



# **We belong together:**

## **The case for a United Kingdom**

Alistair Darling,  
Leader of the  
Better Together campaign

The University of Glasgow, July 2013

**bettertogether** 



# We Belong Together: The case for a United Kingdom

## Introduction

In just over a year's time the Scottish people will make a momentous choice. Do we stay in the United Kingdom, and remain partners with the countries we have been joined with for centuries, or do we leave and become a separate, independent state?

Just over a year ago I launched Better Together making a positive case while asking tough questions about independence.

As I said at our launch - there is much in Scotland and the UK today that needs to change. We need more growth, more jobs and a more prosperous Scotland. To argue, as I do, that Scotland is better within the UK is not to deny that change needs to happen. Rather, our argument is that we will have better choices open to us to make the changes we need as a strong part of the UK.

In my view, the onus is on those who want to break up the union to explain why, and why going-it-alone would be better for Scotland. But there is also an obligation on those of us who support the UK to explain the positive, principled case for staying together, because we want Scots to make a positive choice to remain part of the UK, and not merely to reject the risks and uncertainties of independence.

It is that side of the debate I want to concentrate on today. So I will not speak today about the weaknesses of the nationalist argument.

Instead I'm going to make a case for a strong Scotland in the UK. It will first be a hard-headed case. If you like, it will be a calculation of where Scotland's interests lie. Issues like jobs and security, economics and defence, or public services and pensions are critical to everyone's future. The arguments for staying in the United Kingdom to protect and secure these interests are compelling.

But important though those practical economic arguments are, they do not make the whole case. A choice to remain part of the United Kingdom is also a choice about belonging, about what our values tell us is the right thing to do. Making a positive choice for the UK is as much a matter of the heart as well as the head. So I also want to talk about how Scots belong both in Scotland and in the UK. That sense of belonging has implications for how we live and work together in the UK, and indeed for our constitution.

**“We want Scots to make a positive choice to remain part of the UK, and not merely to reject the risks and uncertainties of independence.”**

## Union and Devolution

Let me start with a word about that constitution. In setting out arguments for the UK, by showing that we are indeed better together, do not fall into the error of assuming that demands uniformity, or that union is opposed to strong and distinctive Scottish institutions. Quite the opposite. Just as we will see that Scottish identity is intimately linked with British identity, I want to make the point to you that union has always involved one variety or another of Scottish devolution.

That may not be an obvious proposition, especially to those who campaigned in recent decades for a Scottish Parliament. But take a longer historical perspective. Throughout the centuries of union between Scotland and England, there have always been important Scottish institutions reflecting our distinctiveness, as well as what we share.

First of all, remember what mattered most to Scots over three hundred years ago when the union was first formed and its terms were negotiated and set. Not the mediaeval Scottish Parliament, in which few had a voice. In those days it was the Scottish church, in which many had a place. After protracted argument, Scotland and England concluded that neither could impose its state religion on the other. Instead the union as it was agreed involved two completely independent churches.

Similarly, to assuage another powerful lobby - the faculty of advocates - the union required a separate Scottish legal system. The English and Scottish legal jurisdictions remained just about as distinct from one another as before the union. There is good reason, therefore, why 1707 is referred to as the union of the Parliaments.

But the world moves on. The role of the Church has changed. Similarly the elite rule exemplified by the 17th century powerbrokers around the Court of Session has no place in a modern democracy. It was replaced first by different forms of public administration - Scottish boards, commissions, government departments and the like. But prior to 1999 they were responsible only to the UK Parliament. The case for better scrutiny of these distinctive institutions was a key plank of the argument for devolution.

So it would be a profound mistake to think that it is only since devolution that the union has had a distinctive Scottish side. In our modern, democratic age that means a powerful Scottish Parliament and a devolved government that deals with most of Scotland's domestic affairs.

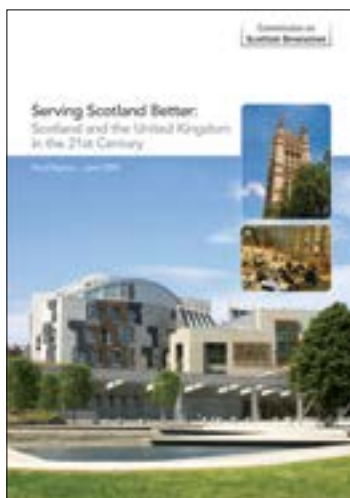
**“Union and devolution within it safeguard Scotland’s interests and preserve our identity.”**

Of course there is an alternative nationalist narrative to this – a romantic fable of how a small nation was first absorbed by its larger neighbour, and struggled to regain its identity. But just as nationalist sentiment ignores the reality of how we as Scots belong to the UK, so this childish tale ignores the reality that, for Scotland, union has always meant the preservation of a distinct Scottish identity. Historical scholars have long understood that the union of 1707 was not to be contrasted with independence. Rather there were two extremes: independence, which was no longer sustainable in Scotland’s interest, and assimilation, which would have destroyed Scotland’s identity. This is as true today as it was then – union, and devolution within it, safeguard Scotland’s interests and preserve our identity.

I’m proud to have played a part in the creation of the Scottish Parliament, and in sustaining devolution during its formative years. But we never thought that the 1998 Scotland Act made our constitutional settlement complete. That’s why as Chancellor I supported the Calman Commission, whose recommendations are now the Scotland Act 2012. They represent a very significant change, insufficiently understood.

**Box 1: Delivering further devolution**

Read more about further devolution:



**‘Serving Scotland Better: Scotland and the United Kingdom in the 21st Century’**

Final report of the Commission on Scottish Devolution, June 2009

**Scotland Act 2012**

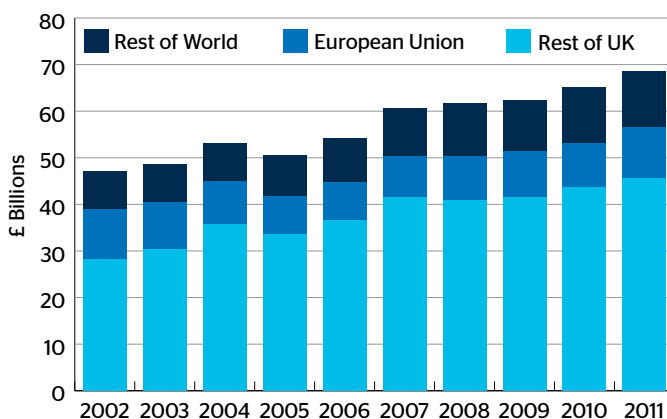
But perhaps Calman's most significant contribution was to set out an analysis of the union, which I want to explore today. They saw it as a political, economic and social union. Inside such a union, they argued for decentralisation of taxation, to enhance the accountability of the Scottish Parliament. But they also argued strongly for the principle of sharing of resources across the whole UK, to allow for equity as well as accountability. That theme of sharing is one I want to explore further, as I explain the case for continuing the union.

### The economic case for union

People are worried about economic security: their jobs, and the future for their families and children, at a time of great economic uncertainty. So, let's begin with the issue that's been central to the debate: the economy. The essence of the case for economic union is that it brings certainty at a time of insecurity, and opportunity both for Scottish businesses and individual Scots. Being part of an integrated UK economy helps us deal with risks, and share opportunities in a home market inside one of the world's largest economies.

