

The Smith Commission – buying the Great SNP Bluff

From Bob Lyddon, the author of

“Why Scotland must keep the pound - and why it can't. SNP afraid of exposing Scotland's credit rating – but it must, and expose the real future for an independent Scotland”

The Smith Commission was established to convert the ‘vows’ made by Cameron, Clegg and Miliband to sway the Scottish referendum result – from a feared ‘Yes’ to a ‘No’. In the event the ‘No’ was so decisive that there is no proof that the ‘vows’ were necessary or that they had a meaningful effect.

Bob Lyddon has analysed the Smith Commission recommendations and their realisation in the recent “Scotland in the UK: An enduring settlement”, and contrasted them with the SNP Prospectus’ promises for if the SNP had won. The only differences between SNP and Smith Commission are:

1. No bonus for Scotland from what the SNP promised: the oil&gas tax revenues delivering both far better public services and a Sovereign Wealth Fund
2. Correspondingly no risk that tax revenues could fall well below public spending (as they might with oil below \$100-a-barrel)
3. Scotland remains jointly&severally liable for the whole national debt as opposed to taking on a share of it or, under the SNP’s dream scenario, walking away from it altogether

Apart from new managerial powers for the SNP, Smith Commission delivers:

- A lock-in of the Barnett formula payments, ensuring higher public spending per head in Scotland than in the rest of the UK, regardless of tax revenues from Scotland
- New borrowing powers that are fallaciously imagined to be at Scotland’s risk alone

In sum the result of Smith Commission is de facto independence but with the rest of the UK bankrolling it. Smith Commission accepts the premise of the SNP Prospectus – that Scotland is a wealthy country and could have been viable independently – and rewards the SNP with most of the benefits of a ‘Yes’ but with far fewer risks, and this for a party that consistently broke the Edinburgh Agreement – before and after the referendum – and invented the risk to the Scottish NHS which was the trigger for their resurgence in opinion polls and for the making of the ‘vows’.

The Smith Commission has thereby bought off on the SNP’s bluff – in its Prospectus, during the campaign and since – and created a deadly threat to the UK’s future, a future that 55% of Scottish voters stated should consist of a Union. This is an affront to democracy

There is nothing sacred about these 'vows'. They are unconstitutional because there was approval neither in Cabinet nor the House of Commons. However, the Smith Commission has treated their existence as holy writ but sought the counsel of the SNP in interpreting them. As a result the Smith Commission report is heavy on dangerous forms of words and false assumptions:

- It references the 'sovereign will of the Scottish people', an SNP formulation that can be used as justification for a unilateral withdrawal from the UK as and when that 'sovereign will' is deemed (by the SNP) to be exercised through a Holyrood election or through a future referendum conducted without Westminster Agreement; there is no such thing as the 'sovereign will of the Scottish people' because Scotland is not a sovereign country
- The Smith Commission was composed entirely of Scots on the premise that a deal could be done that affected only Scotland and had no knock-on effects on the rest of the UK: this is plainly nonsense. If Scotland locks in the Barnett Formula payments and, as the Institute for Fiscal Studies has stated, spending cuts of £51bn are needed in the next parliament to balance the books, those cuts will fall only on England
- Scotland will be allowed to borrow on the assumption that it will be responsible for debts that it signs when it is still be part of the UK. Smith Commission logic here is the opposite of the logic being enforced on banks under new banking regulations: banks must hold liquidity buffers where there are non-contractual commitments that they may have to meet for reputational reasons. UK would have to meet Scotland's debts for reputational reasons
- Scotland is already being substantially bankrolled by the rest of the UK: the Barnett Formula payments only reflect how much higher public spending is in Scotland – they do not show by how much Scottish tax revenues are lower, even if the lion's share of the oil&gas taxes are allocated to Scotland
- Scotland's own deficit is £9 billion per annum now, with tax revenues from on- and offshore sources of £53 billion against spending of £62 billion – and oil&gas tax revenues are falling
- That £9 billion is being borrowed by the UK and added to the national debt
- Scotland is to be allowed to borrow itself as well, spend the proceeds on itself, and add to the UK's risk as the backstopper of the debts – but with the SNP retaining the lever of a threat of leaving the UK, and of walking away from the national debt it has caused to balloon in the meantime, if the UK is so ungracious as to deny them the use of the pound after independence
- A Unilateral Declaration of Independence and a debt walk-away were a threat made during the referendum, but a threat that was not credible due to the preceding legal situation. The enshrining of the term 'the sovereign will of the Scottish people' gives Scotland a legal identity in the same way as the Lisbon Treaty gave the European Union a legal identity. Smith Commission gives de facto legal recognition to Scotland as a separate state, drives a stake through the heart of the UK and paves the way for a legal form of UDI by the SNP

This package leaves the rest of the UK with an unacceptable balance of benefits, risks and costs from the Union, and a worse position than before – in a process in which they had no vote. This in itself undermines the legitimacy of the Smith Commission.

Smith Commission's legitimacy fails on another key point: its recommendations create de facto independence, and 55% of the Scottish voters simply said 'No' to independence. It should not be up to the SNP, Smith, Cameron, Clegg, Miliband or Brown to interpret what that 'No' meant. In a democracy the 'No' is a 'No'

What Smith Commission has shown is that no cigarette paper can be fitted between devo-now and the devo-max inferred by the 'vows'. There is no interim step possible between 'devo-now' and full independence. Indeed the Smith Commission process reveals that even devo-now is unfair within a unitary country. The proper outcome now would be to forget the 'vows' for the sake of national unity. After all, that is what the Scottish people voted for.

Note on the author

Bob Lyddon is an expert in international banking, working through his own consultancy company Lyddon Consulting Services. Bob's particular areas of expertise include banking regulation, the sovereign debt crisis, and international money transfer and electronic banking.

In January 2014 Bob wrote the paper "**Why Scotland must keep the pound - and why it can't. SNP afraid of exposing Scotland's credit rating – but it must, and expose the real future for an independent Scotland**".

This paper gained wide publicity during the referendum campaign, not least when a senior executive at Barrhead Travel in Glasgow pointed his staff to it as the best document for understanding the risks of voting Yes, and brought a barrage of CyberNat abuse down on himself. Bob's writings on the campaign appeared in several national newspapers and he made two appearances on BBC World TV, and one on Ireland's Today AM show.