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## ANALYSIS OF THE CAUSES AND RESULTS OF THE REFERENDUM ON THE SECESSION OF SCOTLAND FROM THE UK

*The article deals with the separatist aspirations of Scotland, which resulted in the referendum held in 2014. Independence would bring many advantages, but it is also associated with many risks. Separatists saw particular benefits in the economic level increase of the independent state. For deeper analysis of the economic functioning of Scotland as an independent state one would need to take into account a number of risks, in particular, temporary exclusion from the European Union membership and the associated losses, possible introduction of a new national currency with the related uncertainties etc. An important factor for the referendum was also the future of oil production on the coast of Scotland and revenues from its extraction. Since the voters in Scotland decided to vote for the retention in the United Kingdom, we also analyse the causes of referendum failure.*

**Keywords:** Scotland; referendum; positives and negatives of separatist movements.

**JEL classification:** H77; I30.

## Людмила Ліпкова, Мартін Греш, Любіца Харакалова АНАЛІЗ ПРИЧИН ТА РЕЗУЛЬТАТІВ РЕФЕРЕНДУМУ ЩОДО НЕЗАЛЕЖНОСТІ ШОТЛАНДІЇ

*У статті детально розглянуто сепаратистські настрої в Шотландії, результатом яких стало проведення референдуму в 2014 році. Отримання незалежності пов'язане як з багатьма перевагами, так і з множиною ризиків. У даному випадку сепаратисти вбачали головну перевагу в потенційному підвищенні економічного рівня нової країни. Однак при глибокому аналізі економічного життя Шотландії як окремої держави також необхідно враховувати і низку ризиків, зокрема, тимчасове виключення з Євросоюзу та пов'язані з цим витрати та втрати, можливе введення власної валюти тощо. Окремим важливим фактором у даному контексті є нафтовидобуток на узбережжі Шотландії та прибутки від нього. Оскільки більшість громадян Шотландії проголосували на невідокремлення, також проаналізовано причини, за яких референдум провалився.*

**Ключові слова:** Шотландія; референдум; позитивні та негативні фактори сепаратистських рухів.

**Рис. 2. Табл. 2. Літ. 19.**

## Людмила Липкова, Мартин Греш, Любича Харакалова АНАЛИЗ ПРИЧИН И РЕЗУЛЬТАТОВ РЕФЕРЕНДУМА О НЕЗАВИСИМОСТИ ШОТЛАНДИИ

*В статье детально рассмотрены сепаратистские настроения в Шотландии, результатом которых стало проведение референдума в 2014 году. Обретение независимости связано как со многими преимуществами, так и с множеством рисков. В данном случае сепаратисты усматривали главное преимущество в потенциальном повышении экономического уровня новой страны. Однако при более глубоком анализе экономической жизни Шотландии как отдельного государства также необходимо учитывать и ряд рисков, в частности, временное исключение из Евросоюза и связанные с этим затраты и потери, возможное введение собственной валюты и т.п. Отдельным важным фактором в данном контексте является нефтепроизводство на побережье Шотландии и доходы от него. Поскольку большинство граждан Шотландии проголосовали за неотделение, также проанализированы причины, по которым референдум провалился.*

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*Ключевые слова:* Шотландия; референдум; позитивные и негативные факторы сепаратистских движений.

**Introduction.** Separatism is a historical phenomenon, manifested especially in multinational states. Economic development is seldom effective in small economies, larger political entities usually shape the history benefitting from the economies of scale and integrating ethnic minorities. Yet we often meet with separatist tendencies in economically developed countries, but also in developing countries. Omitting political reasons, separatist tendencies are often motivated economically. Some ethnic groups are convinced, often giving exact numbers, on the cost of losing in integration with other nations. The issue of separatism may be found in the works by many world authors, such as A.D. Smith (1979); C.H. Williams (1980); A. Aughley (2001); A.W. Orridge and C.H. Williams (1982) etc. In particular, S.L. Greer (2007) studied the problem of separatism in Scotland and Catalonia.

There are only few ethnically homogeneous states in the world. Fixing the borders generally leads to the fact that particular border areas are inhabited by nations living in neighboring countries. Furthermore, in the world we find many states where two nations and more nations live together. In some countries, nations possess certain degree of autonomy in its various legal forms (Russian Federation, the United Kingdom, Belgium, Canada, Spain etc.).