Scotland has been part of a deep economic union for so long we take it for granted. It's hard to imagine a world without it. A world in which Scots cannot move with complete freedom to take up jobs elsewhere in the UK. In which Scottish businesses cannot buy and sell in a market so open that the Anglo-Scottish border does not matter at all to trade. We take for granted that businesses can secure capital to expand from any financial institution, regardless of the border.

**Figure 1:** Scottish exports by main destination, nominal terms (2002-2011)



Source: Scotland's Global Connections Survey 2011

**“Being part of an integrated UK economy helps us deal with risks, and share opportunities in a home market inside one of the world’s largest economies.”**

**“For our young people, being part of something bigger means bigger opportunities.”**

But it wasn't always so. Securing access to English markets was a Scottish objective as long ago as 1700. At its heart, economic union is about free trade - the movement of goods and services, people and capital resources, without hindrance, across borders to all parts of the country. I would be the last person to claim that giving markets free reign is the answer to all our social and economic problems, but under the right circumstances free trade can and does benefit buyers and sellers equally. Open UK markets, with the right regulatory and fiscal underpinning, have served Scotland well. Here, in the university of Adam Smith, we should have no difficulty in understanding the benefits that free trade inside Britain brought to Scotland. He certainly didn't: as he said in a letter to his publisher in 1760;

“... The Union was a measure from which infinite Good has been derived to this country.”

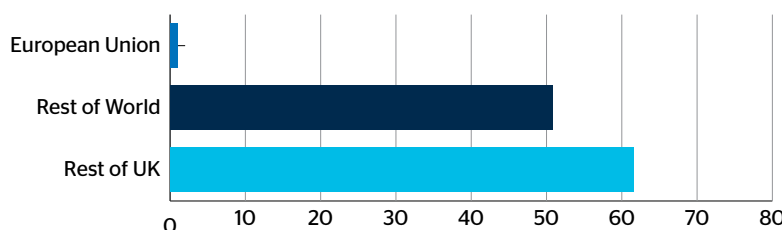
After the union, and once the Jacobite wars were over, Scotland's trade grew, Scotland's industry multiplied, and Scotland led the world in economic and industrial development. The union created the conditions for the Scottish Enlightenment, and for the flourishing of culture and literature that David Hume noted. It's no exaggeration to say that the union also made possible the breakneck Scottish commercial and then industrial developments of the 18th and 19th century. It created the conditions - as the American author Arthur Herman put it - for Scotland to create the modern world.

So it's a matter of historical fact that open UK markets brought huge benefits to Scotland. We need to understand clearly why - just as Adam Smith did. First, free trade offers access to opportunities in a much larger market than Scotland itself. Scotland's domestic market is the UK's 60 million people. More than 10 times the population of Scotland. A market for Scottish business to sell to, and attract capital from. UK capital markets which provide the finance for our new enterprises in engineering or life sciences. Scottish workers move in and out of a UK job market ten times Scotland's size, as opportunities present. Think how much that matters to our young people and to graduates of this university.

For our young people, being part of something bigger means bigger opportunities.

**“Inside the UK, Scotland is the third richest part of the UK - ahead of the whole country apart from London and the South East.”**

**Figure 2:** Increase in value of exports by destination (2002-2011)



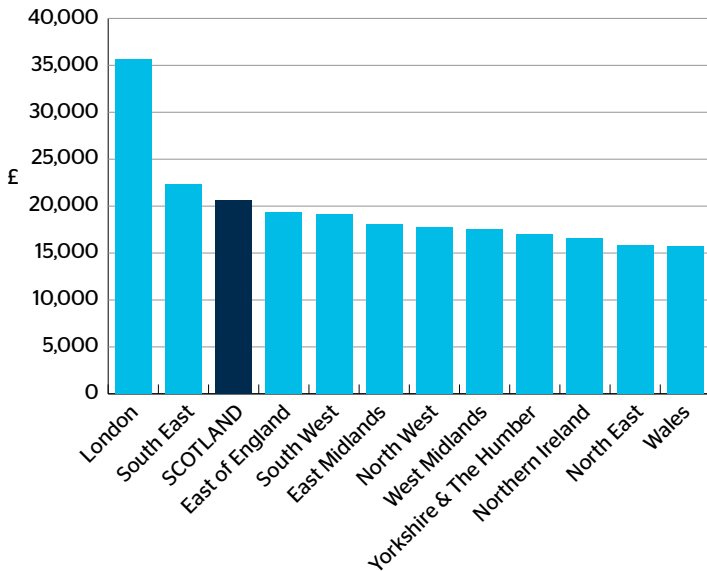
Source: Scotland's Global Connections Survey 2011

### Specialising in an open market

Equally significant, free trade in an open UK market enables Scotland, and our people, to specialise in what we are best at, or more accurately in what we are better than other people at delivering. That benefits everyone, as economists since David Ricardo and Adam Smith have understood.

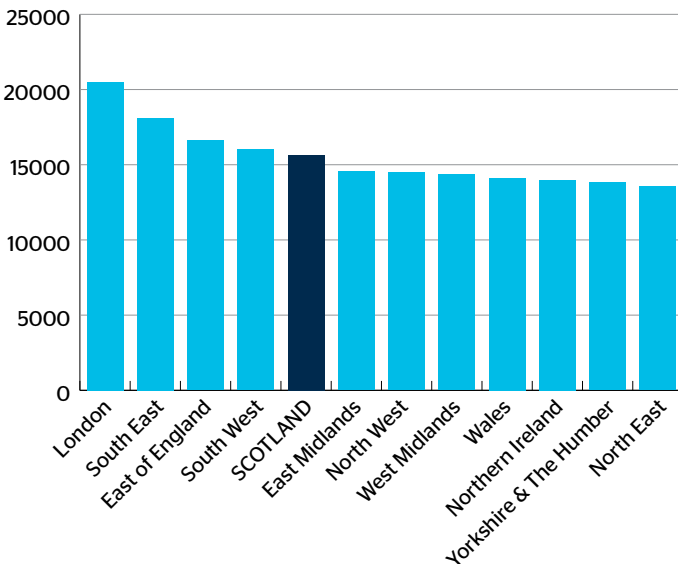
Historically, Scotland succeeded in trade, and then in heavy industry. Today we also excel in higher education, in financial services, in life sciences and in many other fields. These successes are not an argument for secession. They are an argument for continuing the success of the union: they show the advantages our constitutional framework has offered and how Scotland has succeeded by taking the opportunities we have had as part of the UK.

**Figure 3:** Value of goods and services produced per head (GVA) (2011)



Source: Office of National Statistics, Regional Gross Value Added, 2011.

