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# "IS INDEPENDENCE POSSIBLE IN AN INTERDEPENDENT WORLD? SCOTLAND VS. THE UK'S PARTICIPATION IN THE EUROPEAN ECONOMY"

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Since the financial crisis of 2008 the Eurozone has become a de facto emerging economic federation. However, the disastrous performance since the debt crises of 2008-12, has revealed the EU to be an incomplete union. The real difficulty is that, despite much technical analysis and political advice on how specific policies should be designed and conducted within the existing framework, there is no conceptual framework to guide the policymaking process. Some forward thinking is needed here.

What is clear from the detailed evidence of events since 2008 is that the crisis has had multiple causes: broadly classified as liquidity shortages due to financing stops or capital flow reversals; trade or balance of payments imbalances; and fiscal imbalances (excess deficits and debt). These imbalances vary in importance and timing across countries. The implication is that the policy institutions and regulation have to be able to counteract the consequences of all such imbalances; prevent one kind of imbalance morphing into another, and remove excessive imbalances. The EU needs better-equipped institutions rather than specific policies in a world where countries have different objectives, different priorities and different response rates.

On top of this, there are forces in any federal system for the further decentralization (devolution) of policy making. Economic theory on fiscal federalism states: in multilevel governments, each level of government (including central government) will try to maximise social and economic welfare within its own jurisdiction. That would necessarily provide a higher level of economic and social welfare than can be gained in a regime in which central government provides uniform policies/public goods for all – since, having additional policy choices at their disposal, regional policymakers can always choose to replicate the central government's common policies if they wish to do so. Hence, decentralisation can always produce better and more efficient outcomes for all – subject only to not having devolved so far as to create diseconomies of scale or excessive spillovers in the delivery of public services. Two examples:-

The UK in the EU, outside the Eurozone: Being outside the currency union and the institutions needed to support that union, the UK's concerns have to do with the poor functioning and infringements of the single market (principally the financial sector and services), and the further integration that comes with EU membership (political union, fiscal union, banking union, the social chapter, immigration).

The distance between the UK's expectations and the centre of gravity of European policy, the fractionalising of political life that follows, and closer relations to the rest of the world, all help to raise the pressure to "decentralise" from the EU.

Scotland in the UK union: The Scottish Government currently grapples with the challenge of supporting economic activity in the face of severely constrained public finances determined in London. This creates a debate over how much autonomy Scotland should be permitted in order to address its problems. This argument forces a distinction between a funding mechanism in which Scottish ministers are held accountable (in a narrow accounting sense) for accepting and spending a defined stream of money on a pre-specified set of objectives; vs. a regime in which the Scottish Parliament has the ability and responsibility to raise and spend the sums of money they think would most improve economic performance and the standard of living of its citizens. In contrast to the UK in the EU, Scotland's differences with the UK are largely a matter of taste, priorities and culture: a preference for social democracy, for local democracy, for a better economic performance that currently available, and a more cohesive society – in short a case of preference incompatibilities within the UK union, rather than insufficient flexibility.

Conclusion: Unlike the popular song, breaking up is not hard to do. Far from being abstract, the conditions for when it becomes a possibility are easily satisfied and are generally in evidence where there are separatist movements.

What the EU needs, therefore, is robust institutions rather than policies: a) to give members the sense of owning an impartial, independent economic framework they themselves help operate; b) to introduce a framework in which those who would otherwise leave have a say in the decisions as well as those potentially left behind; and c) to create a broader, more accommodating set of institutions within which economies with different aspirations, priorities and market responses can perform successfully without creating tensions or costly spillovers, yet not find themselves so restricted that they could do better outside.

It is obvious that the last is the most important conclusion. Europe, and the UK for that matter, needs to recognise that, if they wish to preserve their unions, they have to make it worthwhile for their members to remain members in terms of those members' own goals and priorities. That is, to be incentive compatible. It is significant that, despite protests and instability in Spain, Greece and Cyprus, it was the Eurozone's policies and inability to complete the required institutional and financial arrangements which came in for real criticism. Those protests always stopped short of demands to leave the Euro or ECB – institutions widely seen to be independent, impartial, and where necessary accommodating. The proof of the pudding is in the eating.