

Scotland as a social democratic social investment state

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The Choice of Roads for Scotland

Scottish independence is not merely a matter of constitutional sovereignty. There are states in Europe that are formally sovereign but have little scope to govern themselves, and non-sovereign units that have a lot. In modern conditions, small states can survive and thrive in a international and European markets, but there are serious choices to be made as to the route to follow. In our book *Small States in a Big World*, Malcolm Harvey and I explore two ideal types (Keating and Harvey, 2014).. The liberal market model bends to international market pressures and accepts sharp fluctuations in economic conditions. It is marked by a small state, low taxes, minimal welfare and deregulated markets for products and labour. The social investment state (Hemerijck, 2013), is marked by active government, high taxes, high public spending and adjustment through social concertation. It is not necessarily more egalitarian; that depends how the money is spent. The Baltic states have generally followed the former road and the Nordic countries, in all their variations, have chosen the social investment model. The Nordics added a social democratic dimension, to maintain a high degree of social cohesion, although this has come under increasing pressure. Ireland sought to combine the models and, while it did experience impressive growth, it never became a real social investment state and remains a country of great social and economic inequalities. It is not therefore possible to mix and match elements of the two models, as each has its own logic and choices in one area, such as taxes, have implications in other fields, such as social and welfare policy.

There have been advocates of the liberal market strategy in Scotland. While out of parliament, Mike Russell (later SNP Cabinet Secretary for Education) and Dennis MacLeod wrote a book promising exactly that, with a drastic reduction in the role and size of the state and of public spending and taxes (MacLeod and Russell, 2006). This was widely seen as an effort to out-Thatcher Margaret Thatcher and seems to have riled the SNP leadership sufficiently for them to have had the text toned down between proof and publication (Macwhirter, 2006). The original must have been explosive stuff indeed. Russell later seems to have repented after entering office in a predominantly social democratic SNP government (Gardham, 2012) but the option has been canvassed by right-of-centre think tanks such as Michael Fry's Wealthy Nation (<http://www.wealthynation.org>) and some Conservative politicians (Monteith, 2012). Conservatives have suggested that they may use tax discretion to lower rates, but no mainstream political party is currently committed to drastic retrenchment. This is not to say that this could not be a serious option in future for a reconstituted political right in Scotland.

To date, however, no mature welfare state, with the exception of New Zealand in the 1980s has succeeded in rolling back the state to the required degree, not even the UK of Margaret Thatcher. The Baltic States are another matter, since they were undergoing a threefold transition, to independence, democracy and a market economy and the tolerance of the population to harsh treatment was rather high. Even were a Scottish Government inclined to undertake such shock therapy, the resistance of organized groups and the electoral penalty would surely deter them. In fact, the pro-independence campaign in Scotland has increasingly emphasised the defence of welfare in the face of neo-liberal policies coming from the south. The SNP still contains both market liberal and social democratic elements but its oft-stated aspiration is to imitate the Nordic states. Outside the political parties, the Jimmy Reid

Foundation's Common Weal initiative, an effort to fashion a social democratic social investment state, has attracted support on the non-nationalist left, from people who would at one time have been at home in the Labour Party. The late Stephen Maxwell (2013, 2014) eloquently made the case for an independent social democratic Scotland. The first question to ask is therefore whether Scotland has the preconditions for such a strategy, given its starting point within the United Kingdom.

Where stands Scotland now?

An independent Scotland, with about five million people, would be a small European state comparable with the Nordic countries. Indeed those countries are a constant point of reference in the debate. The Scottish Government's performance framework refers frequently to other small countries as its base of comparison. The independence White Paper is replete with mentions of small states. It is now generally accepted that Scotland could survive as an independent country. Indeed most of its weaknesses are the same as those of the United Kingdom as whole, which might cause unionists to pause for thought.

Scotland's social structure resembles that of the UK and has tended to converge over recent decades, even as political behaviour has diverged (McCrone, 2001; Paterson, Bechhofer and McCrone, 2004). Scotland has experienced deindustrialization and its economy has become dangerously dependent on consumer spending and an inflated housing market, which gives people the illusion of wealth and encourages them to borrow. The financial sector has over-expanded at the expense of the productive economy, creating vulnerabilities exposed in the financial crisis of 2008. So Scotland would not start in the place it might like to be.

