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# The Revenge of Sovereignty:

## The SNP, the Financial Crisis and UK Constitutional Reform.

James Stafford

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Sheffield Political Economy  
Research Institute.

## About the author



### James Stafford

James Stafford is a Ph.D. student in History at Emmanuel College, Cambridge, and a Commissioning Editor for *Renewal: A Journal of Social Democracy*. His research examines the interaction of economic and political thought in debates about the 1801 Union between Britain and Ireland.

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Like many modern democracies, the United Kingdom is suffering from a major crisis of political allegiance. The population is withdrawing from the established parties, and these parties are retreating ever further into the state (Mair 2013). Government and representation are becoming increasingly divorced in the practice of politics: the axiomatic claim to govern on behalf of 'the people' rings increasingly hollow. This opens up a volatile space for new contenders to popular representation, who have yet to be co-opted by a failing political system.

The UK has some distinctive features that render these challenges particularly urgent. Most obviously, it faces a challenge to its territorial integrity from the Scottish independence movement. A significant proportion of Scottish voters believe that they have found a ready alternative to both apathy and the uglier forms of populism: withdrawal from the British political system. Campaigners on both sides of the referendum debate have agreed that the continued allegiance of Scotland's population to British democracy, while substantial, is also highly provisional. It is ultimately dependent on contingent economic, political and international factors, ranging from the oil price to the likely conditions of Scottish entry to the European Union. In these circumstances, it would be foolish to regard the 'No' vote of 2014 as a final answer to the 'Scottish Question' (Mitchell, 2014).

At the same time, however, the crisis of British democracy cannot be reduced to a crisis of the Union. The question of Scottish independence is significant because it opens up a whole range of objections to the current structure of Britain's democracy and economy, which are shared by large swathes of the people of England and Wales. Foremost among a multifaceted institutional crisis confronting the British polity is the collapse of the economic model of the post-Thatcher years. The UK suffers from particularly extreme social and economic inequalities, at least in comparison with its European neighbours. In the financial crash of 2007-9, they brought the UK's viability as a capitalist economy into question, and will continue to do so in the absence of major political change. The political valence of inequality in the UK is increased because it is spatially structured. This is an observed, though often disputed, feature of the increasing mobility of capital and labour associated with the contemporary global economy, and cannot be attributed solely to British pathologies (Ezcurra and Rodrigues-Posé, 2013). It has, however, been actively compounded by the upwards redistribution and political centralisation that have become hallmarks of British state policy since 1979 (Lavery and Green, 2014). Fresh analyses of American inequality as a product of 'winner takes all' politics (Hacker and Pierson, 2010) can clearly be mapped on to Britain. If the structural conditions of neoliberalism require the use of state power to force market mechanisms into all areas of society (Gamble, 1988), then it is clear that a distinctly British ideology of unitary sovereignty has had a role to play in creating the conditions for regressive policies to flourish.

For some on the left, the developing link between rising, spatially-structured inequality and a realignment of political conflict around issues of constitution and identity risks creating a dangerous feedback mechanism. What is, in reality, an ever-worsening distributional conflict could be shrouded under the false consciousness of nation and race. Those committed to the reform of British capitalism should not, however, regard the constitution or political culture as incidental distractions from the hard graft of political economy.<sup>1</sup> It seems a plausible hypothesis that inequality in Britain has been compounded by the relative weakness of intermediary and

oppositional institutions within British democracy. In the absence of formal constitutional checks and balances – whether imposed by democratic bicameralism, a proportional electoral system, a constitutional court or a system of federal government – the liberal democracy Britain became in the years after 1945 was dependent on strong party organisations, local control over public services, and powerful trade unions to guarantee its representative character. The systematic hollowing-out of many or all of these institutions, partly through social change, often through concerted political action, has created a void at the heart of British politics. So long as the ‘forward march of labour’ (Hobsbawm, 1978) endured, Britain’s factional and majoritarian democracy seemed attractive to the left. Hailsham’s notorious ‘elective dictatorship’ could plausibly be that of the proletariat. Once the tectonic plates of the global economy began to shift, however, the British system has reverted to its historic status as an exceptional facilitator for the forward march of capital. Since the demise of the corporatist experiment of the 1970s, Britain’s political economy has become hopelessly unbalanced.

Support for both UKIP and the Yes movement can clearly be understood in this context. It shares a fairly straightforward relationship with lower income, poorer employment prospects, and disconnection from centres of political, economic and cultural power. The ‘left behind’ have acted perfectly rationally in choosing to ‘exit’ a political and economic system that denies them ‘voice’ (Ford and Goodwin, 2011; Curtice, 2014; Hirschmann 1979). The relationship between social exclusion and support for counter-systemic political parties is clearly weaker in the Scottish case, however. Where UKIP is a relatively recent product of the anomic politics of the 2010 parliament, the the re-birth of Scottish political consciousness dates from the 1970s and 1980s, and was facilitated by a legacy of distinct legal and religious institutions bequeathed by the ancient Union of 1707 (Jackson, 2011; Kidd, 2008). Within Scotland, the Yes campaign commanded a far broader cross-class coalition than UKIP in any part of the United Kingdom.

