding months (Centre on Constitutional Change 2014: 9).

The positions of the three pro-union parties had quite some overlap. The core issue was around tax devolution. The main emphasis was on income tax devolution, with the Liberal Democrats and Conservatives proposing near complete income tax devolution, including the ability to vary tax rates, compared to those in the rest of the UK. Labour proposed less extensive devolution of income tax. All three parties were open to the devolution of a number of minor taxes. Both the Liberal Democrats and the Conservatives were open to an element of tax “assignment”, that is, the allocation of the receipts generated in Scotland from taxes set in a uniform way across the UK to the Scottish Parliament’s budget.

Additionally, both Labour and the Conservatives set out a number of commitments to welfare devolution (the Liberal Democrats were less clear in this field). Both advocated devolution of attendance allowance and housing benefits in Scotland. Labour proposed the devolution of the Work Programme, but to local government in Scotland rather than the Scottish Parliament. This is one of a number of measures they proposed to strengthen the powers of local authorities in Scotland an area where they share considerable common ground with the Liberal Democrats. There was little focus on other areas for possible additional devolution except in Labour’s proposals, which recommended devolution of a number of specific issues: powers over the Scottish Parliament election process, health and safety, employment tribunals, consumer advice and the railways.

In a distinctive manner, the Greens and the SNP each have presented much further reaching proposals. Just as the pro-union parties, submissions were the result of

¹⁸ Lord Smith of Kelvin was the leader of the organising committee of the Glasgow Commonwealth Games.

their earlier commission's deliberations. More particularly, the SPN's submission replicated the earlier proposition of the 2009 White Paper *"Your Scotland, your voice"*¹⁹ where the SNP has set out an initial prospectus for Scottish Independence but it has explored the option of "full devolution" (or "devolution max" as the best second choice), that is, the maximum possible devolution consistent with continuing membership of the UK. That particular option was set out more systematically in the Scottish Government's submission to the Smith Commission. According to the SNP, a maximum self-government within the Union would mean that the UK Parliament would have powers in relation to Scotland in only a small number of areas: aspects of the UK constitution, monetary policy, aspects of citizenship, defence, intelligence and security and foreign affairs.

Finally, the Greens didn't go so far on their demands but they proposed more than the pro-union parties. They had a fuller commitment to tax devolution (including full devolution of income tax and tax assignment) and to full welfare devolution (likely excepting pensions). They also emphasized the need for devolution in a number of fields that have a particular resonance in the green tradition, including quality of democracy, human rights, energy policy and immigration.

The Smith Report

The Smith Commission's report has been published on the 27th of November 2014 and the terms of the agreement have been rather deceptive. The document is not that extensive and it has been divided in two chapters. The first chapter deals with the working arrangements of the Smith Commission. In this chapter, Lord Smith of Kelvin explains the different moments and actors involved into this reforming process. Additionally, the second chapter introduces the terms of the agreement reached which are subdivided into three pillars: the first pillar elaborates on the constitutional details of the new settlement of governance for Scotland (electoral procedures; inter-governmental relations; Scottish representation to the European Union); the second pillar explained the powers retained and further delivered on the economic and welfare policy areas and the third pillar deals with the powers retained and delivered in finance.

As we read into the report, we realize that major competences over fiscality and welfare policies such as state pensions; universal credit; national insurance contributions and corporate taxes have remained reserved. On the other hand, income taxes have remained a shared competence but Scotland has gained new extensive powers on that particular area. Within this framework, the Scottish Parliament will now have the power to set the rates of Income Tax and the thresholds at which these are paid for the non-savings and non-dividend income of Scottish taxpayers.

However, all other aspects of income tax such as the imposition of the annual charge to income tax, the personal allowance, the taxation of savings and dividend income will remain reserved. On the overall, "minor" concessions have been granted in

¹⁹ The document can be downloaded here: <http://www.scotland.gov.uk/Publications/2009/11/26155932/16> .

welfare – benefits for carers, disabled people and those who are ill²⁰ – and in economic policy – employment provision (Work Programme and Work Choice). Some aspects of energy and onshore oil/gas extraction have been devolved (Smith Commission, 2014) as well as a new political compromise for the improvement of the current Concordat on the Co-ordination of European Union Policy Issues has been sealed.