In some countries, a part of population that differs from the majority, shows the demand for independence. Usually, these requirements are denied by central government due to the fear of disruption of the territorial integrity of state and the weakening of its economic and security potential. Requirements for a referendum on the secession of an area from the initial state have been articulated in the recent past in some countries. Recall the example of Canada and the Province of Quebec, where in 1995 a referendum on independence was held. Two weeks before the referendum polls indicated clearly the supporters of secession as winners. However, the supporters of the joint state defeated the separatists, who only got 49.4% (The Quebec referendum). Efforts to obtain autonomy are increasing in Spain and its provinces – Catalonia and the Basque. On November 9, 2014, Catalanian government announced a referendum on independence, which the central Spanish government declared unconstitutional. Finally, only poll was held on the promotion of Catalanian independence, which also did not reach 50% of the population (Catalonia vote 80% back independent officials, 2014). However, interested citizens overwhelmingly support the independence of Catalonia. Separatist tendencies are less likely to occur in Belgium – Flanders, Germany – Bavaria, and Venetia in Italy. Attempts to divide the nation states in Europe are often described as the process of "balkanization". The current status quo of the former Yugoslavia is considered generally as a positive phenomenon.

On September 18, 2014, Scottish referendum on the secession from the United Kingdom was held. The referendum was attended by 85% of the registered voters, of which, despite the polls that indicated the victory of separatists, 55.3% voted in favor of remaining in the union with the UK (Scottish independent referendum – results, 2014). The citizens of Scotland decided to express their opposition to become independent since the risks associated with independence outweighed its benefits.

**Scotland as part of the United Kingdom.** Scotland represents one of the four parts of the United Kingdom of Great Britain and Northern Ireland. Based on the enactment of the Act on Union 04/29/1707 Scotland was united with Britain (Kronika l'udstva, 2005). The United Kingdom has the area of 244,820 km<sup>2</sup>, where 62 mln people live. The territory of Scotland represent 78,000 km<sup>2</sup>, which is about 32% of the national territory, with 5.32 mln people, which is about 8.5% of the total population (Office for National Statistics UK, 2014).

On September 18, 2014, the referendum was held in Scotland, where people had their voices heard on independence from the United Kingdom. The central government in London has given its consent to this referendum. It was a unique referendum because of three aspects: the central government in London did not have any major objections to eventual secession of Scotland from the UK. The independence required consent of an absolute majority. The question in the referendum was: Should Scotland be an independent state? Central government in London determined the questions to be asked in a referendum. Are you for or against independence? The third option to extend the powers of Scottish Parliament and local government has been excluded. Although the central government agreed to a referendum, the possible secession of Scotland from the UK was not accepted positively. Representative of the separatists in the Scotland, former Scottish Premier Alexander Solmond presented some plans after possible independence. Separatists planned to use, after gaining independence, the British pound as a legal tender and the head of state would remain Queen Elizabeth II.

*Table 1. Share of gross value added (GVA), by sector, 2011, %*

	England	Wales	Scotland	Northern Ireland
Agric., forestry & fishing	0.7	0.6	0.9	1.3
Mining & quarrying, electric, water, waste	2.5	4.2	7.2	2.1
Manufacturing	10.2	16.8	11.3	13.0
Construction	6.4	7.1	6.9	6.9
Retail, transport, accom. & food	18.6	17.0	17.9	20.3
Info. and comms	7.2	2.8	3.0	3.1
Finance & insurance	9.1	4.3	7.1	5.0
Real estate	10.9	11.0	9.6	8.8
Professional & admin. services	12.4	6.9	10.4	6.9
Public admin., education & healthcare	18.5	26.3	22.2	29.3
Arts, entertainment & recreation, other	3.5	3.1	3.5	3.3

Source: Office for National Statistics UK.

Scotland explained its efforts on secession also by differences in political culture from England, Wales and Northern Ireland. Most Scots are against economic neo-liberalism. Scots are the proponents of modern social democracy of a European type, e.g. the Norwegian welfare state type. Central British government issues annually from public finances 8,529 GBP per capita, while *the Scottish Government annually issues* 11,152 GBP, which is 30% more (Office for National Statistics UK, 2014). Scots are also predominantly pacifists, they want to get rid of nuclear weapons on their territory.

The Scottish Government elaborated a 600-page document on the independence of Scotland (Scotland's Future: Your Guide to an Independent Scotland, 2013).

Many issues, however, are unclear – from the use of a common currency – the British one, through the banking system regulation to conducting foreign trade of Scotland as an independent state.