Much of the debate on independence has focused on public finances and the ability of Scotland to afford a generous welfare state and public services. This is a sensitive matter for unionists, who want to suggest that Scotland would have difficulty paying its way but know that this could look like accusing the Scots of not being able to look after themselves. It might also undermine their case to suggest that 300 years of union have left Scotland's economy unable to generate sufficient revenues to support its needs. Compared with other cases of secession or potential secession, the economic differences between Scotland and the rest of the United Kingdom are, in fact, rather small. In recent years, Scottish GDP per capita has been around 96 per cent of the UK average. The fiscal balance has also been in equilibrium, with Scottish contributions to the Treasury corresponding to its receipts and the notional deficit of an independent Scotland being no worse, and usually slightly better, than that of the UK. This, however, is highly dependent on oil revenues, without which Scotland would be in a much worse fiscal position than the remaining UK (rUK). The problem is not in taking these revenues into account, as they are part of Scottish wealth, but rather in their volatile nature and their disproportionate weight in a small economy. The SNP, by calculating oil receipts back to the 1980s, have argued that Scotland should be debt-free, having paid so much more than it has received. Unionists, looking at projected oil revenues in the future, argue that Scotland would be in trouble.

Nationalists argue that an independent Scotland could manage its oil resources better than the UK has done; and many people agree that they could hardly do worse. The SNP proposes an oil fund, with two purposes: to balance revenues over the medium term and even out fluctuations; and to provide a long-term endowment on the lines of Norway's sovereign wealth fund and so ensure that oil leaves a legacy. It is

widely accepted nowadays that the UK made a mistake in not establishing an oil fund in the past (McCrone, 2013) although none of the UK parties is currently proposing to remedy this. The problem for the SNP lies in the situation they would inherit in 2016, of a still considerable budget deficit. If oil revenues are to be invested in endowment and stabilisation funds, they will not be available to bridge the immediate deficit.

Inequality grew rapidly during the 1980s, along with that in the rest of the United Kingdom and at present are about the UK average, if London is taken out – levels in London are quite massive (Bell and Eiser, 2014). In international comparisons, Scotland is a very unequal society and, although the Nordic countries have experienced rising inequalities in recent years, they are still considerably more egalitarian than Scotland and the rest of the United Kingdom. This gives them a head start on an independent Scotland in pursuing a social democratic strategy.

A Social Democratic Scotland?

It is often assumed that Scotland is naturally a more egalitarian society than England. This stems from national traditions and myths such as the ‘lad o’ pairts’, who can rise according to his (or her) own talents, and from the wider access to education in Scotland at least until the mid-twentieth century. Apart from some years in the mid-twentieth century, progressive parties have usually won elections even when Conservatives were triumphant in the south. Examination of public attitudes through opinion surveys, however, shows a less clear picture (Rosie and Bond, 2007; Curtice and Ormiston, 2011). Scottish voters tend to be slightly to the left of those in England on matters such as the role of government, redistribution and attitudes to the poor. The differences are not, however, big enough on their own to underpin a radically different policy trajectory. In the 1980s and 1990s, part of the difference was explained by the fact that voters in England were not as far to the right as was often assumed; the English were not convinced Thatcherites. Rosie and Bond (2007) suggest, moreover, that the main difference was not between Scotland and England but between the south of England and everywhere else. Scottishness was, however, used as a vehicle to express opposition to Thatcherism in a way that was not available in England. Scotland was thus discursively reconstructed as a haven of social democracy. Attitudes seem to be related to economic conditions, so that in the early twentieth century Scotland moved to the right along with England, although remaining slightly to the left of the latter, while since the recession both have moved back somewhat to the left (Curtice, 2013).

This might suggest that Scotland is not particularly fertile territory for social democracy. Yet public policies do not emerge directly from unmediated public opinion. They are the result of the search for common ground among competing interests, from social and political compromises and from party competition. As individuals, people may not like paying taxes, supporting the unemployed or redistributing to the poor, but accept that these are the price for maintaining social cohesion and, indeed, economic growth. They can only do this, however, if there is an institutional framework within which such positive-sum social compromises can be struck. Since the 1980s, party politics in Scotland has increasingly been dominated by two social democratic parties (Labour and the SNP), whose policies on the main economic and social issues are rather similar, while their positions on the constitution have become the main line of division between them. The middle classes are more likely to vote for left of centre parties than they are in England. In England, on the

other hand, the main electoral battlegrounds are the marginal seats in the south, pushing competition to the right.

There may also be a greater acceptance of government and public-sector provision in Scotland. Again, differences among the general public are rather small, since voters everywhere tend to be unenthusiastic about the introduction of private provision into health and education (Curtice and Heath, 2009). The one persistent difference is that Scots have not given up on comprehensive education as have people in England. Yet efforts by Conservative governments during the 1980s and 1990s to introduce market principles to the Scottish public services largely failed, not because they were not legislated for but because they were not taken up. Professional groups also seem more inclined to public provision and equality (Keating, 2010). Successive Labour/ Liberal Democrat and SNP governments in Scotland have shown a greater respect for public service than Conservative or New Labour governments in England and much less obsession with competition as the sole principle for assuring good provision.

The Independence Prospectus

The Scottish Government's (2013) White Paper on independence is clearly inspired by the social investment perspective, with strong social democratic undertones. There are references to the experience of small, independent countries and the way that they have been able to focus their efforts. Competitiveness is central to the argument and there is an emphasis on science, research and development, human capital and infrastructure. Growth and social cohesion are not presented as alternatives but rather as complementary objectives. Skills, high levels of trust and reductions in inequality are presented as contributions to growth as well as social cohesion.

