



Suddenly we are in the middle of a constitutional crisis.

On Monday (9 Jan) **David Cameron** demanded that Scottish First Minister Alex Salmond hold **a snap referendum on Scottish independence.**

The following day Con-Dem Scottish Secretary Michael Moore announced that the **referendum would be under UK jurisdiction**, legally binding and solely for and against independence.

At first sight these challenges to the SNP government **may appear both strange and provocative**. They are certainly fateful.

But there is an explanation. It can be found in a little-noticed event which occurred in a committee room of the Scottish Parliament just 10 days before Christmas.

The SNP majority on the Scotland Bill committee recommended rejection of the Bill, which is now going through its final stages at Westminster.

Their recommendation is due for debate in the Scottish Parliament early in 2012. The SNP majority will almost certainly ensure that the Bill's rejection is approved.

This would immediately **kill off the Westminster Parliament's Scotland Bill** given the convention that no legislation specifically affecting Scotland be passed in London against the wishes of the Scottish Parliament.

Cameron's intervention is an attempt to pre-empt this decision and to try to enforce his own agenda.

Politically there is a great deal at stake.



The Scotland Bill broadly implements the recommendations of the **Calman Commission on Scottish devolution** . Set up by the Scottish Parliament in 2008, its remit was to examine **how far additional powers were required** . It reported in 2009.

At the time the **SNP** saw the Calman Commission, no doubt with an element of truth, as an attempt to head off rising support for the SNP and for Scottish independence. Though heading a minority government in Scotland, the SNP did not at that stage have a parliamentary majority and could not stop the establishment of the commission.

Since then the stakes have been raised.

The SNP won an absolute majority of seats in the May 2011 elections. One of its election pledges was to hold a referendum on independence in the second half of its four-year term in 2014-15. **Currently**

support for independence is running at about 35 per cent.

This is clearly not enough for a victory.

This is the political context for the SNP rejection of the Scotland Bill. If passed into law it might well **satisfy some calls for greater powers** and further **diminish** support for **independence**.

In rejecting the Bill the SNP was effectively preparing a new line of defence - a demand for devolution of powers just short of independence, what is called **Devo Max**.



The SNP's stated objection to the Scotland Bill, as outlined in the committee's majority report, is that it does not give the Scottish Parliament sufficient immediate powers to address issues of economic growth. To do this, it argues, the Scottish Parliament needs what it describes as "full fiscal autonomy" - control over all taxes.

The SNP plan was, and probably still is, for the option of fiscal autonomy to appear on the ballot paper alongside independence.

Salmon's calculation seems to be that that it would be this "compromise" position of Devo Max that would come out top.

This would then leave the Westminster government facing a quandary. Scottish referenda have no legally binding force on the Westminster government. But to reject the will of Scottish people and refuse fiscal autonomy would be just the thing to **galvanise support for the SNP and full independence in the 2015 Scottish elections**.

This is why Cameron acted as he did.

So what should be the position of the left? The biggest problem here is that there is currently only **limited understanding of the economic and political issues at stake.**

It is therefore important to look in a **bit more detail at the relative merits of "full fiscal autonomy"** and the proposals of the **Scotland Bill** - a piece of legislation which, as the SNP will no doubt stress, is being piloted through Westminster by a Conservative-dominated coalition.

The Scotland Bill's proposals are in fact virtually identical to those outlined in the Labour government's Scotland Bill white paper in 2009 and of the Calman Commission itself.

The main change has been to **slightly increase the borrowing limits** and to give the Scottish Parliament powers to issue bonds within "prudential" limits which Scotland could afford to repay out of taxation over a 10-year period.

The essence of the Bill's new funding proposal is that UK-levied income tax in Scotland be reduced by 10p in the pound and that the Scottish Parliament would gain powers to levy income tax up to or exceeding 10p in the pound. At the same time the block grant from central government to Scotland would be reduced by the exact equivalent of 10p-in-the-pound tax yield.

So the Scottish Parliament would have the freedom to increase its income through its own taxation powers - or to reduce it. As the 2010 white paper put it, "spending decisions in Scotland will have proper consequences for taxation in Scotland" both at the basic and higher tax bands. The Bill would also devolve two relatively minor taxes - on landfill and the stamp duty on land sales.

But probably the **most important aspect** of the Scotland Bill is **what it does not change.** It

retains the existing principles for the overall allocation of **funding**

. Under the

Barnett formula

this still gives Scotland roughly

17 per cent more per head

than the UK average. Income from Westminster is guaranteed to remain at this level whether Scotland increases its internal income tax levy or not.

Imperfect though it is, particularly in terms of its impact on some English regions, this block grant allocation still reflects the social democratic principle of the 1960s and '70s whereby central government sought to distribute income across Britain to compensate for relative levels of poverty, ill-health and unemployment.

So what of Devo Max?



It would give the Scottish government **power over all taxes**. The block grant would end.

Scotland would gain control over corporation tax, national insurance, the ability to determine income tax bands, VAT and other purchase taxes plus the petroleum revenue tax from the Scottish sector of the North Sea.

Would this be enough to cover all existing public expenditure? Probably - just. Petroleum revenue tax varies greatly from year to year and is set to decline in the long term as oil volumes decrease. In 2007-8 there would have been a small deficit, in 2008-9 a surplus and in 2009-10 a

slightly bigger deficit. So currently in good years there would be just enough to meet existing expenditure, but little or nothing over.

How, then, would fiscal autonomy promote **economic growth**? The argument appears to be that by **reducing corporation tax** - and possibly the upper band of income tax - Scotland would be able to attract more companies to headquarter themselves in Scotland along with more "high net worth individuals."

Government **redistribution of income at British level** would be replaced by an ability to manipulate market forces. Effectively this would pit it **against other parts of Britain**.

The minority report of the Scottish Parliament committee roundly condemns this. It "was absolutely opposed to allowing the Scottish government to make Scotland a tax haven for businesses to avoid paying corporation tax that they would otherwise pay to support public services across the whole of the UK."

It also claimed the real objective of control over tax rates at higher levels was "to allow top rate taxpayers to avoid income tax by claiming to reside in Scotland." The SNP would dispute this.

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