According to Michael Keating (2014), with this new agreement, Scotland has received new powers to set the rates and bands of income tax but the tax itself has not been devolved. That is, taxation of investment income, National Insurance, inheritance tax and capital gains tax have remained reserved to Westminster. Corporation tax is to be reserved. Air passenger duty has been devolved but the SNP intends to abolish it. Similarly, devolution of welfare has been limited to bits of existing programmes whose functioning has proved so problematic, is now locked in as a UK programme. Elements of housing benefit are to be disentangled from it, which could complicate matters further. The administration of the Work Programme is to be given to the Scottish Government but not the power to link welfare, labour market and economic development policies together effectively.

Very seemingly, Nicola McEwen (2014) claims that the devolution of welfare policies has been quite disappointing. Indeed, the report's recommendations center on benefits for carers and people with disabilities. More specifically, devolution is recommended for attendance allowance, carer's Allowance, Industrial Injuries and severe disablement allowance, and winter fuel payments, which together, account for just fewer than 6% of social security spent in Scotland in 2012/13. Additionally, the report has also recommended the devolution of Disability Living Allowance/Personal Independence Payments which is a more substantial benefit amounting to 8.2% of Scottish welfare spent. Nevertheless, and in spite of these major changes, around 87% of Scottish welfare spending, including pensions, child and family benefits, tax credits and almost all working-age benefits, will remain reserved to Westminster after the new settlement is implemented.

Now that the Smith report has been issued, it would be interesting to understand what does Scotland think of the terms of the agreement reached. Is Scotland fully satisfied with the outcome of cross-party talks? On the other hand, it would also be interesting to know what powers Scotland would expect to be delivered? As for the first question, an opinion poll conducted by YouGov in December 2014 clearly shows clearly that Scotland feels disappointed with the terms of the agreement reached so far. In fact, 51% think that the Smith Commission has not gone far enough and that more powers should be devolved to the Scottish Parliament (see table 5 below).

²⁰ Child benefit, maternity allowance or statutory sick pay and widowed parent have remained reserved competences.

Table nº 5: What does Scotland think of the Smith proposals?

(December 2014)

Thinking about the proposals from the Smith Commission to devolve extra powers to the Scottish Parliament, do you think these ...	
Go too far, and devolve too many extra powers to the Scottish Parliament	14
Do not go far enough, and do not devolve enough extra powers to the Scottish Parliament	51
Get the balance about right	23
Don't know	12

Source: YouGov December 2014

As for the second question, Scottish public opinion claims that the Scottish Parliament should have gained increased powers in the fields of fiscality, welfare and economy. These results match perfectly with the 2013 Scottish Social Attitudes Survey (Scottish Government Social Research 2014), which concluded that Scottish voters wanted Scotland to retain its membership of the Union, but to have almost complete ownership of its revenue and welfare system. Interestingly, this opinion could underline a critique to pro-union parties that fell sort of their promises. Ironically, it would also express the support to a political solution that is not that far from the version of independence that the SNP has offered in 2007-2009. To put it differently, the final outcome of the Smith Process could benefit the apparent “looser” of the referendum, that is, the Scottish National Party.

To conclude, we could argue that although the Smith Report has effectively touched upon the devolution of tax and welfare policies, the final result has been quite deceptive as major aspects of fiscality –including income taxes and state pensions– and welfare –including welfare spending, including pensions, child and family benefits, tax credits and almost all working-age benefits- have remained reserved competences. In other words, it would seem that, as a consequence of a “limited” approach to devolution, the SNP could be emerging likely as the “winner” of the referendum.

CONCLUSION: WHAT'S NEXT FOR SCOTLAND?