The mixed nature of SNP support, combined with its access to devolved governing institutions, has compelled the party to develop a sophisticated case for reform of UK governing institutions. This locates Scotland economically and politically within a structure of ‘multi-level governance’ incorporating the UK and the EU, rather than projecting UKIP’s nostalgic fantasy of closed borders and absolute sovereignty. The SNP has successfully exposed the ambiguities and iniquities of Britain’s uncodified territorial constitution, developing a political agenda that is plausible, as well as popular. The specific model of independence proposed in the Scottish Government’s White Paper (Scottish Government, 2013) was in important respects indistinguishable from the ‘full fiscal autonomy’ demanded in policy papers from before and after the referendum vote (Scottish Government, 2009; Scottish Government, 2014). As such, much of what the SNP was advocating in the referendum campaign remains a going concern. At the time of writing, the party is polling strongly in Scotland, enjoying a surge in membership and starting to announce its terms for a potential coalition with Labour. It is comprehensively bucking Europe-wide trends towards voter disengagement and apathy. Whatever happens in the 2015 General Election, it is likely to emerge as a major player in the evolving territorial politics of the United Kingdom, at a time when the constitutional settlement in England, Wales and Northern Ireland is also under pressure.

The SNP's governing project therefore remains relevant to future constitutional and economic change in the United Kingdom. Its nature and provenance consequently demand careful scrutiny. What prospects does it offer for the progressive reform of the British state and British capitalism? What are its limitations and dangers? How far might it enable us to redress the balance of our political economy, back towards democracy and labour, and away from the 'winner takes all politics' of recent decades?

### After Sovereignty?

During Scotland's referendum campaign, many in the Yes camp argued that it was illegitimate to reduce Scottish independence to the SNP's policy prospectus. While this view could, in turn, be questioned – the SNP was the governing party; a dominant source of funds and organisation; and the group with the longest-standing commitment to Scottish independence – it is certain that it no longer captures the reality of Scottish politics. As the unusual breadth and dynamism of the referendum campaign resolves itself into more orthodox party competition, the SNP is, more than ever, the dominant vehicle for claims to greater Scottish autonomy. The party has undergone a process of policy reform in parallel with its rise in popularity and governing credibility. Between the 1970s and the 1990s, it went from demanding Scottish exit from both the UK and the EEC to enthusiastically advocating 'independence in Europe'. Its economic position meanwhile tracked that of its Labour rival, shifting from full-throated state socialism in the early 1980s to 'neoliberalism with a heart' today (Jackson, 2012; Cuthbert and Cuthbert, 2009). These two shifts in the party's policy prospectus are often examined in parallel. In order to evaluate their impact, however, it is necessary to explore their intersection.

How did a small group of extremists, advocating a classically Ruritanian model of secessionist nationalism, transform themselves into the most sophisticated practitioners of the new politics of identity in Britain? The European dimension to party policy was crucial in reconstructing its outlook for the post-Thatcher era. The SNP had taken a violently oppositional stance to British membership in the EEC referendum of 1975, attacking the European project as a centralising assault on small countries, and denying the UK government's right to negotiate terms of entry on behalf of Scotland (Saunders, 2014). Divisions over Europe endured into the 1980s. The party struggled to recover from the debacle of the 1979 referendum on a Scottish assembly, and was beset with divisions over its future direction. A bitter struggle over a party faction lay at the centre of debate. The '79 Group' incorporated party luminaries such as Alex Salmond, Stephen Maxwell and Jim Sillars, arguing that 'a clear ideological commitment to the left would signal to working class voters a new readiness to stand with them on the socially divisive issues of the day' (Maxwell, 2013). To the discomfort of the centrist party leadership, this 'commitment' extended to a political programme of Scottish industrial action and civil disobedience against the Thatcher government. Like their Labour counterparts, who launched a similar attempt to renew the politics of class in response to the early stirrings of neoliberalism, the '79 group were heavily divided on the European issue. To the familiar assault on Brussels centralism could now be added the anti-European argument of the Labour left: that the Community was a 'capitalist bloc' that would overpower working class mobilisation at the level of the national state (Torrance, 2009).

Here, however, the parallel trajectories of Labour and the SNP drift apart. While Labour, following the TUC, initially embraced the Delors 'Social Europe' programme as a supranational route to enhanced social protection (Edmonds and Lea, 2010), the SNP remained wary of excessive policy integration, foregrounding the tactical benefits offered by 'independence in Europe' within Scottish party competition. The originator of this policy doctrine, which remains intact until today, was also its clearest exponent. Jim Sillars, a former Labour MP whose engagement with the '79 group had been a bridge into SNP politics, wrote in 1986 that

Whether or not the SNP can place the debate about Scotland's constitutional future and relations with England in the wider context of the European Community is crucial. To allow the debate to develop as though it was merely an affair between nations on the island of Britain is the road to defeat because it is unreal.

For Sillars, the key issue was defusing the 'unionist' charge of 'separatism', which played on fears of economic security and cultural detachment brought about by the break-up of the 'customs union' that was the practical expression of the UK for most Scots. Sillars noted his own past opposition to British EEC entry and conceded that 'many feel that our judgement has been vindicated by events'. But the political circumstances had changed, and the lure of 'independence in Europe' was now too great for nationalists to resist. 'With an independent Scotland within the Community, the charge of separatism disappears,' Sillars asserted. 'There will be no change in trading relations with England or any other Community country as a consequence of Scottish independence ... The separatist gibe is silenced.' What mattered was Scotland's ability to shape - perhaps even to obstruct - the future development of European integration. Sillars denounced the 'centralist tendencies within the Community's institutions', and the 'lack of leadership among Europe's small nations'. He called for a 'Europe of nation states', resisting the encroachments of the Franco-German axis. Striking a tone redolent of the Scottish Whiggery of the early 19th century, Sillars foresaw a 'leadership role for Scotland within the Community, leading the coalition of the small against the large, and winning' (Sillars, 1986: 184-191).