Key areas of the referendum on Scottish independence focused on the future of currency of independent Scotland, on the extent of oil and natural gas reserves in the North Sea, on possible job losses after the cancellation of some central institutions and military bases, on possible tax increases, on the issue of immigration and border control, defense issues, on the social system – can it be so generous as the supporters of independence promise? An important issue was membership in the European Union – what are the conditions under which Scotland can become a member again?

**Economic benefits and risks of independence of Scotland from the United Kingdom.** The efforts of Scotland population to gain independence from the UK are motivated by economic interests.

On the territory belonging to Scotland – the North Sea – there are significant oil deposits. Besides, the country has, given its position, the possibility to benefit from renewable energy sources, especially wind. Economic activities associated with information technology, i.e. sectors that could bring new, well-paying jobs, play increasingly important role in the economy of Scotland.

Had Scotland decided to become independent from Great Britain, it would rank among the richest states in the world. Alexander Solmond has said before the referendum that Scotland 'catapults into the club of the rich and happy small nations such as the Norwegians, Finns and Swedes.

*Table 2. GDP per capita, GBP*

United Kingdom without extractive industries	22,336
United Kingdom after including extractive industries	20,873
Scotland without extractive industries	20,571
Scotland after including for extractive industries	26,424

Source: Office for National Statistics UK.

After the independence, 90% of income from the sale of oil and gas would have been allocated in Scotland. 42 bln barrels of oil has been so far extracted from the reserves in the North Sea, in the territorial waters of Scotland. Geologically explored reserves are estimated at 24 bln barrels. The fall in oil prices at world markets threatens among others producers and oil extraction in Scotland. Because of the decline in oil prices, mining in the North Sea declines and Scottish oil industry is, from the beginning of 2015, on the verge of collapse. Mining in the North Sea is technically demanding, requiring additional investment. In case the oil price is below 70 USD per barrel for more than a year, Scottish mining companies would have to abolish many planned investments (Statistics of Government revenues from UK oil and gas production, 2014). Oil production in Scotland from 2014 significantly decreased from 2.06 mln barrels per day to 0.85 mln barrels per day. Whiskey is the second most important export good after oil and gas. The volume of exports of whiskey continues to grow. It represents a quarter of exports of food and agricultural commodities. Scotland is the world's largest exporter of malt whiskey with the annual volume of exports (in 2013) at 4 bln GBP (The economic impact of Scotch whiskey production in UK, 2014).

One of the major economic advantages of the current Scotland – profits from oil extraction, represents also one of the risks in the future. The cost of extraction increase and profits decline.

After the eventual independence, Scotland would have hit the distrust of investors. Companies having accounts in Scotland would transfer their accounts after independence to banks in the United Kingdom. Famous Scottish investors were against the country became independent from Great Britain. The uncertainty in the financial sector and capital outflows could cause an increase in unemployment.

Scotland would have to apply for membership in the European Union after the possible independence. Spain was against automatic membership of Scotland in the European Union. Spain insisted on the accession process for Scotland, as if it was never a part of the European Union. European Commission President Jose Manuel Barroso said that because Spain (and also Slovakia) refused to recognize Kosovo, it would be difficult if not impossible for all Member States of the European Union to agree to a new Member State of the Union established by separating from one of the current Member States. European Commission expressed its own opinion in the context of the referendum on Scottish independence: if a part of a Member State becomes an independent state, Union's treaties shall cease to apply to that state. An independent Scotland would cease to be part of the European Union and would have to negotiate with the EU on its accession. It would become a member of the Union only through a change in the Treaty on European Union. Scotland aimed to make the request for application of rebates for payments to the budget of the European Union. All Member States of the European Union, the European Parliament and the European Commission would have had to agree with possible new position of Scotland. Similarly, Scotland did not plan to join the Schengen area. Therefore, it can be expected that negotiations for accession to the European Union would take 2–3 years for an independent Scotland.

1.6 mln people voted for independence (Scottish independent referendum – results, 2014). Discussion must follow of what additional powers Scotland can gain. Failed referendum means there will be no addressing issues of new Scottish currency or disputes over the division of debts. It is in favor of British economy and the markets. Constitutional reform should be held in the United Kingdom.

Scotland benefits from the common market, and from trade agreements that Britain has concluded with other countries. Independent Scotland would have these trade agreements likely to re-negotiate. In case of the creation of new independent Scottish currency, it would have lower value than the pound sterling. Interest rates would increase. Citizens would have higher cost of debts payments.