This is all consistent with a social investment strategy and a social democratic tilt to policy. Yet it coexists within the White Paper and SNP strategy generally with a market liberal approach focused on low corporate and personal taxation. It is proposed to cut corporation tax to three percentage points below whatever level is chosen in the rest of the United Kingdom. We have already cast doubt on the efficacy of such tax competition in a mature economy and, whatever its long-term effects, it would result in an immediate fall in revenues. Neighbouring jurisdictions, including the remaining United Kingdom, would not take kindly to this behaviour and this would reduce their willingness to cooperate on other common interests. The White Paper also proposes to cut, and eventually abolish, Air Passenger Duty in an effort to attract more air traffic. This has won plaudits from the heads of British Airways and Ryanair but sits uneasily with a commitment to social equality. It also makes much more difficult the pledges about reducing pollution and tackling climate change.

There is a proposal in the White Paper to roll out universal childcare. Again, we are told that this will pay for itself, since it will enable more women to go out to work, so increasing the labour force and thus helping growth. It is true that childcare features in most social investment strategies as a policy with positive social as well as economic effects but that is as part of a broader set of policies about labour markets and growth. Simply introducing more childcare without more well paid jobs for women to take is not going to produce growth. On taxation as a whole, the White Paper is largely silent, apart from a pledge that rates will not get out of line with those in the rest of the UK.

There has been a lot of debate on the SNP's proposal for a monetary union allowing it to continue using the Pound sterling. This would enormously constrain

Scotland's capacity for macro-economic management as monetary policy, including interest rates, would continue to be set by the Bank of England (Armstrong and Ebell, 2013). SNP policy is to claim a share of ownership and management of the Bank of England, so ensuring that Scottish interests are taken into account but, whatever arrangement was negotiated, Scotland would still be the junior partner and the Bank, which has operational independence, would not necessarily take it into account. Monetary union would also, as the SNP has accepted, entail some sort of fiscal pact such as exists in the Euro zone, further constraining Scottish policy choices. The UK Government has now made it clear that such a partnership, including joint ownership and management of the Bank of England would not be on offer. Scotland could still continue to use the Pound as its currency in various ways, but this would mean no say whatever over monetary policy.

An independent Scotland without its own currency would not be entirely bereft of economic instruments but, unable to use monetary policy including interest rates, would rely more on fiscal policies, including taxes and spending, for economic stabilisation. An oil fund would be even more essential in order to even out economic fluctuations, which of course means that the revenues could not also be used to plug the immediate spending gap after independence. The result, again, is that Scotland could be a higher tax country.

The SNP have been criticised for wanting Nordic-style public services with British levels of taxation and the White Paper has not stilled these criticisms. Social democratic social investment states have, as we have seen, higher levels of taxation. This is not merely a matter of taxing the rich, since in Scotland there are not enough of them and they do tend to be rather mobile (Bell and Eiser, 2014). The Nordic countries, rather, have broad tax bases, which are matched by universal public services. Value added taxes are important here. Another potential source of revenue, backed by economists of both right and left, is taxation of land and property. Such taxation is difficult to avoid, it is largely progressive and it can enhance economic efficiency by discouraging land hoarding and sub-optimal uses. It may also serve to dampen property inflation. Yet domestic rates in Scotland have been frozen since 2007 and no political party appears ready to embrace the issue. The Common Weal project sponsored by the Jimmy Reid Foundation does face up to this issue but even they seem to shy away from taxing the middle classes as a way of providing universal benefits.

Taxation is part of the social investment package but such is the level of inequality in Scotland that redistributive taxation alone cannot redress it (Bell and Eiser, 2014). There are stark inequalities of both of wealth, built up over generations, and of income.. More egalitarian countries contain inequality by taxation but also by having a less steep gradient of wages in the first place. This an idea which Labour leader Ed Miliband caught on to at one point, although he rather lost his audience by calling it 'predistribution'. Labour failed to grasp that the secret to getting a more even spread of wages is to extend collective bargaining and enhance the rights of trades unions. As we have seen, trade union membership in the Nordic countries, while falling, is still higher than in Scotland. National wage bargaining and social pacts can also help to reduce inequalities and sustain the 'social wage' as well as individual real wages. To get there, Scotland would need to reform its institutions and ways of making public policy, as well as rethinking social partnership.

Successive Scottish governments have struck a distinct note on migration from their counterparts in London, welcoming incomers as a necessary part of the labour force, improving skills and providing wage earners to support an ageing population.