**Figure 4:** Gross Disposable Household Income per head (2011)

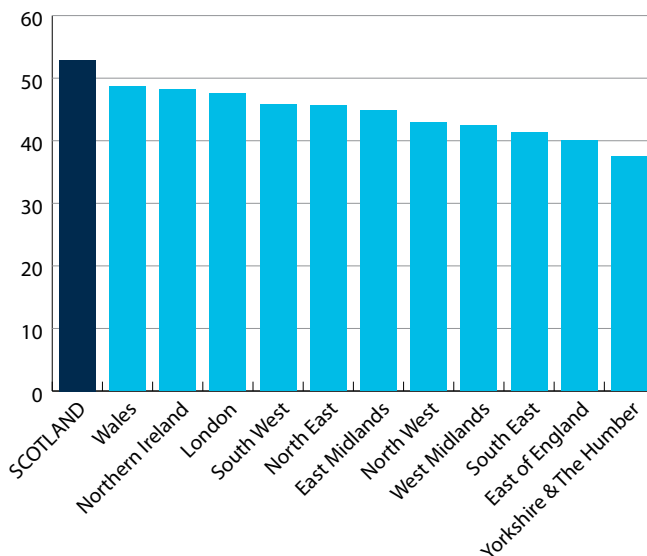


Source: Office of National Statistics, Regional Gross Disposable Household Income 2011

**“The depth of integration of the Scottish and UK economies has increased - to the benefit of people both North and South of the ‘border’.”**



**Figure 5:** Percentage change in gross disposable income, by country/region (2006-2010)



Source: Office of National Statistics, Regional Gross Disposable Household Income 2011, Table 1.1

This is not the occasion for an economic history of Scotland, but as we decide what our best future is we should be clear about the facts of today. Inside the UK, Scotland is the third richest part of the UK - ahead of the whole country apart from London and the South East. Some of the success, of course, is attributable to the great boon of offshore oil - which provides employment for many, and is a big share of Scotland's economic activity. But more is attributable to the other areas in which Scotland now specialises, mostly servicing markets in the rest of the UK. That's why it's possible to point to those great success stories of modern Scotland - life sciences, higher education, tourism, food and drink, finance and so on. The UK provided the environment, and in many cases the markets, which enabled these sectors to thrive.

The fact of the matter is that in recent decades, inside the UK, Scotland's per capita rate of economic growth has matched the UK's - indeed exceeded that of every part of the country apart from the South East corner. Over that period the depth of integration of the Scottish and UK economies has increased - to the benefit of people both North and South of the 'border'.

Let's look at financial services. Despite recent difficulties, that industry continues to provide employment for a disproportionately large number of people in Scotland. Almost 200,000 Scottish jobs depend on financial services. Outside London, Scotland is the UK's largest hub for financial services like banking, insurance, and asset management. But these are not services provided primarily by a Scottish market. The market for Scotland's great financial institutions is in England. Nine out of ten pensions sold from Scotland are to English customers, and eight out of ten of the mortgages lent from Scotland are to English borrowers. We can do that inside the UK because we operate in a single market, with a single currency, in a single regulatory system. The Scottish financial brand can take advantage of a huge English market, because it is our home market.

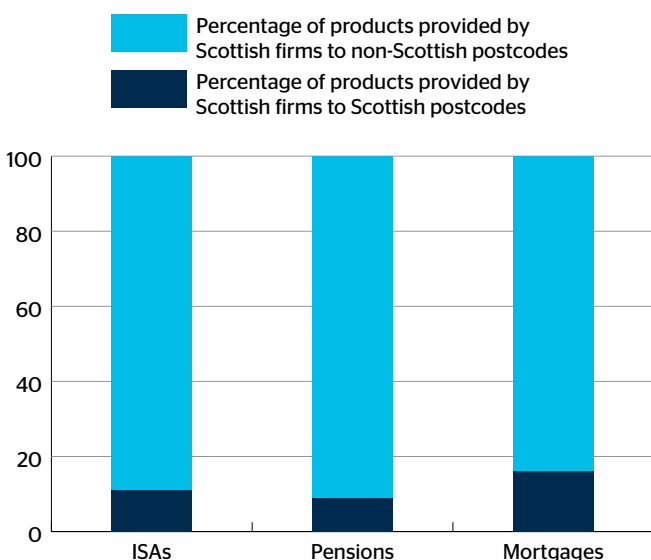
**Box 2: The contribution of Scotland's financial services industry**

In 2010, the financial services industry in Scotland:

- Employed **84,800** people directly as well as a further **100,000** indirectly
- Contributed over **£8.8 billion** to the Scottish economy, accounting for more than **8 per cent** of Scottish onshore activity

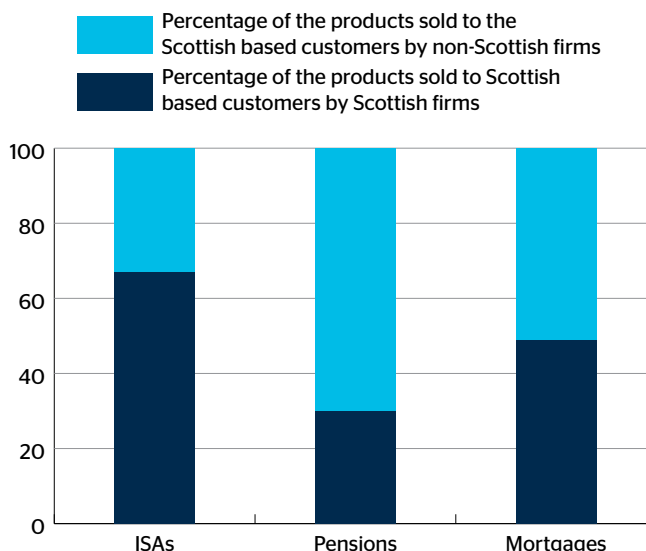
Sources: Office of National Statistics, Regional Accounts; Regional Contribution of UK Financial and Professional Services, The City UK, January 2013; Scottish Financial Enterprise, Facts

**Figure 6: Scottish financial services firms' customer base**



Source: UK Government, Scotland Analysis: Financial services and banking, May 2013

**Figure 7:** Participation in the Scottish financial services market



Sources: UK Government, Scotland Analysis: Financial services and banking, May 2013

### A home market not just a single market

It is sometimes said that if an independent Scotland were in the EU single market, that would allow us to retain the access to UK markets we have today. That is wrong. Take financial services. The EU single market for financial services is patchy at best. Almost nobody, for example, buys their pension from a foreign country, because tax and regulation are different in each country, even inside the EU. How many people in France do their day to day banking in, to pick a country with the same currency, Belgium? Not many, for the same reason. National borders matter.

And borders matter, not only for highly regulated business like financial services. An international border is more than just a line on a map: even in a free trade area like the EU or the North American Free Trade Agreement, trade is easier within national boundaries than across them. There is different legislation, and varying national regulations. All this adds to the difficulty of exporting to a separate country. Take the example of Ireland: a PwC study identified the barriers to trade between Northern Ireland and the Republic. They included differing VAT regulations, and the challenges of keeping up to date with regulatory change, especially for small companies.

### **Box 3:** The border effect: Trade between Northern Ireland and the Republic of Ireland

A study by PWC and InterTradeIreland, based on interviews with businesses, business organisations and regulatory bodies, found that companies who buy and sell goods across the border between Ireland and Northern Ireland may experience difficulties due to differences in regulation. The main issues identified include:

The main issues identified include:

- Access to information and signposting – keeping up-to-date with changing and new legislation was reported as a challenge for businesses, SMEs in particular.
- Differences in VAT rates and VAT regulations across the border.
- Other tax and insurance related issues such as insuring commercial vehicles in two jurisdictions or dealing with two tax authorities when employing people on both sides of the border.
- Additional costs related to currency fluctuations.
- Pricing issues covering a range of different issues such as variations in energy prices, payment practices, debt collection.
- Repetition and duplication of data requirements.
- Recognition of accreditations and qualifications, for example, in the construction industry.

Source: UK Government, Scotland Analysis: Business and microeconomic framework, July 2013

Economists inevitably differ on just how big these effects are: it depends on many detailed factors. But, worldwide, trade within a state is anything between four and twenty times more likely than across a national border. Canada and the USA provide an excellent case study: despite a free trade deal, and even though it's often physically more convenient to trade from north to south – trade inside each country is hugely greater than between the two.