The SNP's turn to Europe was sustained through the high water mark of a powerful new paradigm within European legal and political thought, which transformed the empirical study of the emerging institutions of the European Union into a theoretical meditation on the various forms of non-state and sub-state authority. These were broadly conceived as emerging within what the Scottish lawyer and nationalist MEP Neil MacCormick termed 'the European Commonwealth' (MacCormick, 1999). MacCormick's legal theory aimed at nothing less than a comprehensive redefinition of the EU's direction of travel, reworking Sillars' tactical endorsement of a 'Europe of nation states' into a fully-fledged, philosophically grounded exposition of how 'the countries and peoples of Europe can succeed in transcending sovereignty, going beyond the sovereign state, without at the same time simply transferring sovereignty from states to the union, as in the "super-state"'. (MacCormick, 1999: vi). This argument stood in direct opposition both to emerging Eurosceptic trends in British politics and German jurisprudence. It also, however, challenged the longstanding demand, then being revived by Jürgen Habermas and others on the German left, for Europe to form itself into a fully-fledged federal republic (MacCormick, 2006).<sup>2</sup>

Instead of Habermas' s appeals to the democratic republicanism of the American and French Revolutions, MacCormick highlighted the origins of the modern concept of sovereignty in the European religious wars of the sixteenth<sup>th</sup> and seventeenth<sup>th</sup> centuries (MacCormick, 1999: 124-125). These had simply been married to a 'monolithic' conception of democracy in the eighteenth and nineteenth centuries; it was the fatal combination of popular sovereignty with unitary government that had led to the oppression of internal minorities throughout Europe. 'Western Europe's successful transcendence of the sovereign and of state sovereignty', achieved through the pooling and division of state competences via the treaties and institutions of European Union, was therefore 'greatly to be welcomed'. A pluralistic legal order could readily be married to a form of popular post-sovereignty, which MacCormick identified with the doctrine of 'subsidiarity'. For MacCormick, 'the best democracy, and the best interpretation of popular sovereignty is one that insists on levels of democracy appropriate to levels of decision-making' (MacCormick, 1999: 134). At this stage in the argument, as MacCormick readily conceded, his own 'activism' in the SNP came to the fore. He advanced an attenuated form of nationalism, defending the historic nation as an ethical basis for legal order and affective community, 'aiming to state acceptable (because non-absolute) principles of national entitlement and national loyalty' (MacCormick, 1999: vi). The marriage of this 'liberal nationalism' to the post-sovereign state spelled an end for the United Kingdom, which was unlikely to be successfully reformed in line with MacCormick's subtly demanding standards. The loss of one particular state-form bequeathed by the seventeenth century wars of religion, however, could easily be borne. By removing the threat of empire and war from the 'European commonwealth', the legal order of the EU could permit the UK safely to disaggregate, in accordance with the properly democratic principle of subsidiarity and the inherent ethical value of the historic nation. Europe offered a canvas not for the assertion of a Westphalian sovereignty for Scotland, but for the proper recognition of a milder Scottish legal personality within Europe's family of nations (MacCormick, 1999: 196-204).

## The Referendum and the Currency Question

By seeking to redefine the character of the European project, Sillars and MacCormick opened a space in which a more persuasive form of Scottish nationalism could come to occupy a commanding position within the politics of the devolved Parliament. The politics of separation had become those of autonomy; as Sillars rightly predicted, Labour accusations of 'narrow' nationalism or 'separatism' have lost credibility in the face of the SNP's attenuated commitment to European Union (Hassan, 2014). Events, however, have served to undermine the credibility of the framework of post-sovereign government that MacCormick envisaged as a solution to the iniquities of the United Kingdom. From the beginnings of European Monetary Union in 1999 down to the SNP's turn to the pound in 2012, it was a major assumption of the 'independence in Europe' policy that Scotland would ultimately join the Eurozone (Rennie, 2012). The attractions of the policy were obvious, particularly at a time when European Monetary Union seemed able to guarantee low and stable inflation and interest rates throughout the currency area, with smaller and peripheral countries disproportionately enjoying the benefits (Scharpf, 2013). If the logic of 'independence in Europe' rested ultimately on minimising the economic instability engendered by a transition to statehood, then the currency could be a useful

complement to the strategy. This was especially the case given the longstanding SNP complaint that deflationary monetary policy made in London disadvantaged Scottish industry and increased Scottish unemployment. The pound, Alex Salmond claimed in 1999, was a ‘millstone round Scotland’s neck’ (Watson, 1999).

The ultimate effect of the currency commitment, however, has been fatally to compromise the SNP’s post-sovereign vision of Scottish independence. The Eurozone crisis has revealed that, through the device of monetary union, the EU’s pluralistic legal order has stripped effective economic sovereignty from individual states without transferring it to institutions that are legally or democratically authorised to write off debt, bail out banks, or engineer fiscal transfers on behalf of Europe’s citizens (Blyth, 2012). The collection of states, treaties and indirectly authorised bodies that regulate monetary union are no match for the tightly woven web of hierarchies, oligarchies and incentives that organise and protect the interests of the banks ultimately responsible for its crisis. The Euro’s strategy for survival serves the interests of the latter by default, offering free credits from the European Central Bank (ECB) to the continent’s banks and imposing permanent austerity on its poorest citizens. In Scotland, meanwhile, the practical upshot of the Euro crisis has been a substantial reduction in public enthusiasm for the European project. According to the 2013 Social Attitudes Survey, a majority of Scots now support either Nigel Farage or David Cameron’s views on Britain’s relationship with Europe, arguing either for a repatriation of powers from Brussels or British exit from the Union (Eichhorn and Kenealey, 2014). But while the Euro crisis has transformed the electoral calculus of the Scottish Nationalist Party, it has found it irretrievably wedded to the ideal of ‘post-sovereignty’ in the economic realm. In a bid to minimise the fears attendant on a transition to Scottish statehood during a period of global financial crisis, the SNP rashly promised to seek a formal currency union with the rest of the UK.