In fact, under the Labour Government, immigration did increase markedly and the UK was one of the countries immediately to open its labour markets to workers from the new EU member states in 2004. Political rhetoric in England, however, remained rather hostile to immigration and by the end of the first decade of the 2000s had turned quite toxic. In Scotland the issue has been so framed that pro-immigration stances do not appear to attract a political penalty. This does put Scotland in an advantageous position with regard to attracting needed workers, although it is not clear that the numbers will be sufficient to fill the gap. At its height in the 2000s, net immigration into the UK was less than five per thousand population, compared with 22 in Ireland and 17 in Spain. The White Paper proposes a points system to meet skills shortages and more generous treatment for students, rather than a general relaxation of immigration controls.

Government

Scotland is a small country in which the key actors in many fields of public life know each other personally and lines of communication are short. There are overlapping networks in central and local government, the professions, business and civil society. There is a broad consensus on the main lines of policy, which should facilitate working together. Yet in many ways it is still organised as a 'regional' part of a wider UK political system, rather than a self-governing nation, able to mark out its own policy trajectory.

At the moment of devolution in 1999, the Scottish Government (then called Scottish Executive) inherited the apparatus of the old Scottish Office, which had grown gradually over a hundred years to manage most domestic policy in Scotland, with the big exceptions of taxation and social security. The Scottish Office was not, however, a policy-making body and indeed its capacity to make policy had actually declined during the years of Conservative government, when its job was to apply policies decided elsewhere. It was organized like a Whitehall ministry, on traditional functional lines, and divided into departments. These might have been a bit better connected than their counterparts in London but there was a weak capacity to think across government as a whole. The Scottish Office itself had the task of tweaking policy to Scottish conditions but was above all a lobby, seeking to defend Scottish interests at the centre and ensure a northward flow of resources. Adapting to becoming a government in itself took quite a long time, especially as under Labour there was still a tendency to look to London so as not to embarrass the party at the centre. Initiatives like the adoption of a distinct system of care for the elderly under Henry McLeish could provoke a serious reaction from UK Labour.

Over time, the Scottish Government has reformed to suit the circumstances of a multifunctional administration of a small country (Keating, 2010). Departments were abolished and the government reorganised on the basis of directorates corresponding to policy tasks. Hierarchies were flattened and ministers have more direct links with civil servants working on policy proposals, even at relatively junior levels. There is a National Performance Framework, which is intended to allow proposals to be appraised in relation to broad policy objectives and to assess performance in meeting them. This is the kind of reform that is possible in a small system, which would be more difficult in a large administration.

On the other hand, the budgetary process is not clearly linked to priorities or the performance framework. As a spending department that did not raise revenue, the old Scottish Office had limited discretion in allocating money between priorities and

was generally concerned to maximise the amount it could get from the centre. This was determined by the famous Barnett Formula, which gives Scotland a population-based share of whatever increase or cut is being applied to comparable English programmes; but there has always been an element of discretion so that the actual outcome is a result of political compromise. For the lack of an agreed alternative, Barnett was simply rolled over into the devolution settlement. This does not encourage ministers to think about the balance between taxation and expenditure. The Scottish Government does not have to follow the English priorities that generate the Barnett consequential and can apply its block grant at will, but there are political pressures to match what is happening down south. For example, the Scottish Government followed its UK counterpart in promising to protect health spending from the current austerity cuts.

What is lacking is a central capacity within the Scottish Government to set priorities and allocate spending accordingly. In Whitehall, it is the Treasury that plays this role and, over recent decades, its dominance has increased, extending its reach into vast areas of domestic policy, especially under Gordon Brown. Such a centralised system is not necessary and not desirable in small country, where it would risk stifling initiative. A smaller and more collegial mechanism for determining priorities would be better.

Policy innovation in Scotland has been inhibited by the dearth of policy institutes and think tanks such as are found in other national capitals. This is partly a matter of scale, since small places do not have the depth of resources and people that larger nations can command. This makes it all the more important to deploy such resources as exist. One of these is the civil service, which since the 1980s has been seen as an agent for delivery rather than policy ideas. Other small nations, such as New Zealand allow their public servants more scope to develop ideas and air them in public. Similarly, in local government, the health services and other public agencies, there is a potential capacity of new ideas. Indeed, back in the 1960s and 1970s, these were arguably more innovative and bold than they subsequently became.

There was much talk at the time of devolution of a 'new politics' in which the Parliament would have a central role. There would be less partisanship and a more consensual style. Committees would play a stronger role both in the legislative process and in holding ministers to account. The Parliament has certainly become the centre of political life in Scotland, it is quite accessible and polls show that is trusted more than Westminster. On the other hand, it is essentially a Westminster-style institution. Party discipline is, if anything, stricter than at Westminster and there have been few independently-minded MSPs. The committees have failed to develop real expertise in their fields or to become important actors in the policy process. Indeed, Westminster committees, especially where they have a strong and independently-minded chair, have increased their weight and indeed have overtaken their Holyrood counterparts.