Following the publication of opinion polls on the likely victory of the separatists, representatives of large companies have begun to express concerns and began promoting the country's unity. Royal Bank of Scotland and some other companies have declared that in the case of independence they move headquarters to England. Similarly, producers of Scotch whiskey, the second most important Scottish article, after exports of oil and gas began to show concern for the future of their exports to the markets of the Member States of the European Union.

Following the publication of the results of sociological opinion polls before the referendum, which predicted the victory of the separatists, this fact reflected in the

exchange rate of the pound sterling. It fell against the US dollar. Investors reacted to the possibility of secession of Scotland from the UK with slowdown in their investment activities. There was a decrease in share values of some of Scottish firms such as Standard Life, Royal Bank of Scotland, Scottish Widows and more.

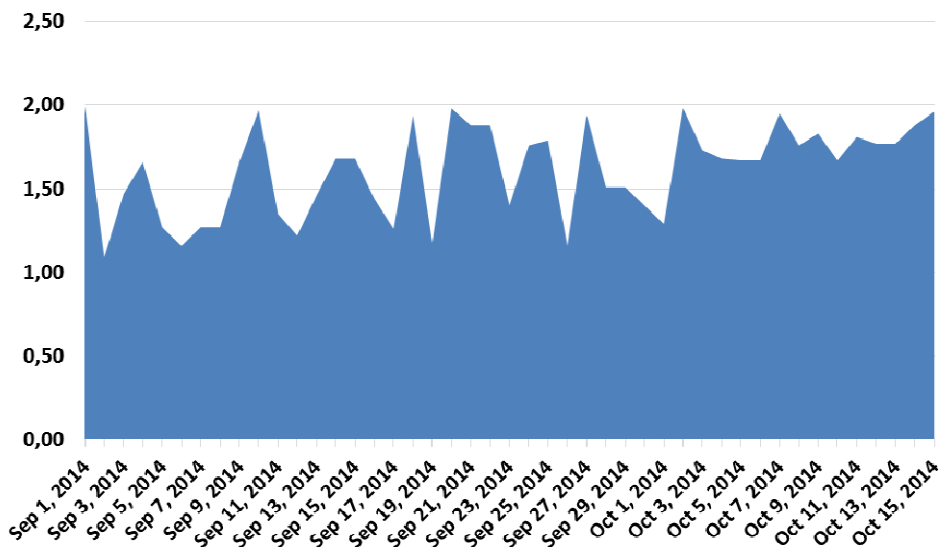


Figure 1. Exchange rate GBP/USD from September 1, 2014 to October 15, 2014  
(www.oanda.com)

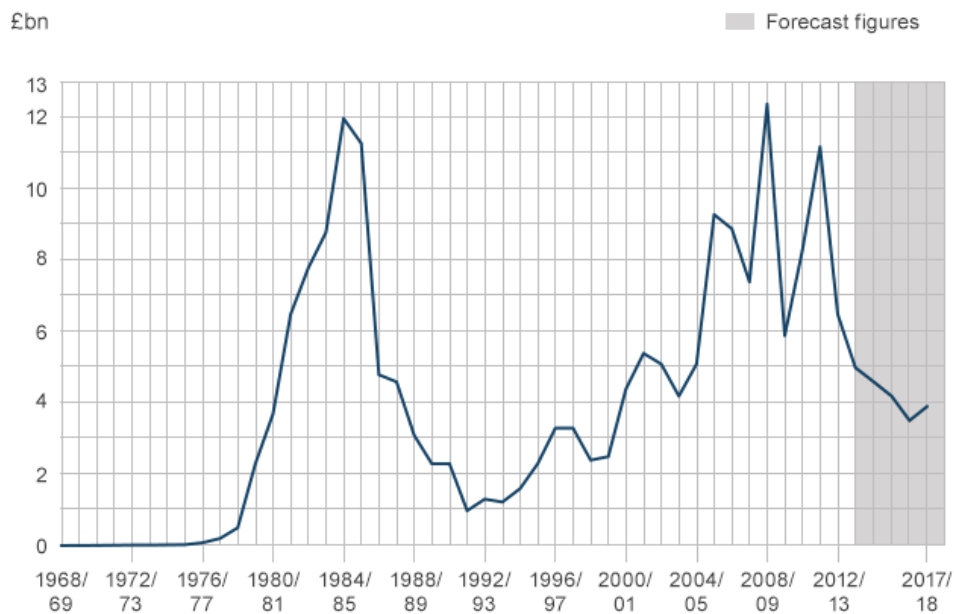


Figure 2. North Sea oil and gas revenues since 1968, bln GBP  
(BBC News, 24 February 2014)



