Could Scotland’s recent bid for independence sway voters’ behaviour in the forthcoming EU Referendum? What would be the economic implications of a yes vote for the United Kingdom?

By Ewan Laing
First Year, Runner Up

The United Kingdom’s membership of the European Union (EU) is likely to come into question in the near future. It can be argued that the results of this referendum may be influenced by the recent Scottish bid for independence. The economic impacts of the United Kingdom (UK) leaving the EU, as a result of the referendum, will be examined.

The debate about the forthcoming EU referendum has to engage people and have a broad discussion. It must not be stopped by debates about single issues such as immigration. The Scottish National Party (SNP) is judged to have lost the Scottish independence vote because of lack of economic planning. It is shown “the Yes campaign was a passive punch bag. It had no defence to the economic attacks launched by the British state. In other words there was no economic narrative.”

The failure by the SNP to address the issue of future currency was a decisive reason in the loss. This is why any debate about the UK’s membership to the EU must address all issues. The economic consequence of leaving is therefore a key section in the referendum discussion.

The psychology of voting can be argued to be an influence in the final decision. Voting yes is a more positive choice and therefore the arguments supporting the Yes vote are more positive. As a result of a more positive approach it might sway voters to choose the seemingly brighter outcome. In the EU referendum vote the UKIP party might “grab the flag” and use it as the image of voting yes, which is similar to the policy used by the SNP. The No campaign in Scotland had to then use purple as their colour, which is not a strong colour, and a cross, creating this negative attitude to surround their campaign. This negative appeal could then have pushed voters away from the No campaign.

The Scottish independence vote should not impact on voters’ opinion on the referendum, because they are two fundamentally different situations. Scotland and the UK share a lot of things and it would have been difficult to split them up. Splitting up such things as the NHS, Army, Nuclear weapons between the independent Scotland and the remaining UK would have been hard. Although leaving the EU is hard and there is no previous precedent, it is easier than breaking apart the UK. Also “the future financing of the EU has been planned on the basis of continuing UK membership and there would almost certainly be long and complicated negotiations to settle the

To be able to understand the implications of leaving the EU, we have to understand the history of the organisation. The EU's origins are from within the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (Eurotom). These Communities were created post World War 2 with the aim to “make war unthinkable and materially impossible”\(^3\). The aim of the EEC was to create and bring about economic integration, including a common market, between the 6 founding members. The founding members were: Belgium; France; Italy; Luxemburg, The Netherlands and West Germany. In 1993 it became the European Union (EU) and this was to represent the fact it was now a larger organisation that dealt with a large range of issues. The EU now contains 7 institutions, which are: the European Commission; the Council of the European Union; the European Council; the Council of the European Union; the European Central Bank, the Court of Auditors and the European Parliament. It is widely acknowledged that the UK was vitally important and helpful in the building of the EU. This is shown by “It is felt that the EU would be weaker if the UK was to leave. ... The EU is stronger today as a result of “Britain’s tremendous contribution to it”\(^4\)

The Scottish referendum was the question of whether or not Scotland should remain in the Union with the rest of the United Kingdom and remain under the control of Westminster. Both sides of the argument were about being Scottish, the No vote was just having the national identity within the larger union. The EU referendum is a more economically based issue and less about national identity.

If the Scottish National Party had won independence from the United Kingdom then the plan was to get ratified as a country and join the EU. This can be shown by the line “The SNP wants Scotland to negotiate its own relationship with the European Union as an independent country”\(^5\). This view can again be supported by “it would be our intention to negotiate the terms of an independent Scotland's continuing membership of the EU”\(^6\) which Nicola Sturgeon said in a speech in Scottish Parliament. As shown in the table this view was supported by the public when asked “If there was a referendum held tomorrow on whether the UK should remain a member of the European Union, how would you be most likely to vote?”\(^7\)

\(^2\) Miller V, Leaving the EU, *Current Politics and Economics of Europe*, Vol 24, No.3/4, pp3
\(^3\) European Union. Available at [http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm](http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm) (Accessed 20th January 2015)
\(^4\) Miller V, Leaving the EU, *Current Politics and Economics of Europe*, Vol 24, No.3/4, pp8
\(^6\) Miller V, Leaving the EU, *Current Politics and Economics of Europe*, Vol 24, No.3/4, pp3
The Scottish independence economic model was heavily dependent on North Sea Oil. In the current economic climate and the nosedive that oil prices have seen in recent months, an independent Scotland could already be facing financial difficulties. This can be supported by what is occurring in Greenland, in regards for their bid for independence. 8