Policy Communities

Over the last hundred years, Scotland has lost much of its indigenous business, especially the medium-sized firms that in other countries have fostered innovation and provided dynamism for the wider economy. The tendency, as elsewhere in the United Kingdom, is for small businesses to expand to a certain size and then sell out to a larger firm. The lack of indigenous ownership was seen as a problem in the 1970s and 1980s, but concern subsequently abated in the rush to attract foreign direct

investment. The weakness of what the Germans call the *Mittelstand* is not only an economic problem; it also underlies the weak commitment to social partnership and to a Scottish business perspective.

Representative groups in Scotland have long been divided between those that operate only in Scotland and those that are branches of UK-wide groups. Among the former are groups in areas that have long been regulated and administered separately in Scotland, like the law and education. In these fields, distinct policy communities operated, including professional groups, trades unions, civil servants and politicians. Policy was often made by consensus, within the limits of overall UK budgetary constraints, by rather small groups of people. It was often argued that this made these fields doubly insulated from democratic scrutiny, since there was no Scottish Parliament to hold them responsible, and there was little interest in Scottish matters at Westminster. In other fields, the policy communities were UK-wide, responding to a British rather than a Scottish policy agenda. The main role of the Scottish branches was often to lobby for Scottish interests within their UK body.

Both types of group were challenged by devolution (Keating, Cairney and Hepburn, 2008). Scottish groups are now exposed to more scrutiny from within Scotland and to competition from new actors. UK-based groups are being asked to come up with policy ideas rather than just lobbying. Groups that previously could come together to lobby for Scotland now find themselves competing within the Scottish policy arena, revealing that much of the old talk about consensus was merely due to the fact that they could all agree to gang up on London. Small size may be an advantage when it comes to talking to each other, but it also reveals that they may not always have shared interests. Groups have sometimes struggled to find the resources to staff their Scottish operations and, in some cases, to develop distinctive Scottish policies. The result is that there are still distinct policy communities in some fields such as education and law, although these are challenged by new interests. In other fields, like health, Scottish policy communities are strengthening and policy is consciously diverging from that in England. Elsewhere, as, for example, in industrial relations, Scottish policy communities are under-developed. In the case of independence, then, these fields would be under-institutionalised and new mechanisms for policy-making would have to be put in place.

Scotland's style of policy-making is rather distinct from that of Whitehall as a result of this inheritance. There is a strong commitment to working with representative groups, or 'stakeholders' within policy communities and an emphasis on reaching agreement, in contrast to the bolder and often more confrontational style found in England. The outcome may be that there is less radical change, but change sticks better. We can contrast the frenetic and repeated reorganisations of health and education in England with the more gradual pace of reform in Scotland. Small size undoubtedly plays a role here, as it is possible to gather everyone together to discuss change and to follow it through in detail. There is a widespread belief, however, that while Scotland may have avoided some of the disasters that have afflicted poorly-thought-out initiatives at the UK and English levels (such as those documented in King and Crewe, 2013), there has been a lack of policy innovation. In many instances, Scotland's distinctiveness lies in not following England rather than in striking out on its own. Small size and the need to maintain consensus within policy communities may, indeed, militate against radical change.

Scotland's policy style can be seen as a form of social partnership, as governments and representative groups work out policy among themselves but it is a sectoral partnership, within individual policy fields, rather than a broad pattern of

social concertation in which compromises are reached. The United Kingdom did experiment with forms of concertation or corporatism in the 1960s and 1970s under both Conservative and Labour governments, as we noted earlier. There was a Scottish Economic Council, which survived the abolition of the Regional Economic Development Councils in England in 1979 but died out in the 1980s. It was not, in any case, a powerful body, given that neither the Scottish Office nor the social partners were able to make real decisions at the Scottish level. Since devolution, there has been no move to establish an Economic and Social Council, which is perhaps surprising given the existence of such councils or equivalent mechanisms in many devolved European regions (Keating, 2013a). Corporatism, in Scotland as in the rest of the United Kingdom, still has a bad name.

Scotland shares with the rest of the United Kingdom a liberal market form of capitalism focused on individual competing firms and share value. It notably lacks the kind of coordinated market economy of countries where social partnership has thrived. There has been some talk about moving to a more long-term form of business planning, for example in the Common Weal project but this would itself be a long-term process. There has also been talk of building up a tier of medium-sized firms based in Scotland, which might also facilitate social dialogue but again this is a deep structural issue not amenable to immediate policy interventions. Meanwhile, an independent Scotland would inherit existing structures, which might be modified to a greater or lesser degree.

The Scottish Government's independence White Paper does suggest a National Convention of Employment and Labour Relations as a forum for dialogue. The need for such a body was demonstrated in 2013 in the crisis over the Grangemouth industrial complex, when nobody seemed able to bring the sides together in the right place and secure both a compromise settlement to the dispute between unions and the employer, and the broader national interest. As a result, a vital part of Scotland's industrial infrastructure was almost lost. It is not clear, beyond this, what role the new council would have. There seem to be no proposals for a Scottish level of wage bargaining such as exists in corporatist states, which might enable trades unions to bargain over a range of issues, including the 'social wage'.