The purpose of this paper was to bring more clarity over the political process initiated with the decision to hold a referendum on the political independence of Scotland. In order to do so, we have clarified the distinctive propositions of the Yes and the No Campaigns and we have identified “who” and “why” Scots have decided to stay within the Union. Additionally, we have explained the Smith process and we have summarised the conclusions of the Smith report. Now that the Smith report has been delivered, the right to (more) self-government has been legally entrenched but the constitutional future of

Scotland (and of the UK) has not been clarified. Indeed, beyond the restatement of more self-government within the Union, little else of Scotland's future is clear.

Some would argue that federalism is the political solution for the UK but for Michael Keating (2014), federalism is a constitutional recipe that is quite difficult to map onto the United Kingdom for three main reasons: first, federalism requires two orders of governments, the federal government and the federated units that should have entrenched powers guaranteed by a written constitution (which is not the case in the UK); second, the federated units should be represented at the center through a second chamber or senate as it happens in the United States, and to some degree, in Germany; third, there should be a fiscal mechanism for sharing money –a fiscal equalization principle, as it happens in Belgium- that should be agreed among all federated entities (which is far from being the case in the UK where the current fiscal solution implemented with devolution - the Barnett formula - is highly contested by England and Wales).

To put it differently, federalism would imply a radical reform of British political system. In other words, it would mean entrenching the Scottish Parliament, finding similar arrangements in Wales and Northern Ireland as well as listening to people in England that is, addressing the West Lothian question. Finally, on top of these arguments, according to Michael Keating, there is no federation in the world in which one unit -England- has 85% of the population and wealth. To conclude, we could argue that even if federalism will not accommodate Scotland within the UK, it should be used as a guide to inspire British and Scottish governments to solve the complicated and overlapping problems in the United Kingdom.

In alternative to federalism, Eve Hepburn (2014) suggests that the UK could evolve into a federacy that is, a particular form of "federation" where a substate unit could enjoy the benefits of association with the state, but at the same time it would be able to retain substantial autonomy and self-government. In other words, this political solution would entrench considerable self-rule, but much less shared-rule than envisaged in federations. The recognition of extensive self-rule –whereby Scotland would have powers over all domestic matters whilst the UK would remain responsible for foreign affairs, defence, and currency– may be an appealing proposition to many Scots seeking 'devo-max'. It would stabilize Scotland's status within the UK, as it could only be dissolved by mutual agreement.

In spite of the many uncertainties regarding British and Scottish constitutional future, now that the "No" and "Yes" campaigns have been completely dissolved, whereas pro-unionist parties will continue to strive for the maintenance of the Union, even though within the limits of a still undefined "reformed" British constitutional order; the Scottish Nationalist Party will certainly continue to push for political independence, using the inability of pro-unionist political parties to truly deliver as a powerful argument to seduce Scottish electorate for next general and regional elections to be held in May 2015 and May 2016, respectively.

Indeed, as we look into numbers, an opinion poll conducted on the 22th of February 2015 shows clearly that the SNP comes first on Scottish voting intentions for

next general elections by gathering 45% of the voting intention against 29% for Labour, 15% for the Conservatives, 4% for Liberal Democrats and 4% for the Greens²¹. These numbers are even more striking whenever compared with 2010 general election results where Labour won 42% of the vote in Scotland, the SNP 20%, the Liberal Democrats 19% and the Conservatives 17%, UKIP 1% and the Greens 1%.

In more concrete terms, if the difference between those figures and the parties' ratings were to be replicated on each and every constituency, the Conservatives would win 1 seat, Labour 12, the Liberal Democrats 1, the SNP 45, UKIP none and the Greens none. In other words, a general Scottish discontent towards British government's performance on Scotland constitutional future could benefit the SNP, as they could easily become a predominant political actor in Westminster, regardless of the "no" vote that has prevailed of The 18th of September 2014. By the end of the day, it would seem that the final outcome of the referendum and the terms of the agreement reached under the Smith Process were unable to solve the "Scottish problem" as well as to undermine the popularity of the SNP.

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