This monumental *volte-face*, which overturned decades of nationalist economic analysis, served as a major focus for doubts about the economic case for independence. Predictable statements from UK politicians regarding their opposition to such an arrangement were complemented by dire, and credible, warnings that any currency union would place Scotland even more at the mercy of economic policy decisions made in London than it was already. In the realm of fiscal policy, the demands of technocrats and financial markets were crystal clear (Carney, 2014; Muscatelli, 2014). If the currency union were to be truly equal in its construction, Scotland would have to be permitted an effective veto over the fiscal policy of the rest of the UK through a system of mutually binding treaties restricting deficits and debt to suitably low levels; a British *Fiskalpakt*. If this were not the case, and only one party (most likely Scotland) had to submit to fiscal rules, then the arrangement would come to resemble what was once called ‘empire’: a situation where one political community can ‘give laws’ to another external to it (Reinert 2011). Stranger still, this position was seemingly articulated by the Scottish Government’s own Fiscal Commission Working Group, which called for binding fiscal rules on Scotland without outlining how similar restrictions might be brought to bear on the rest of the UK (Fiscal Commission Working Group, 2013:10). A similar position was subsequently articulated in the Scottish Government’s White Paper on independence (2013:117).



Even accepting a growing body of credible evidence that common assumptions regarding the necessity of internationally-agreed fiscal rules in currency unions might not have held in the Scottish case, monetary policy presented further problems (Armstrong and Ebell, 2014). The already-tenuous democratic oversight of the Bank of England via the Treasury mandate system would have been diluted further by the addition of a second executive authority; the European experience suggests that central banks in monetary unions combine insulation from political unaccountability with backroom dominance by the policy preferences of the most powerful nation. Scottish politicians hopeful of their capacity to influence London need only witness the contemptuous response of German politicians to Nicolas Sarkozy's attempts to pressure the ECB into a more inflationary stance following the notorious interest rate increase of 2011 (Thompson, 2013: 4-5). The Scottish Government's Fiscal Commission Working Group attempted to get around this issue by proposing a restructuring of the Bank of England on a shareholder basis, with ownership distributed between Scotland and the rest of the UK (rUK), and Scotland gaining direct representation on the Monetary Policy Committee (Fiscal Commission Working Group, 2013: 9). But even supposing it was politically feasible to undermine the longstanding principle of 'operational independence' for the Bank in this way, the balance of population would have been such that a Scottish member of the MPC would simply be outvoted whenever a serious clash of national interests arose. In any case, this position was swiftly downgraded by Alex Salmond to the comparatively empty demand that a non-voting Scottish 'observer', complementing that of the existing British Treasury, gain access to Monetary Policy Committee meetings (*Sunday Herald*, 2014). So far as macroeconomic policy was concerned, Scottish independence in a Sterling zone offered a very poor exchange for a parliamentary Union in which Scotland's interest in economic policy is abundantly, if far from perfectly, represented.

## Stockholm, via Frankfurt: Post-sovereign Social Democracy

It was thus one of the ironies of the referendum campaign that 'independence in Europe' proved both the making and the undoing of the SNP's campaign for Scottish statehood. While it provided a transformed 'framework of opportunities' for partisan competition (Tarditi 2010), enabling a fundamental shift in identity and rhetoric, it also exposed the scarcity of the SNP thinking about the macroeconomic policy limitations imposed by a 'post-sovereign' structure of political authority. As the resurgence of party support following the referendum defeat demonstrates, however, the lacunae in its conceptions of economic 'post-sovereignty' have proven anything but fatal to its continuing campaign for greater Scottish autonomy. The reasons for this are multifarious and partly contingent; topics for psephological, and more broadly cultural, analysis. In the realm of economic policy, however, a clear cause can be determined: the resilience of a distinctive nationalist paradigm for reform of Scottish economy, which we might term 'post-sovereign social democracy'.

The SNP's apparent disinterest in establishing an independent macroeconomic framework for Scotland can best be understood within broad phenomenon of European parties of the centre and left turning to regulatory and supply-side reform as primary routes to social justice, rather than the more overtly redistributive macroeconomic policies of traditional social democracy. While this is a set of policy

priorities more usually associated with the heyday of New Labour and the ‘Third Way’ (Giddens, 1998), it has also been a pronounced feature of the ‘new regionalism’ identified in European social policy (Keating, 1998). Policies which combine efforts to combat ‘social exclusion’ with productivity-raising investments in human capital and close partnerships with the private sector may best be implemented at what Keating terms the ‘meso’ level of government. They demand local knowledge, a good institutional infrastructure and a strong network of relationships with relevant stakeholders (Keating, 2012a). The state acts to nudge, tweak, supervise and educate private sector actors, rather than assuming direct responsibility for wages (through incomes policies) or capital investment (via nationalised industries). This agenda is a neat fit with the SNP’s constitutional doctrine of ‘post-sovereignty’. The party envisages the demand side of the economy being constrained not just by omnipresent constraints on macroeconomic policy flexibility produced by globalisation, financialisation and secular stagnation, but also by particular legal requirements to control deficits and debt, demanded by the monetary arrangements of a post-sovereign state. Supply-side reform accordingly plays a major role in party policy.