Indeed, neither unions nor employers have the strong representative organizations at this level, which would be needed. Trade union density in Scotland is slightly higher than the UK average, at about a third of all employees, but this is well below the levels found in the Nordic states. The Scottish Trades Union Congress has shown some interest in social partnership, especially during Ireland's experiment with it but it cannot bind its member unions. Employers are really not interested at all and their representative bodies are fragmented and rarely able to speak authoritatively, let alone act in a broad business interest. The independence White Paper talks in general terms about 'constructive dialogue' across all economic sectors but not about how this might be institutionalised or the incentives for the social partners to participate. The SNP's proposal to cut corporation tax for all businesses without asking anything whatever in return suggests social partnership will be very much a voluntary idea.

External Relations

An independent Scotland would be a small state on the edge of Europe, caught between competing poles. There is the UK pole, which as Ireland has found, will continue to be important. This to a large extent means England, although the potential for alliances and exchange of experience with Northern Ireland, Wales and,

eventually perhaps, English regions, can provide an alternative perspective. There is the European pole, focused on the European Union. There is the North Atlantic pole, dominated by the United States although British governments have insisted, with ever-less plausibility, on a special relationship that allows them a real influence in this sphere. This is not merely a geo-strategic choice or a matter of security policy, but also a choice of social and economic models. Ireland has also been torn between the European and the North Atlantic pole and, after an apparent period of Europhilia, has now become more Atlanticist in its politics and social models. There is a northern European pole, expressed in the Nordic grouping, which has long been a source of inspiration to the SNP.

The independence movement in Scotland is committed to remaining in the European Union, which would secure access to the single market and deliver a range of policies from competition rules to environmental regulation, which a small country would find it difficult to provide for itself. There is really no doubt that Scotland, as a European democracy compliant with the *acquis communautaire* (the EU's body of law and policy) would gain entry (Keating, 2013b). To exclude it would violate the very democratic principles upon which the EU is founded. Nor would it be in anybody's interest to exclude Scotland from the single market, even temporarily. No member state has indicated that it would veto Scotland's membership, although there have been repeated suggestions (including from the unionist side in the UK) that somebody else (never names) might do so. Such suggestions that Scotland would be left outside the EU are no more than scaremongering.

The more difficult question concerns the terms on which Scotland would enter. The independence White Paper proposes keeping the existing UK opt-outs on the single currency (the Euro), the Schengen zone of passport-free travel, justice and home affairs, and various social provisions. This might be the simplest thing to do, ensuring the minimum of disruption, and the UK government would presumably not want to break up the existing UK single market by introducing restrictions, let alone establishing border controls with Scotland (as some UK ministers have suggested). The result, however, would be to tie Scotland to the UK pole as a semi-detached EU member rather than a small player at the heart of Europe. Large EU member states have a big influence over policy, even if they choose to remain on the periphery. Small states, as we have noted, need to be more active and to establish their credentials as good Europeans. This suggests that Scotland would do better to enter into core Europe rather than sit on the sidelines. If the rest of the UK drifts further away from core Europe, Scotland risks being dragged along behind it, losing further influence.

Keeping the Pound as the currency of an independent Scotland will not only limit Scotland's macroeconomic policy options. It will also complicate relations with Europe, as it moves towards greater economic coordination and more unified financial regulation. The UK was joined only by the Czech Republic in refusing to sign up the Treaty on Stability, Coordination and Governance in 2012. An independent Scotland adopting the same line would put itself further from the European pole and closer to the UK one. If the UK were to withdraw from the EU altogether, then Scotland would be even more exposed. It is difficult to see how it could continue, as an EU state, to share a currency with a non-member state, especially as the EU, without the British presence, would likely move to greater union in financial regulation.

There have been various proposals to keep some kind of UK or Islands framework to manage common affairs after independence. The example of the Nordic

Council is often cited, as is the British-Irish Council set up as part of the Northern Ireland settlement. Yet the Nordic Council is a rather weak body for exchanging ideas and experiences rather than a decision-making instance. It has further been weakened by the fact that some of its members are within the EU and others are not. The British-Irish Council, similarly, does not limit the prerogatives of its member states in the way that the European Union does. An independent Scotland might agree to pool its sovereignty in a stronger Council of the Islands in return for greater influence but it is highly unlikely that the United Kingdom would do so, since it would get so little in return. The strongest safeguard for small independent states remains the European Union, which does exercise supranational authority and in which large states are constrained.