Britain must begin to fulfill the promises of strengthening Scottish autonomy even after unsuccessful referendum. There will be no need to address the issue of membership of Scotland in the European Union. Spanish Prime Minister Mariano Rajoy said regarding Scottish referendum that the European Union was created to connect states and not divide (Scottish or Catalan vote "torpedoes" EU, 2014) the majority of existing and well-functioning European Union Member States.

**Relations adjustments with the United Kingdom in the case of independence.** In the event supporters of independence of Scotland would have been victorious, there would be a transition period began, culminating in the declaration of independence on March 24, 2016. Meanwhile, the Scottish Government and the central government in London would conclude an agreement on the division of assets and debts. There would be a creation of the Supreme Court of Scotland and Scotland would begin to prepare a written constitution. The Constitution in written form in the UK does not exist. Scotland would engage in negotiations on its membership in the European Union and NATO. Even a few years after a possible declaration of independence, there would remain British military bases and submarines with nuclear warheads in the territory of Scotland. Scotland would conclude a treaty with the United Kingdom concerning this issue.

The central government in London rejected the request of Scotland to use common currency after the possible independence before the referendum. In this respect, Scotland provisionally refused to participate in an aliquot part of British debt, which should be about 93 bln pounds sterling, i.e. about 8.3% of the UK debt (What will Scotland's share of national debt be and how will it repay it, 2014).

When polls showed an increase of preferences for separatists, British Prime Minister David Cameron has announced details regarding the recognition of greater decision-making authority for Scotland. Similarly, Finance Minister George Osborne promised Scotland the implementation steps towards greater autonomy in taxation, social policy and budget. Scotland received from the central government in London an offer of maximum autonomy to the edge of federalization. Since the referendum was decisively victorious for the unionists, there should be changes the central government promised to Scotland. Scotland will be given extensive powers in finance, taxation and social affairs. Negotiations to extend powers of the Scottish Parliament began the day after the announcement of the referendum results.

Scotland had the opportunity to access independently international capital markets. It has the power to issue its own bonds since 2015. It may independently borrow at the international markets 2.2 bln GBP to finance infrastructure and healthcare projects. United Kingdom, however, does not guarantee bonds lent to Scotland. Risk of separate entrance of Scotland to international capital markets, however, may result in higher interest rates than the interest rates on British bonds by which Scotland was gaining financial resources at international markets.

The outcome of the referendum, which is in favor of Scottish residence in union with the rest of the UK, however, did not deter the central government in London from the implementation of its promises to the people of Scotland and that it will increase the powers of Scottish Government. Prime Minister David Cameron presented the document regarding Scottish Parliament new powers, which contains 44 clauses to increase the decision power of Scotland (Cameron, 2015). In accor-

dance with promises, British government at the beginning of 2015 began a historic state administration redistribution in favor of Scotland. Scotland will have the power, under the government bill, to affect to some extent the electoral system and the rules for the regional parliament and other government bodies.

**Conclusion.** With the economic development of countries, there are deepening integration efforts, which mean the creation of formal integration groupings. An example is the integration of European states in the European Union; the USA, Canada and Mexico under NAFTA; and many others realized integration groupings. At the present stage of development of science and technology there cannot be effective functioning of small economic units. Nevertheless, in many economically developed countries there are growing separatist tendencies. If we only examine the economics of separatist efforts, the generally held notion is increasing the wealth for individuals and country as a whole. In many cases, voters in referendums consider the benefits and risks associated with secession and rationally elect to remain in a larger economic unit. An example is the case of Scotland, where the residents decided to remain in the union with the other parts of the United Kingdom. Risks from becoming independent prevailed over the potential gains of independence. In addition, the promise of central London government to increase the degree of autonomy of Scotland have played a role in deciding. In many European countries, economic and social crises are recorded that lead the population ethnically different from majority population to separatist tendencies. In the countries moving towards openness, co-operation and flourishing will any form of secession, no matter how peaceful and civilized, bring negative consequences for which we all will pay (Otro peligro para Europa, 2011).

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