The main thrust of the SNP’s economic case for independence was not, therefore, that Westminster-imposed austerity and welfare retrenchment could be avoided through an independent Scottish macroeconomic framework that would enable significant reflation. The argument was rather that a Scottish government with full control over ‘job-creating powers’ within Scotland’s borders would enable a minor productivity revolution, broadening and deepening the tax base and improving export performance. The party’s short-term plans for increased Scottish public spending were criticised for relying on excessively optimistic assumptions about bond market reaction to a new Scottish state, as well as an implausibly buoyant oil price (Macdonald, 2014). Even so, John Swinney’s proposals provided only for a real-terms freeze in total Scottish expenditure, as opposed to the decline proposed by the Conservatives (but not, necessarily, Labour) (Gardham, 2014; Crawford *et al.*, 2014). Bold projections of Scotland’s long-term fiscal sustainability, and hence its capacity to submit to harsh fiscal rules handed down by Whitehall and the City, rested ultimately on faith in the managerial competence of the SNP and the Scottish Government Civil Service (Scottish Government, 2013). Where independent analysts made different forecasts (Amior *et al.*, 2013), the SNP’s response was to reiterate the case for ‘smart’ government, which would use the ‘policy levers’ made available by independence to drive investment and productivity improvements, particularly in the industrial sector. On independence, the party promised a Scottish Investment Bank, tax reform and an ‘economy-wide partnership approach’ to raise productivity and long-term capital investment in manufacturing and innovation (Scottish Government, 2014b).

Some of these measures are, of course, well within the current mainstream of UK policy; a dispassionate reader would struggle to distinguish SNP policies on innovation and investment from the longstanding ‘rebalancing’ agendas pursued by Labour and the Liberal Democrats, and even occasionally nodded to by the Conservatives. Many of the specific measures proposed to the SNP could be implemented within the Smith Commission framework, and may yet form the backbone of subsequent SNP development policy. The difference between the UK parties’ and the SNP’s governing agenda, however, centres on the importance accorded

to the 'meso' level of government. Where other parties are rightly receptive to the nationalist argument that the Westminster model of unitary state authority has had negative consequences for distribution and growth, only the SNP (and the Scottish Greens) insist that state activity in Scotland should be exclusively funded through Scottish resources. This belief was at the core of the Scottish Government/SNP submission to the Smith Commission on Devolved Powers for Scotland, and has been reiterated as a possible demand in parliamentary negotiations for the formation of the next UK government. 'Fiscal autonomy', an alternative to independence that has featured increasingly prominently in the party's thinking since the 'National Conversation' policy process of 2007-9, reimagines the hard fiscal constraints of a currency union as constitutional rules limiting Scotland's deficits and debt from within the UK (Scottish Government, 2009; Scottish Government, 2014a:17). As under independence, whatever influence Scotland may yet have in Westminster and Threadneedle Street is thereby traded for access to policy 'levers' at Holyrood.

In the academic literature supporting this approach, the rationale is one of maximising government 'efficiency', by directly linking spending and taxation within Scotland. As Hallwood and Macdonald (2009:80) explain, 'there is now empirical support for a link between the ability to change taxes on labour and capital and the efficiency with which resources are allocated within a country or region'. It is not difficult to see how 'allocative efficiency' within Scotland could produce significant and negative spillover effects in the rest of the United Kingdom, however. The avowed goal of the SNP's programme for empowered and efficient government at the Scottish level is to promote national 'competitiveness' by whatever means necessary - up to and including aggressive corporate tax reductions, designed explicitly to divert foreign investment from the rest of the UK (Jackson, 2012). Throughout the referendum campaign, party policy demanded a lowering of the Scottish rate to 3p below whatever is set in the UK. As has been extensively rehearsed elsewhere, this is a high-risk strategy for Scotland's economy and welfare state (Miller, 2012). The possibility most frequently canvassed is that the benefits of increased foreign direct investment will fail to counterbalance the overall loss of revenue produced by tax reduction (Keating 2012). An alternative scenario, no less damaging in the medium term, is suggested by a recent study by Genschel and Schwarz (2013), focusing on the differential impacts of corporate tax competition on large and small jurisdictions. Drawing not on the Laffer Curve, but on a more sophisticated literature on 'asymmetric tax competition', they suggest that small countries are better placed than large ones to take advantage of the capital mobility and falling corporate tax rates characteristic of the neoliberal era. The opportunity cost of reducing tax revenues in a small tax base is lower than in a large one, but the pool of foreign capital that might be attracted is proportionately larger. The supply of foreign capital is highly elastic, because changing tax jurisdictions can be achieved in many cases through 'brass-plating' rather than substantive investment. All things being equal, this could present rather benign prospects for the growth of Scottish tax revenues. It suggests a surprising revival of one aspect of New Labour's economic model in a devolved Scottish context, with social welfare and supply-side improvements funded by attracting foreign capital to a broad, but shallow tax base.

How compatible is such a policy with the reality, however provisional, of continued membership of the United Kingdom? On this, the SNP seems less than certain. The party's most recent statement on corporation tax, made in its submission to the

Smith Commission, signalled a shift towards a more targeted approach, avoiding mention of a blanket tax reduction and promising instead to use the structure of corporate taxes to incentivise investment, employment and training in the private sector. This approach, reminiscent of *Parti Socialiste's Pacte Social* and the Living Wage tax relief scheme proposed by the UK Labour party, is far more compatible with a 'co-operative' model of intergovernmental relations. The shift may also reflect moves away from the policy eclecticism of the Salmond era under the leadership of Nicola Sturgeon. Under the proposal for fiscal autonomy, however, there would remain strong temptations to take an alternative, and riskier, route to enhanced Scottish competitiveness.