Telling the Story

Scotland is not a 'homogeneous' society in the sense meant by Alesina and Spoloare (2013) but, like other small nations, it sustains a series of stories about itself, which can underpin policy trajectories. Nations, as we noted earlier, are embedded in cultures in the form of myths, symbols and self-understandings. These provide perspectives for appraising social and political choices and bases for collective action. Myths are not, contrary to common understanding, necessarily wrong. Their power depends on their being believed, whether right, wrong or, most likely, partly right. Scotland is in no way unusual in sustaining a series of myths about the nation and its history. As the notoriously anti-Scottish historian Hugh Trevor Roper (2008) admitted in his last (posthumous) book, it is perhaps the English who are the outliers in not continually revising and re-inventing their own history.

Where Scotland is perhaps most distinct is in the co-existence of contrasting myths and contested views of the nation. The 'Caledonian antisysygy' (Smith 1919) draws on a persistent Manichean tradition of the clash of opposites. There is a long-standing critique of clichéd images the country, including what Tom Nairn once called the 'tartan monster' and the kailyard school of literature. In recent decades nationalists have consciously promoted a multicultural vision of the nation, at the polar opposite from Alesina and Spoloare's fantasies about ethnic homogeneity. The idea that, for Scotland to exist, it must be 'different' in some essentialised way has been laid to rest. Political autonomy has allowed it to define membership of the community in an inclusive manner as a form of civic citizenship rather than by ancestry. Visions of the nation have also been recast, by politicians of all perspectives, away from a romanticised past and towards a more modern, progressive and forward-looking outlook. Red Clydeside remains a strong myth for the Scottish left but has less resonance now than it did in the 1970s. Devolution, by providing an authoritative political forum and opening up debate, has itself made the nation less reliant on the clichéd visions of the past.

Yet essentialised visions of the nation do persist. One example is the idea that Scots lack self-confidence (Craig, 2003), a stereotype that has never actually been measured scientifically or compared with other nations. There was a story about secular economic decline popularized in the years after devolution, even while Scotland was catching up with the wealthier parts of the United Kingdom. There is a myth of egalitarianism, in defiance of the evidence of massive inequalities, although this has been so thoroughly criticized that the counter-myth may be more powerful. In recent decades, Scotland has been reconstituted as a political community and an arena

for public policy making but the fear of falling back into the old stereotypes has inhibited the development of new visions for the nation and its place in the world.

It is possible that independence itself could provide the shock that would shift old practices and attitudes. As an independent state, Scotland could worry less about nationality and defining the nation and could be forced into new forms of social cooperation. Alternatively, cooperation could be a learning process in which institutional reforms gradually changed attitudes and relationships. This would not in itself, however, allow it to escape some of the essential choices that must be made about policy and institutions.

Is Independence Necessary?

In this book, we have compared Scotland with small independent nations but the long-term choices cannot be reduced to independence or union. Independence as offered by the SNP is highly attenuated, notably by continuation of monetary union with the United Kingdom. The unionist parties insist that further change is possible within the union. The main items that are not currently devolved are the welfare state in the form of cash transfers, and taxation. With more of these devolved it might be that a social investment state is attainable within the United Kingdom.

The current allocation of powers in social welfare is largely inherited from the old Scottish Office system, but is consistent with traditional federal and public goods theories. Redistributive matters are mostly reserved for the centre, while allocative matters such as the organization of public services, are largely devolved. This was also true of the devolution proposals of the 1970s, with the exception that the current settlement gives Scotland some important instruments in the field of economic development while reserving the main macro-economic powers. There are two rationales for reserving redistributive powers. First is an instrumental argument, that a larger area is better able to mobilize resources for redistribution and insure against asymmetric shocks. Second is the argument that it is at the level of the nation that affective solidarity exists, which provides the rationale for selecting the community within which redistribution takes place; no welfare states are ever truly universal. These arguments were recently explicitly confirmed in the Calman report (Commission on Scottish Devolution (2008) and the later report of the Scottish Labour Party (2014). These assumptions must, at least, be modified in the current era of welfare state transformation. There are two dimensions here, the functional and the territorial.

Social policy specialists talk of old and new social risks. Old social risks are those posed by the traditional industrial labour market and male-headed household. They include the need for family support, pensions and insurance against spells of unemployment. New social risks reflect the complexities of modern society. They include the highly complex mechanisms of generation and reproduction of poverty, about which there is little consensus; skill erosion in a high-tech economy; changing family structures; precarious employment; and new demographic challenges. The context also includes the appreciation that generational and gender divisions are also relevant. There is a broad consensus on the need to move from passive support to active measures to incorporate excluded sections of the population in the labour market, although there are striking differences between right and left on the generation of the new inequalities and on how they should be tackled, notably on the balance between incentives and coercion. The modern vocabulary includes 'social

inclusion', 'activation', 'social investment', 'active labour market policy' and 'workfare'.

The old distinction between redistributive and allocative policies has also broken down, with the appreciation that most policies (and all public services) are redistributive to some degree. This is especially true if we enlarge the notion of distribution beyond income groups to include things like gender, generation and place.