During the time period surrounding the referendum there is likely to be huge uncertainty in the UK markets. This view can be supported by an analysis of the markets up to and after the Scottish vote. “The FTSE 100 index started the week by falling back sharply and although it recovered some of the lost ground during the afternoon fears that Scotland’s voters may opt for independence in next week’s referendum has hit investor confidence.” 9 The UK economy will be affected by this uncertainty as investors will not know if the UK economy is going to continue to be a safe economy to invest into. This could lead to depreciation in the Pound Sterling as investors sell their stock of Pounds, due to the large amounts of uncertainty that surrounds the situation and the speculation that is occurring. A huge depreciation of the Pound could lead to a run on the banks in an extreme situation, but it would hurt consumer and investor confidence in the UK economy. Such an event would lead to a reduction in both levels of investment and consumption, which would lead to a decrease in output and higher levels of unemployment. This is because GDP (Y) is composed of Consumption (C), Investment (I), Government Spending (G) and Net Exports (X-M). So as a result if one or more of the components was to change then national GDP would also change.

If the UK was to leave the European Union it would have to choose between joining the European Economic Area (EEA), which is an organisation that provides the free movement of persons, goods, services and capital throughout the EU, the European Free Trade Association (EFTA), or entering a period of isolation from Europe. If the UK joined the EEA after voting yes, then it would be in a situation where it no longer has control over the policies and laws that are made. However the economic policies and law that the EU set and create would continue to govern the UK. Trade with the EU and the quality of UK goods would also have to remain to European standard. This is similar to what could have happened in Scotland had the yes vote been successful, because the SNP had planned to continue using the Pound Sterling, but would have had no say on the economic policies due to the independence from Westminster. This therefore means in the case of a yes vote the UK would have another decision to make, which might need another referendum.

If the result of the referendum was a yes vote, then the UK would be leaving the world’s largest single market. The EU has a combined GDP of around £11 trillion. The economic impact of leaving this huge single market is that UK businesses would lose access to the trade platform. Leaving the EU would mean the loss of free trade with the other members of the world’s largest single market. It would also mean that the

---

UK businesses would have to start paying tariffs and custom duties. The additional tariffs would impact on the cost of UK exports to the EU. This would overall lead to a decrease in demand in the UK export market. This decrease in the UK export market would then reduce the UK’s GDP. As seen "Exports to other EU countries account for 51% of the UK’s exports of goods and services, and is worth £200 billion"\(^\text{10}\) this shows the huge loss of trade that the UK would face if it was to vote yes, because the UK would lose access to this market. As a comparison "the US, by contrast, constitutes 13% of UK exports."\(^\text{11}\) The economic consequence of leaving the EU that the UK would face therefore is this large loss in exports and the reduction in national income that occur as a result.

"The Government’s Department of Business, Innovation & Skills estimates that EU Member States trade twice as much with each other as a result of the single market"\(^\text{12}\) The department estimates that around 3.5 million jobs in Britain are in some way linked to the UK’s trade with the other countries that are part of the EU and the single market. A yes vote could then lead to an increase in unemployment as these jobs disappear. This would therefore lead to higher government spending on social security payments, which could take money away from fiscal expansion policies that the government might have tried to introduce to try and boost the economy and to stop the increase in unemployment figures. An increase in unemployment is one likely economic implication of a yes vote for the United Kingdom, because of the large number of jobs that are generated by trade within the EU.

In the event of a yes vote the UK could suffer the removal of foreign direct investment (FDI) into the UK economy. The fact that the UK is a member state of the EU and therefore inside the single market, which allows free trade, helps to attract these foreign investments to the UK shores. The UK currently is the fifth largest recipient of FDI, as of 2009, and 2nd in the EU behind France. If the UK was to leave the EU then the foreign investment would decrease in the short run, then in the long run it would stop. This is because the UK would no longer be part of the single market and consequently have a higher price to pay for its exports into the EU. This decrease in investment is shown with the movement from I\(_1\) to I\(_2\) in the graph, this decrease and the increase in withdrawals means that output in the economy moves from Y\(_1\) to Y\(_2\). This can further be shown on the IS-LM graph and how the lower levels of investment will lead to the decrease in output from Y\(_1\) to Y\(_2\). As a result of the decrease in output

there would be higher levels of unemployment in the UK, as the economy contracts. This would lead to higher levels of government spending in social security payments and also in attempts to replace the lost investment, so this would mean that the UK would be running with a budget deficit. "If the UK left EU, London would remain a financial centre, but significant numbers of businesses would migrate to EU.”\(^{13}\) This highlights the effect of losing FDI to the UK, if the yes vote won. It would also it could hurt cities around the UK if they lost this investment from FDIs. The lack of foreign direct investment is one consequence of a yes vote in the referendum.