This isn't just about buying and selling: it's about people and the opportunities they have. Every year something like 40,000 people move from Scotland to elsewhere in the UK, and a similar number in the opposite direction. That's proportionately a much greater flow than between separate EU nations. It's good for everyone, and for economic growth. It represents opportunities for our children and employment for our graduates.

Look at this from a different perspective: another of Scotland's specialisms, if you like, but not a commercial activity. I mentioned earlier that great post-union outpouring of intellectual activity that was the Scottish Enlightenment. We see its inheritance today in Scotland's universities. Of course Scotland started out ahead, with four universities when England had to make do with only two. But inside the UK, Scotland's academic sector has flourished. Scotland now has four universities in the world's top 200. No other small country comes anywhere near that - even somewhere as big as France can only manage five. But we do this by drawing in talent from across the UK, and educating not just Scots but a disproportionate share of the UK's highly talented young people. We do this because we are good at it. Similarly, we excel at research - with every one of Scotland's universities undertaking 'world-leading' research. Scotland takes advantage of UK Research Council funding, of which we attract a disproportionate share - almost 15% against a population share of just over 8%. Our universities also attract funding from medical charities, highly significant here in Glasgow. They commercialise their inventions with companies across the UK.

#### **Box 4:** Scotland's world leading universities

By almost every measure you could choose to assess the performance of Scotland's universities, as a sector we out-perform our peers. For example:

- Scotland has **four** universities in the world's top **200** (Times Higher World University Rankings 2013) and **five** universities in the world's top **150** for research (The Leiden Ranking 2013).
- Every one of Scotland's universities does 'world-leading' research according to the most recent Research Assessment Exercise judged at a UK level.
- Whilst having only **8%** of the UK population, our world-leading research now attracts over **15%** of total UK Research Council investment, leveraging over **£200m** into Scotland annually.
- Scotland's share of world citations is on an upward trend, rising from **1.6 per cent** in 2006 to **1.8 per cent** in 2008. This is exceptional for a country with less than 0.1 per cent of the world's population.
- Scotland produces **12,000 research papers** per year, drawing ahead of most other nations in terms of published output per researcher.
- Over **30,000 people** from **180 countries** choose to study in Scotland.
- Scotland's universities have a higher student satisfaction rating than their peers in England and Wales (National Student Satisfaction Survey from 2012).

Source: Universities Scotland

### **Box 5: Economic impact of Scotland's universities**

Universities are a huge force for Scotland's economic success. From the latest economic estimates, Scottish universities contributed:

- Around **£6.7 billion** to the Scottish economy, including **£1.3 billion** of 'export' earnings, principally by attracting research funding and students from outside Scotland.
- Every **£1** of public investment in universities is estimated to generate over **£6** of benefit to the Scottish economy.
- Scottish universities employ **38,450 people** and support over **142,000 jobs** in the Scottish economy.
- We are increasingly entrepreneurial, with roughly **56%** of universities' income drawn from competitively-won sources including the many contracts we have with business.
- Our graduates and research are cited as a key pull factor by **45%** of major inward investors.

Source: Universities Scotland

Leaving the UK can only reduce opportunities, and put that success at risk. Once again, that's just a simple description of the implications of the choice we face.

Here in Glasgow, we still specialise in building the United Kingdom's warships.

Across Scotland our green energy growth is underpinned by investment paid for by the energy bills of 26 million homes across the UK.

The list could go on.

### **What this means in practice**

Of course I want to draw attention to these Scottish success stories, and to how they show Scotland's place in the integrated UK economy. But the important point for our argument is that they demonstrate how economic union allows us to specialise in the things we are best at and to take full advantage of the benefits of an integrated UK economy. There are no barriers to trade in goods and services. There is free movement of workers and capital across the border. And there is access to shared public resources.

The converse of that, of course, is that Scotland is inevitably vulnerable to losing these advantages if we leave the UK, especially for those parts of the economy in which government, or legal regulation, play an important part-like defence supplies or financial services. Our financial services companies can offer products tailored to a customer base 10 times the size of Scotland because they are our domestic customers too. If they are no longer in the same domestic market and legal framework - as they would be on independence - that opportunity will be lost to Scottish firms.

### **The significance of currency union**

As I mentioned earlier some might argue that the UK economic union has been superseded by a single European market. If we were an EU member, the argument goes, Scotland would be able to trade with the rest of the UK in a single market of half a billion consumers, not just 60 million. This is to misunderstand the difference between the single European market - which tries as best it can to extend the benefits of free trade more widely - and a truly integrated domestic market, which we have in the UK.

Instead, inside the UK we share not just land borders and language, but a single regulatory framework, a common commercial law and business regulation, and we are very socially integrated too. These are the very things which make it painfully obvious that the idea of leaving a British union but clinging to a European one would make no sense at all. But above all there is the fact that we share a common currency, and I want to turn to that now.

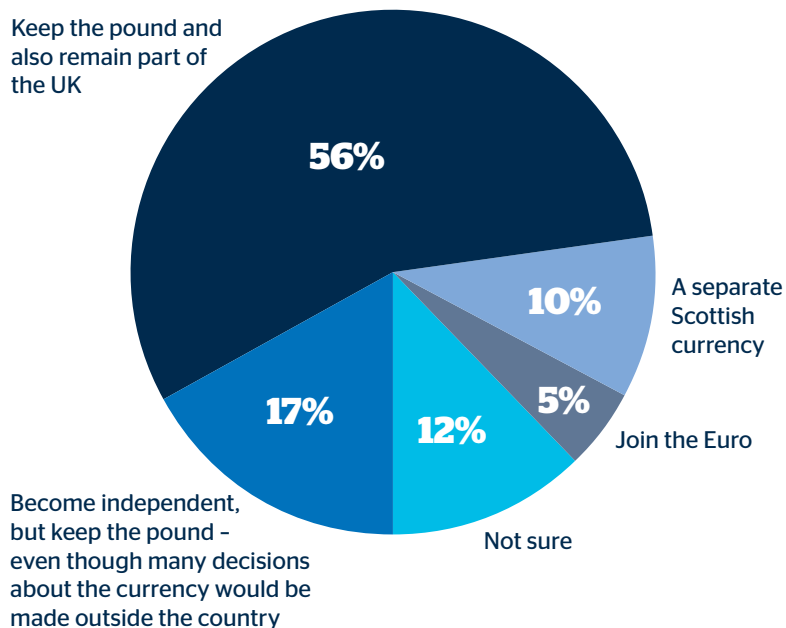
Currency union is the sign of real economic union. It is clear what makes for a successful currency union. First, a genuinely integrated economy, in which money and people can move without hindrance. Exactly the UK I have just described. And secondly, one in which, when necessary, fiscal flows can balance out other economic imbalances. Just as we have in the UK. The Eurozone founders understood that, but are struggling to make it a reality. The plain fact is that currency union, if it is to be successful, must involve fiscal union. Otherwise you run into exactly the problems that we have seen in countries like Greece in recent years. And fiscal union without political union is undemocratic and unsustainable - the very problems that Eurozone countries are wrestling with today. A shared sense of belonging isn't just something that is a nice bonus, a warm feeling around Royal occasions and sporting triumphs - it underpins our economic union. Think of the difference between the ease of fiscal and currency union in the United States or the United Kingdom and compare it to the recent crisis of fiscal transfer within the Eurozone where the same sense of shared identity and political union does not exist.