On the territorial dimension, recent years have seen a rescaling of functional systems across economic, social and cultural domains, and a rescaling of government to match (Keating, 2013a). The 'new regionalism' literature emphasises the way in which economic restructuring follows global, regional and local logics, and not just national ones (Keating, 1998). Regions and cities have been identified as key levels for the analysis of economic and social restructuring and the emergence of new problems and policy opportunities. Training and active labour market policies are increasingly elaborated and implemented at local and regional levels, corresponding to labour markets. Politics at these levels is increasingly contested by social forces seeking to define the terms of development projects, notably the balance between competitive growth, social inclusion and environmental considerations. The idea of inter-regional competition within open markets has become a central feature of political debate, although it has been questioned in economic theory.

At the same time, national solidarity is under challenge as affective identities are shifting. The evidence here is mixed and rather inconsistent, but it is at least no longer axiomatic that the 'nation-state' is the sole locus of social solidarity, especially in plurinational states. There is evidence of welfare differentiation across devolved regions in Europe, largely in the form of differing definitions of the deserving target groups and more in the field of services than of cash payments.

There is a strong argument for Europeanizing certain welfare provisions. Europe is now the framework for market regulation and therefore for its social counterpart. It is Europe, not the nation state, that covers the largest population and most resources and can best respond to asymmetrical shocks. On the other hand, it is manifestly clear that Europe has not generated the affective solidarity to make it possible to produce more than small-scale transfers through Cohesion policy, and one-off bailouts.

All of this is prising apart the formally coterminous domains of economic regulation, social solidarity, political representation and governing institutions. It does not mean that solidarity is leaving the nation-state and relocating at either the supranational or sub-state level. We are witnessing, rather, a multilevel solidarity, operating at distinct scales and in different arenas. The old assumptions no longer apply.

In present-day Scotland these functional and territorial dimensions intersect, shaping the discussion of social welfare and devolution. Survey evidence shows that Scots do not differ radically from citizens elsewhere in the United Kingdom in their broad preferences for welfare. Public policy, however, does not emerge directly from citizen preferences but from the aggregation and compromise among interests and preferences within political institutions. This has produced a rather different balance within Scotland, notably on matters of universalism and public provision. In the longer run such differences necessarily imply distinct fiscal choices, and indicate the need for mechanisms by which Scotland might recapture the benefits of its own social investments, for example in university education or child care. It also points to changes in the balance of welfare instruments so as to fit local needs and preferences. Measures like the 'bedroom tax/spare room subsidy', designed for conditions in the

south of England, may have little relevance in Scotland (or in the north of England for that matter).

As a matter of functional efficiency, the present division between passive welfare (reserved) and active welfare (largely devolved) creates mismatches and disincentives, which are beginning to be recognized. The location of housing benefit and social housing at different levels is one instance. Another matter is the interface among unemployment support and disability support with training, economic development, urban regeneration and social work services. There is never an undisputed optimal level for the integration of public services and the idea of ‘joined-up government’ is often a naïve illusion, but we can probably do a lot better than at present.

It is fruitless to design a reformed system of devolution predicated on the present mode of welfare state. One thing that we do know is that the welfare state is going to undergo some major changes, if only for pressing financial reasons. This provides an opportunity to rethink how Scottish welfare might fit into an emerging multilevel model and how resources might most effectively be deployed.

The case of Quebec is exemplary here. After independence was rejected in two referendums (very narrowly in the second instance in 1995) Quebec parked the constitutional issue for a long time. It continued, however, to build the nation and develop its institutions. It was once seen as a somewhat corporatist developmental state, with a model of social partnership referred to as ‘Quebec Inc.’. It was also seen as rather more social democratic than other parts of Canada and certainly than the United States. As in the Nordic countries, much of the formal apparatus of corporatism has disappeared in the face of neo-liberalism and market capitalism. Yet there remains a culture of cooperation such that the response to crisis often takes the form of ‘summits’ of key actors. There is still a shared commitment to Quebec as a political and economic community and the main frame of reference for public debates. Quebec has a very distinct attitude to childcare, anticipating many of the policies in the Scottish Government’s White Paper which, as critics have noted, could be enacted within the existing devolution settlement. It has sustained a larger public sector, more social spending and slightly higher taxes than neighbouring jurisdictions. The result is that, while social inequality has been increasing in the rest of Canada and converging on that in the United States, Quebec has resisted the trend (Noël, 2013).

The Future of Scotland

It was common until recently for advocates of Scottish independence to argue that independence was a good in itself, because after that the nation could take its own decisions on which social and economic policies to follow. This no longer works. Self-government is not merely a matter of gaining formal powers or sovereign status, but of elaborating and managing one’s own social and economic project. The voters want to know how this can be done and wish to see what an independent Scotland might look like. The same can, of course, be said about the unionist side. Scotland could be made to work as an independent state but this implies not merely a change its external relations or formal status, but a rebuilding of its institutions internally. We know from the example of other small states that this requires bold decisions and hard choices.

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