Whatever the current political attractions of a temporary retreat from the corporation tax policy, it would be an uncharacteristically self-effacing SNP administration that permanently abandoned the use of available policy instruments out of concern for England and Wales. Given the high levels of integration and convergence between Scotland's economy and the rest of the UK, shifts in corporate taxation in a context of asymmetric, and binary, competition could have a significant impact on revenues south of the border. So long as this strategy remained successful for Scotland, the political consequences of the resulting increased pressure on personal taxes and public spending in England and Wales would be stark. Inter-governmental relations would be permanently fractious, making policy co-ordination difficult. Without any element of fiscal union between the constituent nations of the UK there is a risk that the price of Scottish policy success in good times would be a collapse in the willingness of English and Welsh taxpayers to extend fiscal support to Scotland in case of asymmetric shocks, where the automatic stabilisation mechanism provided by nationwide pro-cyclical benefits would no longer apply. The recent collapse in the oil price is a striking illustration of how plausible these shocks remain. A further area of potential tension would be the Scottish banking sector, which even the SNP's proposals identify as a matter for joint supervision and recapitalisation within the UK as a whole. As such, the balance of advantage produced by the vast difference in size between the Scottish and English economies is rather more complex than either side in the constitutional debate pretends.

The corporation tax proposal is mostly interesting, however, because it hints at a broader context for the Scottish pursuit of national competitiveness using the tools open to a post-sovereign state. Innovative policymaking and social partnership can go some way to raising productivity and export competitiveness, but relevant empirical examples strongly support the thesis that internal devaluation and wage restraint are also vital. In Germany and Sweden during the 1990s and 2000s, social partnership and supply-side reform comparable to that advocated by the SNP was used to increase competitiveness under the tough fiscal and monetary policy constraints imposed by (variously) a banking crisis, the costs of reunification, and the Maastricht convergence criteria (Streeck, 2009; Steinmo, 2013). The most relevant example is perhaps that of Ireland during the genuine 'Celtic Tiger' years of 1987-97, where a neo-corporatist wage bargaining structure was used to hold down costs while targeted investment, corporation tax cuts and educational improvements did their work (Regan, 2010). Crucially, however, all of these successful periods of export-led industrial growth relied on buoyant international markets and healthy levels of inflation in neighbouring economies. In a European context of competitive deflation, engendered largely by the very institutions of post-sovereign

economic governance that the SNP seek to construct in the UK, it is difficult to see an easy way forward for yet another small, surplus nation, dreaming of the Schwa-bian *Mittelstand*. Without access to monetary policy, internal devaluation would be an indispensable element of any Scottish export strategy with a plausible hope of success. After years of declining real incomes in the UK, the last thing the Scottish population needs is the policy levers of fiscal autonomy and social partnership being used to drive down what remains of their wages. ‘Reindustrialising Scotland’ is a worthy goal. But Scottish voters should be under no illusions as to the difficulties inherent in such a strategy.

## The Limits of Devolution

Throughout the referendum campaign, those who pointed out the risks attendant on a Yes vote were commonly accused by SNP supporters of ‘talking down’ to Scots; of declaring Scotland to be ‘too wee, too poor, too dumb’ to ‘go it alone’ (Wishart, 2014). The substantively post-sovereign political and economic agenda pursued by the party was couched in a much more traditional rhetoric of self-determination and popular sovereignty (Salmond, 2014). Politically, this was a sleight of hand; intellectually, however, it is not difficult to reconcile the two positions. Rationally construed, the nationalist claim is that a Scottish people exists and has the right to decide the *terms* on which Scotland pools, shares and divides political and economic power with its neighbours – British, European, and now, via NATO, American. This flexibility and pragmatism is the essential strength of the SNP’s position, allowing it to fulfil dual roles as a Scottish party of government and an occasional party of protest against a failing British political and economic system. The party’s orientation owes much to the tactical retreats of the 1980s, but also has a more substantive theoretical hinterland in Neil MacCormick’s critiques of sovereignty. As this paper has sought to show, however, the place of the economy in a post-sovereign framework of legal authority remains dangerously under-theorised.

The SNP has long been too close to Scottish business and governing institutions to have a serious interest in the radical forms of workplace democracy, supply-chain regulation and co-production that constitute the economic analogue of the turn to subsidiarity and deliberation in democratic theory (Olin Wright, 2010; Boltanski and Chiapello, 2006). In place of these, this paper has established that the party advocates an amplified version of the policy mix pursued by national and regional European governments alike since the mid-1990s: supply-side reform coupled with moderate-to-harsh fiscal and wage restraint to promote export competitiveness. The party views the transition from devolution to fiscal autonomy and ultimately independence as a gradual and largely painless migration to Holyrood of the competencies needed fully to implement this agenda, which is best promoted by the responsive and competent functionaries of the Holyrood government. In order to gain access to these local policy levers, the party is willing to trade away influence on overall macroeconomic policymaking, transforming the United Kingdom into a heavily asymmetrical free-trade and common currency area.