This isn't just economic theory - it is something that people understand very readily, almost instinctively. I have travelled up and down the country speaking to people - they get this argument. They want to remain part of the UK economy, and they want to keep the pound. They know it is the symbol of the economic union which secures their interest. That's why we have the bizarre sight of nationalist Ministers arguing to keep the UK's currency, claiming there would be no barrier to Scotland remaining in a currency union while leaving a fiscal union. This would mean we would be economically dependent on the rest of the UK, but unrepresented in the decision making.

**“Economic union allows us to specialise in the things we are best at and to take full advantage of the benefits of an integrated UK economy.”**

**Figure 8:** Scots want to keep the UK Pound

**Regardless of how you are likely to vote in a referendum, which currency would you prefer Scotland to use?**



Source: YouGov poll of 1,091 Scottish adults, 18-20 March 2013

**“A shared sense of belonging ... underpins our economic union.”**

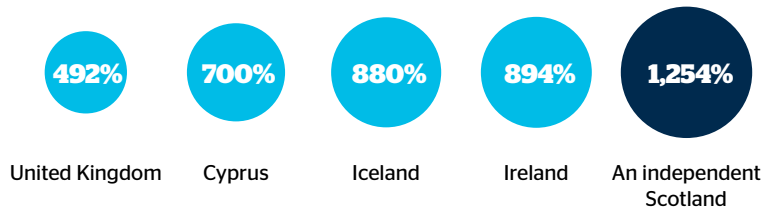
Sharing a single currency implies fiscal union. That, in turn, can only be justified if there is also a political union to give it democratic oversight. Scottish people understand that too. We overwhelmingly want to keep the pound as our own currency, and we understand that means remaining in the United Kingdom.

Fiscal union is not just a bit of economic theory. Sharing tax revenues allows a country to spread the benefits of growth across the whole territory. Scotland contributes to this - oil revenues are the most obvious example. And we benefit from it too - for example we share the taxes from the engine of economic growth that is London.

### Managing economic risks

I have concentrated on the opportunities from being part of an integrated economy. And integration also means sharing risks and, for a small country like Scotland, living in a globalised, open economy, reducing economic volatility. An independent Scotland would have been much more exposed during the banking crisis than Ireland or even Cyprus. Similarly public services in an independent Scotland would be much more at risk from revenue uncertainties like fluctuations in oil prices. In fact, we would be ten times more exposed to oil volatility. With the support of an economy ten times larger and more diverse, Scotland can manage those economic risks more easily.



**Figure 9:** Banking sector assets as a proportion of GDP

Source: UK Government, Scotland Analysis: Financial services and banking, May 2013. Figures shown are: UK current; Cyprus 2013; Iceland 2007; Ireland 2007; and Scotland current if independent.

Let me be clear. None of this is to say that Scotland could not be an independent country. Of course it could. Some small countries do well economically, but others do not - as we have seen. But being part of a larger economy provides security against risks - financial crises, economic changes. A small country in a globalised economy has to take a different path. To succeed it has to insulate itself against risks on its own, rather than as part of a larger and more diverse economy. That's not easy to do: to be successful it may mean a very conservative fiscal policy, saving for hard times. And you can't both save and spend the same money.

#### What this means for Scots

Arguments couched in terms of economic theory can seem dry and abstract. Perhaps not immediately persuasive to people concerned about their families, their incomes or their jobs. But jobs, security for families and opportunities for young people are what it's all about. Being in the UK home market creates jobs here in Scotland. The complete freedom of movement that we enjoy provides immediate opportunities for young people to have careers that span the whole of the UK. Our young people can take up jobs anywhere in the UK with no barriers or administrative difficulties. On average 40,000 people a year move back and forth across the border to take the opportunities that arise. That's why more than 830,000 Scots are now living and working elsewhere in the UK; and why 450,000 of those happy to live and work here in Scotland were born elsewhere in the UK.

**“With the support of an economy ten times larger and more diverse, Scotland can manage those economic risks more easily.”**

**Figure 10:** A free flow of people within the UK

**> 450,000 people living in Scotland today were born in England, Wales or Northern Ireland**

**> 830,000 people born in Scotland now live elsewhere in the UK**



Source: UK Government, Scotland Analysis: Devolution and the implications of Scottish independence, February 2013

Similarly, managing economic risks might sound abstract or theoretical. It's anything but. A worldwide failure to manage them well caused today's economic problems, and impacted Scots very directly indeed.

The consequences of economic integration however are not just economic. Where people live, how easily they are able to move, how they band together to deal with uncertainties and risks: all these have profound consequences for where we feel they belong to. That is something I want to come back to later.

### **Political union: a place in the world**

But first, I think we have to turn to the idea of political union.

Politics matters. A choice about whether to leave a political union is the biggest decision a smaller country can make. As we have seen, a true economic union means currency and fiscal unions, which in turn require the oversight of a political union, with a government to safeguard and promote national economic interests. But that is not all governments have to do. They deal too with international issues, questions of war and peace. Political union determines Scotland's place in the world, how we relate to other nations and engage with the global issues that trouble so many of us.

**“We have a voice in the debates that impact on our well-being in a way which no other small nation has. A voice at least ten times louder than we would have on our own.”**

It has become almost trite to say - because once again we take it for granted - that as part of the UK, Scotland has a seat at all of the world's top tables. We have a voice in the debates that impact on our well-being in a way which no other small nation has. A voice at least ten times louder than we would have on our own.

This matters - partly for reasons of history, and partly because the UK remains one of the world's most powerful countries. The United Kingdom is a member of the UN Security Council, the G7, the G8 and the G20. It is one of the big three EU members. It has an international impact beyond even its substantial scale. It was only recently assessed as number one in the world for "soft power" - cultural influence internationally.

**Box 6: World soft power - top 10 rankings**

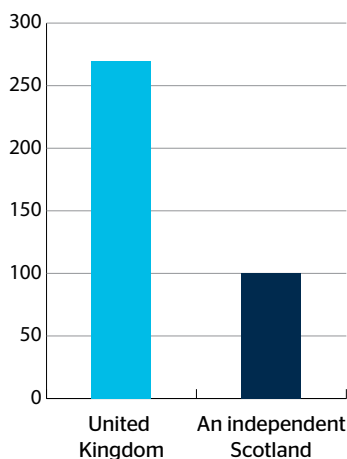
- 1.** United Kingdom
- 2.** United States
- 3.** Germany
- 4.** France
- 5.** Sweden
- 6.** Japan
- 7.** Denmark
- 8.** Switzerland
- 9.** Australia
- 10.** Canada

Source: Monacle magazine's Soft Power Survey 2012

**“In international affairs, the UK is not just a voice. It is one of the few nations that is in a position to act, to intervene, to promote our interests and the interests of peace and security.”**

Scotland benefits from the influence this position offers. We are one of the most influential voices in matters of international trade and in the management of economic crises. I remember that all too well from my time as Chancellor. We are at the heart of discussions on the big global issues, like climate change, or matters of war and peace, or in promoting human rights.

**Figure 11:** Number of embassies and consulates around the world



Sources: UK Government, Foreign and Commonwealth Office; Nicola Sturgeon, UK Parliament Foreign Affairs Committee evidence, 28 January 2013

Of course Scotland could take an alternative course. We could be a small country that did not try to have any major impact on international events, a minor member of international bodies. We might get together with other small nations to promote our point of view. And I am sure that Scotland would be well respected. But don't let us delude ourselves about our status or influence in those circumstances. Within the UK, we have the chance to influence - for good or for ill - the course of international events. As a small nation, we wouldn't have that influence, or the responsibility it brings.

