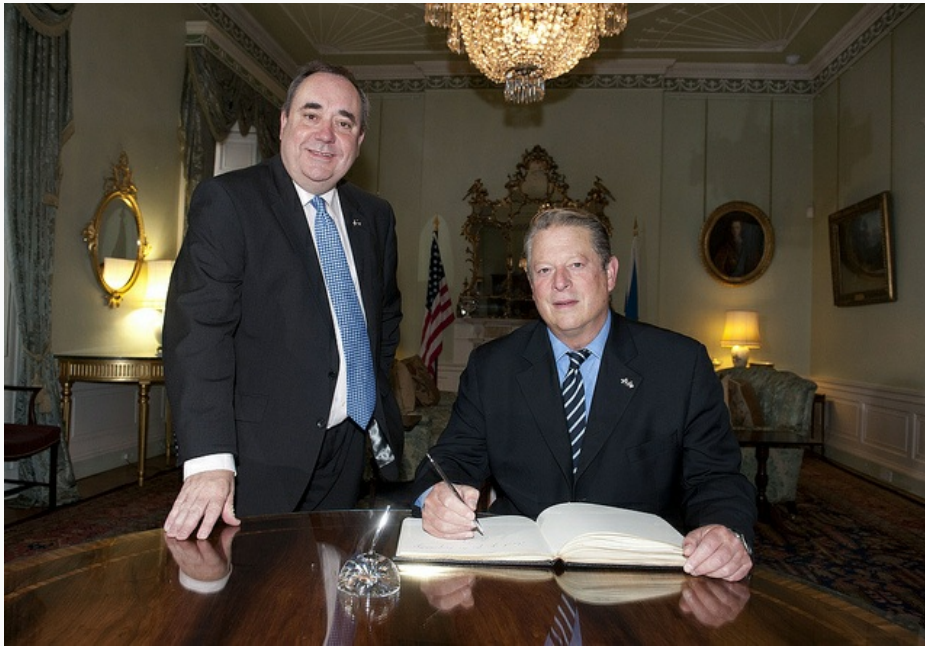


If Westminster politicians think that a No vote in the referendum represents a final victory, they are in for a rude surprise

By Democratic Audit UK

*The Scottish independence referendum is now coming into clear sight, with only a month or so to go before polling day. Here, **Emran Mian** argues that a 'No' vote, which looks increasingly likely, would not necessarily represent a final victory over Scottish nationalism. Instead, much would still be up for debate, and the prospect of Alex Salmond having the last laugh is not unthinkable.*



The nearly men? (Credit: Scottish Government, CC BY NC 2.0)

If Scotland votes No to independence in the September referendum, the promises that the unionist parties have made to Devo Next will be activated. They augur fundamental change in the powers of the Scottish Parliament and the wider UK constitution. Or at the least they make the presence of fundamental change harder to ignore. This essay speculates on the implications – for Scottish policy, Westminster politics, and the road to federalism.

Starting with policy, the Scottish Parliament is already due to receive tax-adjusting powers in 2015 by virtue of the Scotland Act 2012, though there has been very little discussion of the impact of this on UK politics. Meanwhile the unionist parties have promised further tax powers to follow a No vote. Labour's proposal is to allow the Scottish Parliament to adjust income tax rates by up to 15p, up or down. The Conservatives and Liberal Democrats would devolve the setting of tax rates entirely.

It is commonly assumed that Scots would vote to increase taxes on the rich. Yet this ignores Alex Salmond's recent decision that the SNP will not in an independent Scotland match Labour's proposal to restore the top rate of tax to 50p. When asked about tax rates after his New Statesman lecture on Scottish independence in March, Salmond replied, "we certainly are not going to put ourselves at a tax disadvantage with the rest of the UK". That reasoning fits perfectly with one of the arguments from his lecture, that Scotland can be an economic counterweight to London, or to use Salmond's own more cosmic terms, "a 'Northern Light' to redress the influence of the 'dark star'". Continue with that logic and a Scottish Parliament may very well use its new powers to cut taxes. None of the unionist parties have proposed the devolution of corporation tax, so income tax will be the key lever that Scotland has to attract business investment and activity to the North.

Labour fears precisely this and they have muttered darkly about preventing a 'race to the bottom' between

Scotland and the rest of the UK on tax rates. Yet a Scottish Government, especially one led by the SNP, may accept that concern and propose tax cuts merely as an unavoidable or time-limited measure to rebalance the UK economy away from London. That argument will certainly attract plenty of sympathy among Scottish Labour and Liberal Democrat voters – and even politicians. The latter may have their own proposals on how to achieve rebalancing, through for example targeted investments in infrastructure or innovation, but they will recognise that tax cuts may have more immediate effect than planning for and building large infrastructure; and it's hard to argue with their political salience.

Tax cuts could also be justified in terms of drawing younger people to Scotland. The Better Together campaign has made a lot of the fact that Scotland has a declining working-age population. At least rhetorically, tax cuts could be part of a strategy for addressing that and making Scotland less dependent on the rest of the UK in the future. For Scottish Conservatives (there are 15 in the Scottish Parliament, 3 times as many as Liberal Democrats), tax cuts may have a yet more immediate and ideological appeal, not least because Westminster Conservatives will be looking on with interest.