Whether the constitutional definition of this political-economic outcome is presented as ‘independence-lite’ or ‘devolution-max’ seems ultimately, therefore, irrelevant. The problem with both lies in their recreation of the European Union’s

well-documented bias towards ‘market-making’ over ‘market-correcting’ activities within the island of Britain (Scharpf, 2002). As Eurozone policymakers grope towards fuller forms of fiscal and political union in response to financial crisis, now seems like a particularly inopportune moment to dismantle mechanisms for common macroeconomic policymaking within the UK. Preserving these means, in practice, that substantial areas of public taxation and spending should remain reserved to Westminster, and subjected to democratic accountability by Scottish representatives in London, not at Holyrood. There remains a great deal of scope to decentralise economic and welfare policy without compromising Westminster’s overall competence in macroeconomic policy (Lodge, Henderson and Davies, 2015). While the future is always unknowable, the balance of probabilities suggests a more cautious approach to decentralising economic policy than that advocated by the SNP. The loss of state capacity at the Scottish level implied by the continuing reservation of significant economic power to Westminster is both less significant, and more easily revised, than the permanent dismantling of any ‘market-correcting’ democratic institutions at the UK level. Moreover, there is a clear democratic argument for preserving Westminster’s overall responsibility for macroeconomic stabilisation. Decisions about monetary and fiscal policy need to be swift and centrally co-ordinated - at least within a shared currency area. They are also, however, extremely distributionally sensitive. They cannot be left to fixed fiscal rules and unaccountable central banks, as if they can somehow be removed from democratic contestation. It is already the case that the British political system is viewed as distant, unaccountable and insulated from popular concerns. How is handing more power to central bankers and constitutional lawyers likely to improve the situation?

Any politically and intellectually credible case for significant reserved powers must acknowledge, however, that the central organs of the British state are currently neither legitimate nor responsive. This, in part, is because they are drastically failing to preserve economic equity between the regions and nations, as well as the classes, races and genders, of these islands. Defence of the mere existence of a British state must, therefore, be dissociated from defence of *the* British state as it is currently constituted. In the Scottish arena, the primary way that pro-Union parties have sought to square this circle has been by promising additional powers for Holyrood. The Smith Commission process has been designed to reassure Scottish voters that voting ‘no’ did not mean voting for ‘no change’ (Miliband, 2014). There is a clear need, however, to think beyond the recurring pattern of nationalist demand and Westminster concession that has been the dominant expression of the ‘process’ of devolution in Scotland. This has become fractious and chaotic, and is likely to become more so as incentives increase for English and Welsh politicians to exploit the evolving territorial politics of the United Kingdom to enhance their own local standing. The Smith proposals were attacked by the SNP and English Conservatives as soon they were released. The historical experience of devolved institutions suggests that they are rarely effective in stabilising multinational states. Quite often, they have the opposite effect, providing fresh resources to regional autonomy parties and enabling them, as in the case of the SNP, to develop credible governing agendas. They also expose tensions within statewide parties, which are less able than their local rivals to prioritise the interests of the given territory in either their policymaking or presentation (Alonso, 2012).

It is tactically wrongheaded, therefore, for UK political parties to attempt to buy

off SNP supporters with pledges of additional powers to Holyrood that fall short of either fiscal autonomy or independence. The analogy with the Conservative Party's problems with Eurosceptic backbenchers is obvious. Partial concessions short of the desired outcome legitimate the impossible demands being made on the system, without ever satisfying them. They can only ever form part of a solution. A better response would be to offer Scottish voters, along with their counterparts in Wales, Northern Ireland and the English regions, greater voice, on more equal terms, at the centre. If Westminster is the problem, but the pound and the UK 'customs union' is to be retained, then it is Westminster, not Holyrood, that most needs to change. It has become a mainstay of pro-Union responses to the referendum result to argue that a 'British *Bundesrat*' – what Labour term a 'Senate of the Nations and Regions' – could be instituted in place of the House of Lords to better reflect the diversity of British political cultures in the statewide legislative process (Kidd, 2014; Gallagher, 2014). Representation would work in a different way to the Commons. Elections would operate on a proportional system, within nations or regions rather than Commons constituencies. This is a promising direction of travel; but it could be refined and radicalised.

Might there, for example, be a way to link up increased local decision-making across the United Kingdom with more effective representation in Westminster? Speculation about the use of Lords reform to address the failures of the Union is still at an early stage. But it is worth noting that the German *Bundesrat* is different from the American Senate: it is a chamber where the chief ministers of Germany's federal states (*Länder*) debate matters of common concern, either personally or via representatives. Election to the chamber is therefore indirect, rather than direct. It functions in a manner akin to the old Diet of the Holy Roman Empire, a place where the various sub-imperial authorities could meet to negotiate their differences with each other and collectively place limits on the authority of the Emperor (Whaley, 2012). Perhaps one way of regenerating the territorial dimension to British politics would be not simply to institute a new cadre of regional representatives, but to give elected regional authorities themselves a formal role in scrutinising legislation. Such an approach would go hand-in-hand with developing proposals to consolidate and strengthen English local, city and regional government. Even if subsequent reform results in an evolving 'patchwork' of different powers and authorities at sub-national level, shifting asymmetries in local power could be managed by ensuring equality of regional representation at the national level.