In international affairs, the UK is not just a voice. It is one of the few nations that is in a position to act, to intervene, to promote our interests and the interests of peace and security. Not all of the international interventions which the UK has made have been popular - including many, like Kosovo or Sierra Leone, which have been credited as successful. With power comes responsibility, and the risk of getting things wrong. I would never claim that all the UK's decisions have been right, or have turned out as well as we hoped. But many have, and the world would be a worse place if we simply sat back. For Scotland the alternative is to be an interested spectator in international affairs.

And while the debate will centre on our own interest, let's be clear also that, Scotland leaving would be bad for the rest of the UK, and I remain of the view-whatever mistakes we may sometimes make - that the UK is a force for good in the world. I would regret it very much if that voice in the world was diminished by Scotland's leaving.

### **Defence and security**

Peace does not happen by accident. We have been free of domestic wars in the UK, but we have been drawn into world wars and many other conflicts. It makes obvious sense for Scotland to share its defence with the rest of the UK. We share an island and common democratic values. We have a strong historical tradition of fighting alongside one another when we have to. Indeed the first task of an independent Scotland would be to form very close military alliance with its nearest neighbour as that would be essential for its wellbeing. That is precisely what we have in the union today.

I hardly need remind this audience of the Scottish contribution to UK defence - the emotionally resonant record of the Scottish soldier or sailor, of the Glasgow shipbuilder, a shared military history from the 19th century to the Second World War and beyond. That shared history appeals to the heart. But the head understands that as part of the UK, we have ten times the capacity to defend ourselves and from all sort sorts of threats.

Indeed nowadays threats and conflicts are different: less the clash of armies and more protection against terrorist attack or cyber threat. We know from recent experiences that these are as real for Scotland as for anywhere else. Within the UK, Scotland has world class intelligence and security services. Alone we could not hope for anything like the specialised expertise and technology that the UK now disposes, especially when you factor in the UK's longstanding alliances and sharing of intelligence with the US and other countries. Here perhaps more than anywhere we see the strength of being better together.

### **Making the world a better place**

Scots have a fine record of interventions to make the world a better place. Think of David Livingstone in Africa. Or John Boyd-Orr, who won a Nobel peace prize for his work on international food aid. A building is named after him two hundred yards from where we sit. And do not forget the UK's international aid programme, administered from East Kilbride. It has enabled 5 million children worldwide to go to primary school, and provided food aid for 6 million people - more than Scotland's population. Splitting the political union which made that possible will not only weaken our security, but reduce our potential impact for good in the world.

#### **Box 7: The UK's international aid achievements**

The UK Department for International Development's aid programme has meant:

- 5.3 million children have been able to go to primary school
- 6 million people have been fed through emergency food assistance
- 12.2 million bednets have protected people against malaria
- 2.7 million children and pregnant women haven't had to go hungry
- 7.4 million people have improved hygiene conditions

Source: UK Government, Department for International Development Annual Report 2011-12

**“As part of the UK, we have ten times the capacity to defend ourselves, and from all sort sorts of threats.”**

Nevertheless we do have a choice here. Do we want Scotland to become a small nation, hoping to be shielded from the world's events by our larger neighbour, but taking no active role in their decisions, essentially minding our own business, reliant on goodwill, and hoping for the best in terms of security and defence? Or do we want to do what Scots have always done, taking an active role to secure our safety as part of one of the most powerful nations, with a strong international reputation and tangible influence both to protect our interests and make the world a better place?

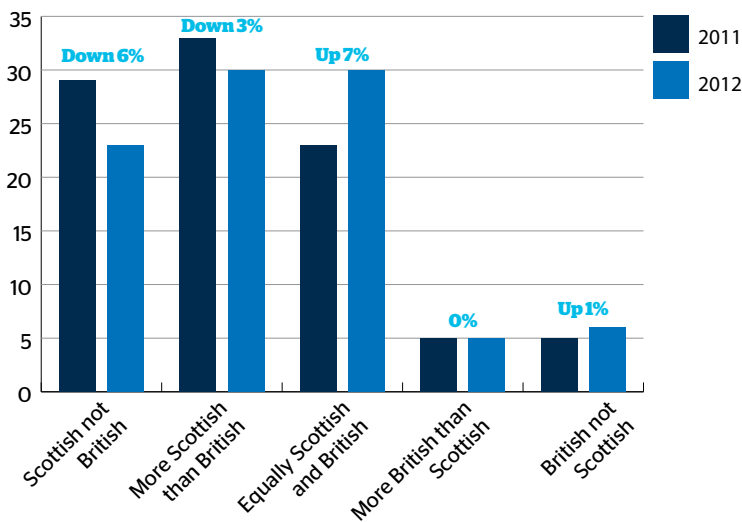
### **Social union**

These are, if you like, instrumental arguments for the union. They tell us that Scotland is economically better off, and more secure, as part of a larger whole. Conversely they show the risks of breaking up the union.

But choices about nationhood are not just hard-headed calculation. They involve sentiment and belonging. Even if the union of 1707 was a hard-fought negotiation based on interest and calculation, it's become something deeper and more enduring over the years. As we move back and forth across the UK, for education or work, as we form personal, cultural and business ties, as we set up households and families in different parts of the UK, we reinforce our sense of belonging. Similarly, our political and military history tells a tale of more than just pragmatic alliance.

Just as they recognise where their interests lie, so Scots do understand where we belong. Only a minority of Scotland's people see themselves as Scottish only. The vast majority acknowledge their British identity as well. Some like me, see themselves as both Scottish and British. For most people to be Scottish means to be British as well. The UK is a socially integrated nation as well as an economically integrated one, and Scots want it to stay that way.

**Figure 12:** How Scots describe their national identity



Source: Scottish Social Attitudes Survey 2011 & 2012

This question of multiple identities is something Scots have been comfortable with for many years. It's entirely possible to be a patriotic Scot and be wholly at ease with being British. That's been the position for most of us for the last few centuries.

In a typically unplanned way, this has become one of the UK's great strengths. There is more than one way of being British - whether you feel English, Welsh, Northern Irish or Scottish first, you can be British too without contradiction. It's interesting that many ethnic minority citizens are happy to see themselves as, for example, British Indians or British Pakistanis - very happy to be citizens of the UK, settled and belonging here, but still identifying with their roots, just as Scots have always been able to do. This isn't just a question of belonging: in a globalised world, a non-exclusive understanding of issues of identity is an economic advantage.

**“For most people to be Scottish means to be British as well. The UK is a socially integrated nation as well as an economically integrated one, and Scots want it to stay that way.”**

It's possible to talk about the common values that hold the United Kingdom together. These are very real, but if you try and codify them you run the risk of listing rights to which anyone would want their country to adhere - things like freedom under the law, an abiding commitment to democracy, safeguarding the interests of minorities, a culture of tolerance and so on. So I am not going to fall into the trap of bottling some essence of Britishness. The point is to put rights into practice: that is what the UK does, and in a culture that we all recognise and are comfortable with, and in the institutions in which we can feel a sense of ownership.

I mean of course institutions like the BBC or the National Health Service. Institutions which people feel instinctively represent what it means to belong in the UK.

For many, that will include the institution of the monarchy and, perhaps for even more, the person of the present Queen. For others, the UK Armed Forces, and for others still any one of a plethora British social, professional, academic or business organisations.