One tool that Westminster politicians wary of tax competition may have at their disposal is adjustments to the Barnett formula. Vaguely, the unionist parties have talked about changing the amount of funding the Scottish Government receives from the UK Treasury depending on how it uses its tax powers. However, doing that could make tax competition more rather than less likely. If, by raising taxes, the Scottish Government forfeits other funding, then that's another reason not to do it. Whereas, if it drops taxes as part of a wider economic strategy to secure Scotland's prosperity, then it would take a brave set of Westminster politicians – all facing a tight general election in 2015 – to hold the line that Scotland is thereby taking a risk on revenues and cannot rely on the rest of the UK to shore them up. The SNP would either breeze confidently on, or call out a stance like that as Westminster bullying. Already exhausted by a referendum campaign, the unionist parties might back off.

If Westminster politicians think that a No vote in the referendum is a final victory, then they are in for a rude surprise. The SNP will regroup after the result and the new tax powers already coming to the Scottish Parliament in 2015 – plus the promise of more – will give it the means to do that quickly.

The effect on Westminster politics may be more profound than maintaining the sharp edge in relationships with Scotland. The issue of taxes is bound to be on the agenda in the rest of the UK too, not least because of the commitments the three main parties have made to continuing deficit reduction. The prospect of achieving all the remaining consolidation through spending cuts is less and less credible; tax rises may be needed to make up the gap. Yet, if Scotland is embarked on a tax cutting strategy, animated by a vision of making the nation more competitive within the UK as well as across the world, then it's likely that only the very stealthiest tax rises will be possible. Anything more direct will risk accusations of unfairness as well as potentially a loss of competitiveness.

This may be to overstate the impact of Scotland's choices. Policy differences between Scotland and the rest of the UK have not on the whole catalysed as much debate as might have been expected prior to devolution. Tuition fees are a rare counter-example and yet policy between the nations could hardly be more varied. Nevertheless the issue of tax may behave differently. The policy differences between the nations reflect different choices on how to spend a broadly equivalent sum of public money. The issue of tax is about how much public money there should be in the first place and from whom it should be raised. Those on the Conservative backbenches in Westminster who advocate tax cuts may receive in the form of Scottish tax independence a fantastic opportunity to make their case. Equally Labour and Liberal Democrat proposals on tax easing for those on lower incomes will become all the more salient. The risk for the UK Government is that the programme of deficit reduction will be blown off course, but at least in the short term the return of growth to the economy will mask that result.

Finally, the devolution of further powers to the Scottish Parliament will raise difficult constitutional issues. While the flexible nature of our constitution means that hard logic is no guide to what rules we adopt, any changes to the devolution settlement will have to pass scrutiny at Westminster. The leading constitutional question is: should Members of Parliament for Scottish constituencies continue to vote on UK tax and spend issues when many more of those decisions, including those as fundamental as tax rates, will have no impact at all on the people they are representing? We might equally ask: what else is there to vote on if Scottish MPs cannot vote on tax and spend?

This second question is slightly easier to answer: there are, for example, decisions on foreign policy, which will

remain a reserved matter on any of the proposals for Devo Next. But, if Scottish MPs are only voting on a smaller range of issues, then this has implications for how UK Governments are constituted – does a Government need to have a working majority of non-Scottish MPs for devolved issues as well as a majority all in? What to do if it has one of those species of majority and not the other? On the whole, it may be simpler if there are no Scottish MPs but that a number of Scottish Parliament members double up to constitute a committee, reflecting the composition of that other place in Edinburgh, and shuttle to Westminster for select committee meetings and votes on reserved matters.

While Devo Next will certainly have implications for the representation of Scotland in the UK Parliament, the constitutional quandary may not end there. The Chancellor, George Osborne, has said that he will revive later this year proposals to devolve powers, at least to cities in the rest of the UK or potentially to city-regions, some of which are very substantial in size. The competencies on offer may be classified as technical, relating to economic development and infrastructure; however, they do include the direction of budgets and, even if it is not part of the initial deal, that competence will quickly raise the question of borrowing powers and any borrowing done is in turn paid down by the proceeds from local taxation. It has taken merely 15 years in Scotland to move from the devolution of a fixed set of powers from the rest of the UK to the creation of what is certainly a new government in what is likely to become an open ended power sharing agreement between the nations. In a long term perspective, that is hardly any time at all in which to make such a major change. London is already on a similar journey. A number of other city-regions, some of which have an economic footprint comparable to that of Scotland, are starting out as well.

Revealingly, it is only the Liberal Democrat proposals for further devolution to Scotland that grapple with the issue of federalism across the UK. They struggle with it, conceding from the beginning that different parts of the country will move at different speeds. Nevertheless, just because it's happening slowly and in a number of different places at the same time, we shouldn't be fooled into thinking that the UK is going through anything other than a period of major constitutional change. The Scottish independence referendum has forced all of us to think (a bit) more about it, but even if the outcome is a No vote, the UK will look very different even in 5 years' time to how it does right now

The questions this process raises for policy, politics and the constitution are hard ones and we will need time to figure them out. The challenge for the unionist parties is that the SNP is highly motivated to reach the answers, it may get there before them and, when it does, they may struggle to respond. Perhaps Alex Salmond has been embarrassed in the past two weeks on the issue of the Pound and he may be heading for defeat in September. Despite that, he may yet have the last laugh.

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Note: this piece represents the views of the author and not those of Democratic Audit or the LSE. Please read our [comments policy](#) before posting.

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