

SCOTCHING THE MYTH: ANALYSING THE RELATIONS BETWEEN A SCOTTISH PARLIAMENT AND WESTMINSTER

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INTRODUCTION

Strong claims about the impact of the creation of a Scottish Parliament have been advanced by its proponents and opponents in both the political and academic arenas (see for instance Midwinter and McVicar (1996) who have been the most prominent Scottish academics to offer a sceptical opinion on the proposed Parliament). Much of the debate has focused on tax or expenditure relativities between Scotland and the rest of the UK, and the degree to which devolution would lead to Westminster reducing the current advantage Scotland enjoys over England and Wales in public spending per capita. Even at best, the proposed Parliament will have only a 3% tax varying power, and that power would depend on support being secured in a specific referendum question. Moreover, there is a close connection between the argument about finances and views about whether the Parliament will be viable as an effective and independent democratic body within the UK. For critics, if the Parliament is totally, or almost totally, financially dependent on Westminster, then its capacity to act independently would be totally compromised at the outset and its accountability to the Scottish people curtailed by Westminster controls.

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UNDERMINING THE SCOTTISH PARLIAMENT: THE CRITICAL ASSUMPTIONS

Three core assumptions underpin the arguments of those who have sought to analyse the potentially negative financial relationship between a Scottish Parliament and Westminster. The first assumption that has been made is that Scotland is relatively privileged at present within the UK system of taxation and public expenditure allocation. This has been illustrated with reference to aggregate General Government Expenditure (GGE) data comparisons between Scotland, England and the UK, and by disaggregated programme comparisons. Such an argument was lucidly put in 1995 by the then Chief Secretary to the Treasury, Jonathan Aitken, who argued that:

Identifiable Government expenditure per head of population in Scotland in 1992-93 is estimated to be 16% higher than the equivalent UK figure. The conclusion must be that under the present arrangements Scotland derives substantial financial benefit from the union.
(Aitken 1995)

The second core assumption made by critics of a Scottish Parliament is that as a consequence of the proposed power to vary income tax by 3%, the privileged financial position accorded to Scotland under current constitutional arrangements will be eroded or eliminated. A number of reasons are suggested for this but the primary claim is that devolution will focus political attention on relative expenditure differences between Scotland and England. Moreover it is maintained that because the current 'national' shares of public expenditure are not based on a rigorous or robust assessment of need, the relative differences will come under severe pressure both from the Treasury's pursuit of stringent economic management and from a diminished Westminster concern for Scotland. This, it has been argued, will make it harder to defend Scotland's share in the public expenditure round. For example, Kenneth Clarke has suggested that:

If a devolved assembly were set up in Edinburgh many English tax payers would expect more of this higher public spending in Scotland to be raised in Scotland ... higher income tax would inevitably follow if devolution became a reality.
(Clarke 1995)

However, both the academic and political versions of the 'Tartan Tax' implications of devolution depend on the credibility of one further

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assumption. That is, that not only would Westminster be willing to restructure the expenditure differentials but also that it would be politically able to do so. For example Midwinter and McVicar (1996) have argued that a Westminster government will be able to restructure expenditure differentials because a Scottish Parliament will find itself in a dependency relationship with Westminster, characterised by an asymmetry of bargaining power:

The fiscal relationship of the Parliament to Westminster will be one of dependency ... We should be aware of the importance of the Treasury in limiting the powers of any devolved Parliament ... A Scottish Parliament would have a high degree of fiscal dependency. Its level of assigned budget would reflect economic conditions and Treasury decisions.
(Midwinter and McVicar 1996, p.51)

The Treasury emerges from such an analysis with almost mystical powers, which place it above the political process and grants it the capacity to impose its will unilaterally on others. Indeed, the recurrent analogy drawn by the Parliament's critics between it and local government seems designed to suggest the imbalance of power that will exist, and the inviolability of current Treasury controls. Ian Lang, then Secretary of State for Scotland, suggested in 1995 that:

If a British Chancellor decided to reduce the funding transferred to a Scottish Parliament to the same level as the rest of the UK, funding would be cut by almost £2,845 million.
(Lang 1995)

Note that it is assumed that a 'British Chancellor' could decide this, and that a Scottish Parliament would have little capacity for resistance or retaliation. It is assumed that nothing else will shift with the creation of a Scottish Parliament, and that the politics of public spending will be characterised by a simple power-dependency relationship between the UK Treasury and a Scottish Parliament.