But the Olympic opening ceremony, a celebration of unity not difference, struck a chord with millions when it identified Britishness with the National Health Service. The BBC is the same. Scots have access not just to the best public service broadcaster in the world, but to a range of information and entertainment at least ten times wider than what we could hope to produce alone. More than that, it helps us sustain a common culture and identity.

It's often said that nationalism is an appeal to the heart, while union appeals only to the head, being a calculation of where Scotland's practical interests lie. That is wholly wrong. Of course nationalism does appeal to the heart.

“Breathes there the man, with soul so dead,  
Who never to himself hath said,  
This is my own, my native land!”

captures an important truth.

When I selected that quote I couldn't have foreseen that the votes of long-dead writers would be up for grabs. But its author, Sir Walter Scott, was profoundly Scottish and also a profound supporter of the union. Your soul would indeed be dead if it did not stir to the tale of Scottish history. But it would be equally barren if it failed also to warm to the story of the British nation, to a common endeavour to build a just, tolerant open society and the lasting institutions which embody it.

In that sense Scottish nationalism is not an appeal to the heart. It is precisely half hearted, appealing only to half of our identity and denying the rest.

## Citizenship and social union

This idea, of belonging to the UK as well as Scotland, is not merely a question of sentiment and fellow feeling. Belonging to a country has important practical consequences. Citizenship brings with it a set of legal and political rights.

The state you belong to looks after your position in the world, and protects you from the risks of an increasingly unpredictable and often unsafe international environment. But citizenship also deals with a different set of risks and rights, which are perhaps more important for our purpose. I mean the sharing which goes along with belonging - the pooling of resources and the sharing of economic and social risks, so as to provide greater security for everyone.

This means pooling major economic risks. We have just come through the most startling example of that in UK economic history. While I, as a Scottish MP, was Chancellor of the Exchequer, it was my job to mobilise the resources of the whole UK to rescue Scotland's two largest banks. They still remain substantially in UK Government ownership as a result. I cannot think of a better example of how being in a larger, more resilient economic community has been in Scotland's economic interest. Because we belong in the UK it meant that there was no question but that the resources of the whole of the UK - ten times Scotland's size - could be used for this purpose. If you want an example of the profound difference between the kind of union we have in the UK and the economic union of Europe, look no farther than that.

### Box 8: The banking bailout

The UK Government spent **£45 billion** recapitalising RBS in order to protect the deposits and savings of thousands of households and businesses. In addition, the bank received **£275 billion** of state support in the form of guarantees and funding. In total, this would have been **211%** of Scotland's GDP, including the geographical share of North Sea Oil.

By contrast, total UK interventions across the whole banking sector were almost **£1.2 trillion** or **76%** of whole UK GDP.

Source: UK Government, Scotland Analysis: Financial services and banking, May 2013

But sharing risks does not deal only with crises. We also share the resources to deal with the more mundane risks which impact on all of us - the risks of ill health, old age, unemployment and economic insecurity. These social rights are the essence of a welfare state.

The UK remains a welfare state, and Scotland remains an integral part of it. This too is something we take for granted. Scots contribute resources to the common pool, and take benefits from it. Perhaps the most significant of these is the old-age pension, introduced first by a Welsh Liberal 100 years

**“We share the resources to deal with risks which impact on all of us - the risks of ill health, old age, unemployment and economic insecurity.”**



ago, but integrated into a wider system of national insurance and social security by an English Labour minister. When you are out of work in Glasgow your benefits are paid by the taxes of someone in work in Glamorgan. When you retire in Lanark your pension is paid by the taxes of a young person in Liverpool starting out in working life.

The point of a welfare state is that resources go to those who need them, and taxes are paid those who can afford them. This applies at the individual level, but it also applies to the nations of our union. Scotland has contributed to the development and funding of that welfare state, but Scots have taken great security from it. Few Scots want to break it up and many, like myself, would want to strengthen it.

**Table 1: Social protection spending in Scotland (2006-7 to 2010-11)**

	2006-7	2007-8	2008-9	2009-10	2010-11
Social protection spending (£m)	15,955	16,956	18,317	19,903	20,741
Of which social services	2,420	2,834	3,051	3,180	3,265
Per head (£)	3,130	3,310	3,546	3,835	3,972
Per head index to UK = 100	110	108	109	108	109

Source: HM Treasury, Public Expenditure: Statistical Analyses 2012  
Note: Social protection is spending on pensions benefits, and some social services

**Table 2: Main components of social protection spending in Scotland per head (2006-7 to 2010-11)**

Main Benefits (£)	Spending per head Scotland (£)	(Comparable English figure)
Old age pensions	1,413	(1,329)
Incapacity, disability, etc.	579	(449)
Family benefits, tax credits, income support	757	(752)
Unemployment benefits	93	(82)

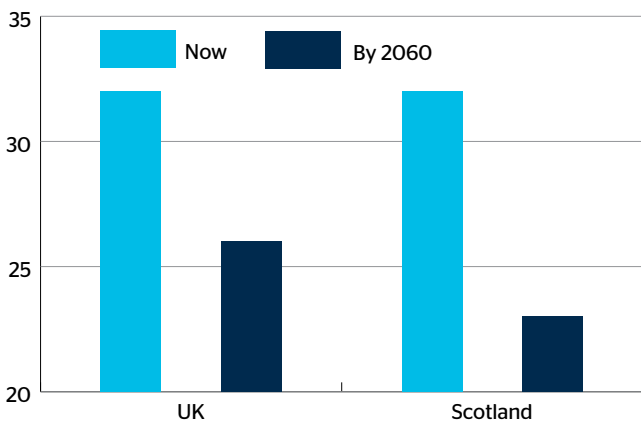
Source: HM Treasury, Public Expenditure: Statistical Analyses 2012  
Note: Social protection is spending on pensions benefits, and some social services

This sharing of resources is the fiscal union in our economic union. Scotland pays its taxes into the common pool, but spending is determined by where need lies. The largest single element of public spending is social security. Here Scotland has substantial needs - particularly in relation to pensions. Older people in Scotland benefit very significantly from the UK old age pension system. Spending on pensions in Scotland is over £1,400 per head compared with around £1,300 in the UK. Overall spending on social security in Scotland is nearly 10% higher than the UK average. This is despite the fact that Scotland is a relatively wealthier part of the country, because we have many individuals who are in need.

Looking to the future, we can see good news – more people are living for longer. But that will increase the pension bill. Carrying this cost is a bigger problem for Scotland than for the rest of the UK because of the age structure of our population. Within the union, however, that risk is pooled with the whole country, and will not have to be borne purely out of Scottish resources. That is something now accepted by both sides of the independence argument. That’s a positive benefit of the union for Scotland. Conversely separating from the union would diminish our long-term financial security.