By complementing new powers in the nations and regions with additional voice in Westminster, the pro-Union parties could offer a qualitatively different response to the challenge of the SNP. They might also do something to address the spatial inequality and disconnection that blights political culture across the United Kingdom. The still-unfolding consequences of the financial crisis are having a dramatic effect on the national distribution of wealth and power. The combination of unitary sovereignty with an independent currency enabled Britain to escape the fate visited on Eurozone countries that had also indulged in dangerous levels of property and financial speculation. It thereby served to vindicate the continuing relevance of sovereignty as a meaningful legal concept for the political and economic order in which we live. As Will Davies writes, the financial crisis did not witness the 'return of the state' as an economic actor *per se*, but the temporary emergence of an 'emergency state ... injecting hundreds of billions of additional

finance and guarantees, simply by force of decision' (Davies, 2014: xi). Ultimate power over money creation was deployed by the British state to survive the financial crisis. It continues to prop up high levels of government borrowing via the Bank of England's Quantitative Easing programmes. For social democrats, the existence of this sort of fiat money creation, and the co-ordination of fiscal and monetary policy that it enables, is a mixed blessing. On the one hand, it lends credibility to arguments for wage-led growth and fiscal expansion - at least when these are compared to the prescriptions of Osborne and Schäuble (Wren-Lewis, 2013). On the other, the practical upshot of the ongoing process of money-creation undertaken by British, American and now European central banks has been to protect the interests of capital, fuelling asset-price bubbles and vast increases in the personal wealth of the super-rich. Quantitative Easing forms a major component of Britain's recovery via 'regressive redistribution' (Lavery and Green, 2014).

Combating these accelerating trends towards still-greater inequalities of wealth and power is obviously a matter for political movements, many of which will be international in character. The conditions that create economic inequality self-evidently transcend any one country or political system, so the relevance of UK constitutional reform is only ever likely to be marginal. This does not, however, mean that it should be ignored. The goal should be to create additional spaces within which meaningful democratic contestation over the direction of the economy can occur; and, where possible, to *overrepresent* people and interests who are not favoured by the prevailing economic dynamics, going some way to restore democratic equality in a capitalist system (Dunn, 2007). With this maxim in mind, the time may now have come for increased democratic oversight of increasingly unconventional, and ever-more distributionally sensitive, monetary policy. In tandem with an existing proposal for giving a renewed second chamber a supervisory role over the territorial constitution of the UK (Gallagher, 2014: 35), there is scope to use a reformed House of Lords to break open the nexus of political and financial interest that shapes the relationship between the Treasury and Threadneedle Street. The SNP's initial proposal for regional representation on the Monetary Policy Committee was an intriguing gesture in this direction (Hind, 2014). A more plausible way of starting down the road of monetary reform could be to transfer important elements in the oversight of monetary policy to a reformed second chamber. Through a variety of indirect means - the confirmation of appointments; the holding of committee hearings; and a co-decision role in the formation of the Treasury mandate for Bank activity - the second chamber could become a forum for challenging the regional and distributional consequences of monetary policy and evaluating its intersection with fiscal and regulatory decisions made in the Commons. This parliamentary role might be reinforced by giving the heads of new regional investment banks, proposed by Labour and a range of civil society organisations, a privileged role in the Monetary Policy Committee (MPC) process. This has long been the case for the *Bundesbank* and the Federal Reserve (Goodhart: 2000, 229-30).

The attractions of both of these approaches is that they would allow flexible coalitions of interest to form between different regional and national representatives in the UK in the formation of policy affecting all parts of the state. This could supplement, or even revive, the hollowed-out institutions of regional business lobbies, trade unions and political parties, which currently offer such poor constraints on the power of finance capital to dictate the conditions of economic life. Attempting



simply to disaggregate the misleading conceptions of national economic interest peddled by the City into smaller, equally misleading aggregates marked ‘Scotland’ and ‘rUK’ seems like an inefficient way of rectifying regional and distributional imbalances in the UK economy. It is northern England, northern Ireland and Wales, not Scotland, which lag behind most visibly on most indicators of regional economic performance (ONS, 2013); and Scotland itself contains significant disparities between the oil- and finance-rich east and the postindustrial west (National Statistics Scotland, 2013). Legitimate affection for national communities should not predominate over broader communities of economic interest within the UK’s fiscal and monetary union. Worthwhile constitutional reform should make room for both.

Fitting British society back together with British democracy would be a task for many hands; as Dan Hind has rather caustically observed, individual proposals for reform amount to ‘yet more sales pitches in a culture that does not lack them’ (Hind, 2012: 61). The purpose of these closing remarks is not, therefore to issue recommendations, but to suggest instead that reform could proceed along a fundamentally different logic to that proposed by the SNP, while still comprehending the political and intellectual strengths of the nationalist argument. There is a very strong case for greater pluralism and openness in the governing arrangements of the United Kingdom, and reason to believe that this could have a real impact on distributional justice and economic performance. But the supercharged version of regional development policy favoured by the SNP cannot provide the sole answer to the deep problems of power and wealth this country faces. If the party is genuinely interested in Scotland becoming a ‘progressive beacon’ for the rest of Britain, it will work with others to help devise a durable constitutional settlement that shifts the balance of economic power in these islands. If not, the SNP’s continued dominance of Scottish politics is likely to prove more of a curse than a blessing.

## Notes

1. The normative questions of whether the UK should exist at all, or whether it should have a predominantly capitalist economic system, lie beyond the scope of this paper.
2. Note the difference between Neil MacCormick and the Chicago Professor of Political Science John P. McCormick, whose work on Habermas I am referencing here.

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The  
University  
Of  
Sheffield.

Sheffield Political Economy Research Institute  
Interdisciplinary Centre of the Social Sciences  
219 Portobello  
Sheffield S1 4DP

T: +44 (0)114 222 8346  
E: [speri@sheffield.ac.uk](mailto:speri@sheffield.ac.uk)