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INTRODUCTION

INTRODUCTION: DEVOLUTION AND SECESSION IN QUESTION

Colin Jennings[1] and Adrian Pabst[2*]

[1]Department of Political Economy, King's College London, London, United Kingdom
[2]National Institute of Economic and Social Research, London, United Kingdom
*Corresponding author. Email: a.pabst@niesr.ac.uk

This special issue of the *National Institute Economic Review* is being published at an unsettled and uncertain time for the United Kingdom. In June 2022, the First Minister of Scotland Nicola Sturgeon called for a second referendum on Scottish independence to be held in October 2023. While it is unlikely that the referendum will be granted by the UK government, current polling suggests the outcome of such a referendum would be too close to call. Eight years after Scotland voted 55%–45% to stay in the Union, independence remains a live issue, which raises fundamental questions about economic and governance arrangements between Westminster and the UK's constituent parts.

In Northern Ireland, the possibility of a 'border poll' has been receiving much more attention since Brexit and the implementation of the Northern Ireland Protocol that places a border between Britain and Northern Ireland in the Irish Sea. While Scotland and Northern Ireland pose questions about the sustainability of the Union, another vigorous debate is taking place on how to reduce the large regional inequalities across the country, in particular England, in the context of the 'Levelling Up' agenda promoted by Boris Johnson's government. To what extent is the current turbulence related to the UK's institutional architecture? Should there be greater devolution of powers to the nations, regions and cities of the UK? Would increased devolution stave off calls for an independent Scotland or a border poll in Ireland? Would devolved powers help with sustained regional regeneration?

The papers assembled here tackle these questions and many more. Before briefly introducing the papers and some of the recurrent themes that emerge from them, it is worth restating the standard political economy framework for thinking about whether and how much devolution there should be. Arguments for centralisation and a unitary government rest on exploiting economies of scale, internalising spillovers and ensuring some national redistribution between regions and individuals. The main argument for devolved and multiple governments is the better matching of preferences assuming either heterogeneity of preferences or greater efficiency through local provision by responding with greater agility to citizen demands. An additional argument for multiple governments is the greater possibility of policy experimentation. With these insights in mind, we should expect or recommend centralised government where scale is big and preferences are largely homogeneous. The case for devolution is stronger the more distinct are local identities, and the argument may be that identities can become so distinct as to recommend secession.

There would seem to be little desire for increasing centralisation across the board within the UK at present, so the debate seems to hinge (for those who wish to preserve and strengthen the Union) on adapting and/or extending devolution in ways which more effectively promote economic efficiency, equality, and satisfy competing conceptions of identity. Those, on the contrary, who argue for secession may contend that reforms will never be enough and that these goals will be better served through break-up of the Union and national independence or even joining another country (as with Northern Ireland and the Republic of Ireland). In the case for secession, it is important though to be informed about economic arguments, whether they be benefits or costs, so that the debate does not become unbalanced and focussed too heavily on cultural arguments about national identity.

We have organised the papers geographically, beginning with five papers related primarily to Scotland, two related to Wales, two related to Ireland (North and South) and finishing with two that bring England to the fore. MacDonald takes up the crucial question of whether an independent Scotland should follow the advice of the Sustainable Growth Commission in 2014, which recommended initially fixing the Scottish exchange rate to sterling and then allowing it to float once economic stability is firmly established. He argues that large Scottish fiscal and balance of payments deficits would require quite severe austerity to maintain a fixed exchange rate. In the event of independence MacDonald recommends adopting a floating exchange rate but acknowledges this creates a different and potentially severe problem in terms of the valuation of assets and liabilities such as pensions, which had previously been valued in sterling. His paper is a reminder that in the debate on independence there should be no attempt to pretend there are easy answers on the currency.

Likewise, the paper by Figus, McGregor, McIntyre and Roy and the paper by Hayward, McEwen and Komarova explore the issues of borders after Scottish independence. While Brexit has arguably been a motor for mobilising support for independence, given that Scotland voted emphatically to remain within the EU, it also created an additional difficulty for the independence argument with regard to borders that did not exist during the 2014 Scottish independence referendum. Hayward et al. outline the complexities of the border control options and Figus et al. calculate that re-joining the EU would partially, but not fully, offset the negative economic impact of having border friction with the rest of the UK. They acknowledge, however, that their analysis does not incorporate potential economic benefits that having policy autonomy may bring.

Muscatelli, Roy and Trew take an approach to discussing Scottish independence that picks up on the theme of historical persistence, which has been prominent in modern political economy. They indicate that there will likely be a tension within the independence movement between those who accept or welcome the persistence of shared culture and institutions with the rest of the UK and those who want not only Scottish control but for that control to generate radical change. Bell, Eiser and Phillips focus on attempts to extend devolution rather than secession. They point out that fiscal powers had been extended since 2012 to the devolved governments in return for accepting additional fiscal risk. But this process has been heavily disrupted by Brexit and the pandemic, such that the competences of the UK government on the one hand and the devolved governments on the other are in much greater dispute than before Brexit. This dispute, in turn, weakens the political ties binding together the Union.