The EU, and the members it represents, has a lot of power when dealing with multi-national corporations. The EU competition policies have dealt with strong monopolies, such as Microsoft, and tried to promote competition within the EU. In 2014 the EU established a single market in energy and this helped to control the inflation in energy prices. If the UK was to vote yes and then leave the EU then it would have to fight for itself on the world market; it would not have the same amount of power, which as a result could lead to the UK facing agreements that are unfavourable and damaging to the UK economy.

The agriculture industry would also suffer if the UK was to vote to leave the EU as it would have less access to the single market due to restrictions that would be placed on British goods. Also as a result of leaving the EU, the agricultural industry would lose a lot of funding that it received from the EU. “Many local farmers rely on these direct payments to be viable”\(^{14}\), this is the direct payments that the EU pay to help support farmers. Although the farmers could save some money by not having to conform to the expensive environmental laws set by the EU, it would not be enough to make up for the losses that would occur as a result of the Yes vote. This could lead to a decrease in the number of farmers and then food shortages could occur as a result or there could also be an increase in the price of importing food.

Expats would also be affected if the UK was to leave the EU. “Unemployed British expats are claiming more in benefits from wealthy EU countries than migrants from those nations are claiming in the UK.”\(^{15}\) Certain UK political parties claim that European migrants claim a large amount of UK benefits, when Britons abroad benefit from the same systems and “In fact, a Briton in France receives three times as much

\(^{13}\) December 2013/ January 2014, International Financial Law Review, UK lawyers call for restraint in EU membership Debate,

\(^{14}\) Miller V, Leaving the EU, Current Politics and Economics of Europe, Vol 24, No.3/4, pp128

as an unemployed French claimant in the UK."\textsuperscript{16} This therefore shows that Britain does benefit from being in the EU as its population receives support throughout Europe, as a result of membership.

One positive effect the UK would undergo should it choose to leave the EU is the savings it would generate by not paying into the EU budget. The UK pays €11.3bn to the EU budget; the UK also contributes about €4.7bn more than it receives from the EU. This therefore means if the UK was to leave the EU it would be able to spend this money in the UK in attempts to create some benefits. However it is argued that the contribution to the UK is less, because of the benefit it receives due to EU membership, as shown by “the British economy gains much more from access to European markets and contracts. UK exports to the EU were worth nearly €12bn in September alone.”\textsuperscript{17}

Overall experts are unsure what the total effects would be, as seen by V Miller saying “the implications are hard to guess, but it can be said that “the implications would be greater in areas such as agriculture, trade and employment than they would in, say, education or culture.””\textsuperscript{18} This is further supported by the quote ““Being within the single market and therefore subject to passporting, EU directives and so on, that come with that, is valuable” ”By contrast, it remains unclear what the cost of not having that is”\textsuperscript{19}.

In the end the total impact on the UK and its citizens depends “on how the UK Government of the day fills the policy gaps left by withdrawal”\textsuperscript{20}. If the government was to join the EEA then there would not actually be much change to everyday life. If the UK sought to go alone then it would come down to what policies the government introduces. This therefore makes it hard to decide what the overall economic impacts will be.

In conclusion there are a large number of economic effects of leaving the EU. There would likely be a trade deficit and removal of investment into the UK should it choose to leave the EU. However it is very hard to do cost benefit analysis of a withdrawal and as a result any economic research is based on assumptions of what government policy would be and how the government would react to leaving the EU. Scotland’s recent independence vote will sway voters, as was shown it is likely that Scotland would vote no in the EU referendum. The Scottish vote was heavily influenced by the fact that there was an economic unknown in leaving the UK, and as a result this became a key swaying factor in the vote for independence. Overall in Scotland they felt that they could maintain their national identity, without having to give up economic stability. Therefore the economic uncertainty that could arise, should the UK choose to leave the EU, coupled with Scotland’s decision to remain in the UK, because of economic

\textsuperscript{16} (21/1/2015). The Times. Available at \url{http://www.thetimes.co.uk/tto/news/politics/article4329369.ece} (Accessed 23rd January 2015)
\textsuperscript{18} Miller V, Leaving the EU, \textit{Current Politics and Economics of Europe}, Vol 24, No.3/4, pp1
\textsuperscript{20} Miller V, Leaving the EU, \textit{Current Politics and Economics of Europe}, Vol 24, No.3/4, pp1&2
reasons means that the Scottish independence vote could sway voters to the no campaign. Overall there would be economic consequences for the UK should the yes vote be successful, but ultimately it is hard to know how strong the consequences would be.

Bibliography


Nicolaides P. Leibnix Information Centre for Economics. Cost and Regulation and Impact of EU Membership and Policy Enforcement.