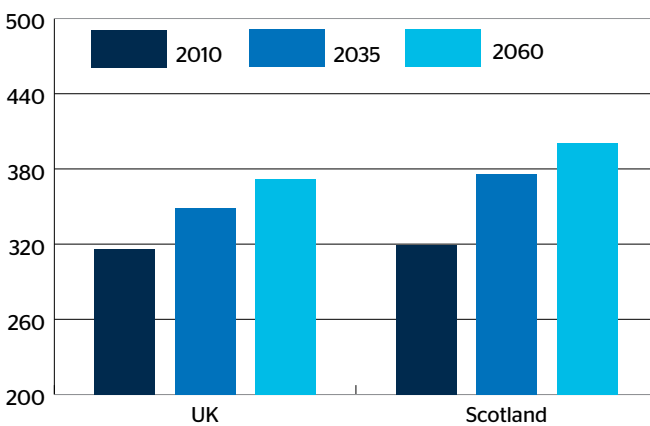
**Figure 13:** Scotland’s ageing population

Number of working age people supporting every 10 people of state pension age



Source: UK Government, Scotland Office, June 2013

Number of people of state pension age per 1,000 working-age adults



Source: Office of National Statistics, National population projections: 2010-based projections, October 2011

Similar arguments can be made for other taxation and public spending. It's a narrow and selfish argument to say that Scotland should keep the tax resources that it generates so that it alone can provide public services. Not only is it narrow, but it is foolish. Looking to the future it is self-defeating. Being part of the UK means that taxable resources are spread to provide public services for all our people, whether they live in a poorer or better off part of the country. That is the principle at the heart of the Barnett formula. That's how we support across all parts of the country those institutions, like the National Health Service, which everyone in the UK values. I have to say that I think that that is morally right, but it's also prudent as well.

## **Oil**

And now, I think we have to face head-on the alternative argument. It's a simple one, and to my mind, a simplistic one. The argument goes: because of the boon of North Sea oil, Scotland would be able to have a stream of tax revenue to finance lower tax rates, or higher public spending, than the rest of the UK. So let's keep it all. But there are two things wrong with this insistent narrative. The first is principle, the second practical.

I profoundly believe that the right thing to do within a country to which we all belong is to share our tax revenues so that all of us can enjoy a decent level of public services. I would believe that whether Scotland was a net importer or net exporter of tax revenue. Just as I believe the revenues generated by the City of London should be shared equitably around the UK.

But let's make the prudent as well as the principled point. Scotland's oil industry will continue to provide jobs and to support industries - but oil revenues will never return to the days of the 1980s. We don't know precisely how long oil will last, and we don't know how much revenue it will produce. But no estimate pretends it will last forever. Even the most optimistic agree that revenues will be much reduced. In fact, they are likely to be of a scale which almost, but not quite, equates to the difference between public expenditure in Scotland and elsewhere in the UK.

What that tells us is that the story about oil revenues is another example of how risks and resources are shared in a country to which all belong. Scotland has paid taxes into the common pot, very notably oil revenues. It has also drawn from that common fund to support public expenditure. That means public services can be funded in a way which is stable, not fluctuating as the oil price goes up and down, and which is not dependent on any one source of revenue, but rather on the whole wider UK tax base. An important fact: North Sea oil revenues comprise up to 20% of Scottish taxes but less than 2% of UK taxes. That is an example of risk sharing in practice.

Not only is the case for union a principled one, so far as public expenditure is concerned, it's a prudent one too.

### **Sharing and belonging**

I have emphasised three aspects of the union, the economic, the political and social. In each case, one can see the benefits of sharing risks and resources. Sharing together for defence and international relations gives Scotland immensely more influence on the world, and more chances to make it a better place. The alternative would be to be an interested spectator, at the mercy of others' decisions. Sharing an integrated economy gives Scots businesses ten times the home market, and individual Scots ten times the opportunities to progress in life. Sharing economic risks enables us to manage them as part of a larger economy, rather than as a small open economy in a globalised world. Perhaps most important of all, sharing the risks of everyday life - illness, old-age, economic uncertainties - gives us all greater security.

But sharing goes alongside belonging. We share much more readily with those with whom we share the common bonds of citizenship. That was why there was no question but that the full resources of the UK state should be used to rescue the Scottish banks. That is why it is right that there is a common pool of taxation to support pensions and benefits across the UK. That is why it is right that shared UK resources are available to support devolved services in Scotland and Wales and Northern Ireland.

We see the contrast in the European Union - which is nothing like as deep, or long-standing, as the union of the United Kingdom. There is mutual support, but it is not automatic and it is limited. There is a feeling of belonging, but it is nothing like the degree to which people belong to the nation state, and there is nothing like the sharing of tax resources or the pooling of welfare risks that we see in the United Kingdom.

But sharing also supports our feeling of belonging. Our years of economic, political and social integration have created deep feelings of belonging. Feeling purely Scottish is still the preserve of a minority. Just as most Scots instinctively understand a shared currency as a symbol of an integrated economy, so most feel an adherence to the idea of the United Kingdom and to the union.

### **Devolution**

At the start of this lecture, I pointed out that union and devolution were two sides of the same coin. Just as Scotland enthusiastically adopted economic and political union, so it preserved distinct Scottish institutions. Now we have a powerful Scottish Parliament. And, as I mentioned earlier, following the work of the Calman Commission, the powers of that Parliament are to be extended.

**“Sharing goes alongside belonging. We share much more readily with those with whom we share the common bonds of citizenship.”**

As they argued, provided these critical aspects of union are safeguarded, we should be enthusiastic about strengthening the powers of that Parliament, whether in relation to taxation, legislation or executive responsibilities. The Scotland Act 2012 is the first fruit of that.

The Calman Commission itself, however, also said that its carefully constructed plans were not necessarily the last word on how devolution will develop. The different political parties are debating possibilities just now. But let me make three points about the nature of any potential changes.

First, as I have been at pains to explain, devolution is an aspect of union. It's wholly wrong to see it as some form of independence-lite, or to see improvements to devolution as steps down an independence road. The challenge of devolution is to ensure that change is consistent with the benefits of union - the economic, social and political union that I have described.

It follows, secondly, that improvements to the devolution settlement should not be - or be seen to be - some sort of concessions that will "buy off" nationalists. I give sincere nationalists the respect they deserve. They will not be "bought off" by more devolution. Nor should they be. Why? Because devolution is an integral part of union, the very thing they want to end - they will hardly give up their *raison d'être*.

Third, the decision of the people in the referendum will change the political landscape. Devolution inside the union must be embraced as the lasting settlement for Scotland within the UK. Perhaps that will mean further adjustments for other parts of the union too: Scots alone cannot dictate that, we will do it in partnership with the rest of the UK.

Making and changing constitutions is different from ordinary politics. In countries with a written constitution that is easy to see - there is a special procedure for constitutional amendment. The UK is different, but we are gradually learning how our territorial constitution changes. The Scotland Act 2012 was the best example. Developed on a cross party basis, it was implemented only after very careful scrutiny in, and with the approval of, both the UK and Scottish parliaments, even the consent of the SNP majority in Holyrood. It sets a template for how the planned future developments of devolution can be taken forward, if Scotland remains in the UK.

**“Most Scots instinctively understand a shared currency as a symbol of an integrated economy, so most feel an adherence to the idea of the United Kingdom and to the union.”**

## **Conclusion**

And that is the choice. It could hardly be more significant. To remain in the partnership to which we have belonged for the last three hundred years, or to set out on our own as a separate independent country. That course carries uncertainties and risks. Of course those will weigh heavily with people. But do not let anyone tell you that there is not a powerful, principled and positive case for remaining in the UK. I have set much of it out today. It's a case that appeals to the heart as well as the head, to our sense of self as much as to our interest. It's a case based on securing our economic future, and sustaining our place in the world. It's a case based on opportunities for young people and security for the older generation. Above all it's a case based on staying where we belong, better together as part of the United Kingdom.

**“It’s a case that appeals to the heart as well as the head, to our sense of self as much as to our self-interest.”**



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