In Wales, the movement for independence is very much a minority and Wales, unlike Scotland and Northern Ireland, voted in favour of Brexit. To that extent, Wales is much more aligned with England than the other two nations, and this perhaps creates a problem for Wales as it does not, therefore, pose a credible threat to the Union. Bradbury and Davies argue that devolution has not had much impact on Wales. They contend that a weak UK regional strategy and Welsh government policy lacking coherence and consistency are key contributors. In line with Muscatelli et al., they also point to an historical persistence of Wales as a 'client state' and Welsh political culture 'likely to dominate whatever the constitutional position of Wales'. Ifan, Sion and Wincott argue that the Welsh fiscal deficit is central to any debate about Welsh devolution. Income and consumption transfers from the UK government do little to promote growth and this may create a trap as the fiscal deficit means Wales cannot pose a credible threat, which in turn does not make investment in Wales urgent.

Like Muscatelli et al., Brownlow adopts an institutional perspective on Northern Ireland and similarly he suggests that an extension of devolution should not be seen as a 'silver bullet' for Northern Ireland's relatively weak economic performance. It may be a complement to other policies, but it cannot be more than that. Those who focus on tax devolution should be more cautious in what they can expect it to achieve as it does not directly address the lack of investment in human and physical capital. Kenny and McLaughlin discuss the one actual experience of secession within the UK, that of the Republic of Ireland in 1922. They contrast the poor economic performance until the 1960s, characterised as a period of protectionism, with the strong modern Irish economy benefitting from EU membership and globalisation. While caution should be exercised in drawing lessons from the Irish experience with the potential Scottish secession, Ireland did, in fact, fix its exchange rate to sterling until 1979. A crucial problem

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with this option identified by MacDonald is the level of UK debt that Scotland would likely be responsible for. In Ireland's case, debt relief was offered in exchange for accepting a permanent border across Ireland. Kenny and McLaughlin provide the intriguing speculation as to whether the SNP would be willing to abandon their non-nuclear stance and allow the UK continued use of Faslane as a port for nuclear submarines in exchange for debt relief.

The final two papers relate to England more directly. McCann and Yuan identify the UK as having some of the worst interregional productivity inequalities amongst OECD countries and argue that the UK's overly centralised and top-down governance has contributed to this. They contend that a combination of governance change and investment is required in a holistic rather than piecemeal manner. However, they suggest that the proposals emerging from the levelling up agenda are, as yet, unclear and other proposed reforms are 'underwhelming'. Westwood, Sensier and Pike focus on the theme of levelling up and provides an insight into why change is proving so difficult. They argue that the key policy areas required for increasing regional productivity—regional policy, industrial strategy and vocational education—have been subject to the greatest instability and churn. And if institutions are to be defined as 'the rules of the game', they contend that in the UK it is a 'Sisyphean task to understand what the rules of the game might be' because they are so bureaucratic and opaque.

The question of historical persistence is a recurrent theme in the last two papers as it is in other contributions to this special issue. Historical persistence can be used to call for extra devolution or for secession if these institutional changes are viewed as the only way to generate policy changes. But advocates for either more devolved powers or independence/secession should be aware that institutional change cannot, by itself, improve efficiency and equality or combine common identity with specific national or regional identities. This is particularly the case when many citizens in the devolved or seceded polity preferred the old institutions and when the legacy of the old institutions places major constraints on new forms of governance.

At the same time, the status quo of the UK's lopsided settlement, which consists of a highly centralised governance system centred on Westminster and the devolving of responsibilities to lower levels without a concomitant transfer of decision-making powers and fiscal resources, seems untenable. Without comprehensive institutional reform and transformative policies, support for Scottish independence and Northern Ireland joining the Republic of Ireland will likely grow. Among the alternatives are a better 'division of labour' between central, devolved nations/regional and local levels, with the appropriate decentralisation of powers, including tax-raising powers and decision-making in relation to a whole host of key policies such as housing, health and skills.

Post-Brexit and post-Covid central government is micromanaging small funds (e.g., the Towns Fund worth £4.8bn) while big decisions on investment, industrial policy and a comprehensive skills strategy are lacking. For example, the 'skills revolution' promised in the October 2021 Spending Review amounting to £3bn per year takes the country barely back to 2010 levels of expenditure, while HE/FE policy is an endless churn—all of which leaves the UK lacking in both STEM graduates and in vocational and technical skills, as evinced by a chronic lack of nurses, carers and many other key workers. The puzzle—or paradox—is that the UK's institutions and policies are too centralised in spatial, geographic terms and simultaneously too fragmented in functional, sectoral terms. An essential unitary state with some limited devolution means that the geographical concentration of power in Whitehall and Westminster stifles regional and local initiative while paying insufficient attention to specific conditions and needs, which in turn exacerbates tensions between the centre and the constituent parts. As pressures for Scottish independence and a border poll in Ireland grow, the political economy of devolution and secession outlined in this special issue provides a framework for analysis and alternative policy ideas.

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