Finally, it has been argued that, given the assumed costs and weaknesses of a Scottish Parliament, the democratic case for establishing it is suspect. Indeed, some have maintained that financial autonomy is an essential prerequisite to the political case for founding a Parliament (Midwinter and McVicar 1996). From this perspective the Parliament, like local government, would be reduced to an 'allocative' role, within which recurrent friction and debate

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about the adequacy of the Scottish Parliament budget would persist. Indeed, on the basis of such assumptions Midwinter and McVicar conclude that:

This is not a mix for enhancing political accountability, but for a pattern of friction-based relationships over spending, which will further confuse responsibility in government.

(Midwinter and McVicar 1996, p.51)

This represents an 'all cost-no benefit' account of a Scottish Parliament, which ignores its representative and legislative role. As Heald has noted, the 'Tax Horror' assumption of those who oppose a Scottish Parliament is often combined, contradictorily, with an 'irrelevance' assumption which allows critics to arrive at such an 'all cost-no benefit' conclusion (Heald and Geaghan 1996).

DECONSTRUCTING THE MYTH

Those who advance the view that Scotland is advantaged by current tax-expenditure arrangements at a UK level illustrate their arguments by reference to comparative data on attributable General Government Expenditure in Scotland, England and Wales. We would argue that using General Government Expenditure data in this manner is highly suspect for three reasons. First, it excludes data on tax expenditures that are properly policy substitutes for direct public spending, and which favour England. As Hogwood (1992) has noted, notwithstanding disputes about the proper accounting and economic treatment of such expenditures, they have been increasingly used by the government as a policy instrument over the last 20 years. Major items such as mortgage tax relief or National Insurance rebates and tax relief for private pension contributions now amount to very substantial revenues foregone by the Treasury. As these tax expenditures are not accounted for as public spending they are not published in a way that is attributable to particular parts of the UK. However Heald's (1992 and 1994) detailed analysis of public spending suggests a disproportionately high uptake in England. Indeed, income relativities within the UK make this almost inevitably the case.

Second, is the fact that the programme data provided by the Parliament's critics indicates that some of the expenditure included in the relative expenditure equation simply reflects the different composition of economic activity in Scotland and England (see Midwinter and McVicar 1996, table 4). Expenditure on agriculture, forestry and fisheries is proportionate to the

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composition of economic activity, not to population, and therefore it is unsurprising that spending per capita is higher in Scotland. A similar point applies to the major public expenditure item, Social Security, which for any part of the country reflects incidence against standard UK national qualifying criteria. Other programme data is interpretable only on a trend basis as a process of 'catching up' with the earlier, more generous treatment of England and Wales. This is particularly relevant for expenditure on roads and transportation. Aggregate comparisons are, therefore, misleading and programme comparisons need to be controlled for economic structure, relative need and historical trend. The oddity of the position of the Parliament's critics is that they move from arguing that current relativities are not based on a rigorous assessment of need to concluding that they are not justified in terms of need. As no such assessment has been undertaken by the UK government no such conclusion is warranted. Indeed a rigorous assessment of need may sustain, or perhaps even enhance, existing relativities.

Third, the treatment of tax/spending ratios within the UK by the Parliament's critics is selective. It has been suggested that Scotland contributes 5% less to the Exchequer, yet receives 20% more expenditure than population indices would merit. The alleged imbalance between Scotland's share of UK public spending and tax contribution to the UK pool arises solely because tax revenues and royalties from North Sea Oil and Gas production are ignored. This is partly because no agreed conventions have existed to attribute North Sea revenues and royalties between Scotland and the rest of the UK, and partly because the SNP claims regarding the revenues have made this a matter of political controversy. This has led commentators to largely ignore this issue. For example Midwinter and McVicar (1996) not only make no effort to attribute these revenues as part of their assessment of tax/spending relativities within the UK; they do not even acknowledge their existence and the implications that they have for their arguments concerning the funding of a Scottish Parliament.

Consequently, the treatment of tax/spending relativities in Scotland is unsatisfactory as these tax sources are of a considerable size; some £127bn has been generated for the UK Treasury up to 1994/95 (Heald and Geaghan 1996, p.170). It makes little sense to allocate spending and tax sources territorially if we ignore a tax source of this scale. The major problem has been finding an agreed convention for the territorial attribution of North Sea Oil and Gas tax revenues. The SNP have consistently argued that 90% of these revenues would accrue to an independent Scotland under international law, but this claim has been denied by successive governments. Fortuitously

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we now have a Treasury-proposed convention for attributing North Sea revenues. In a Parliamentary answer on 16 January 1997, the Chief Secretary to the Treasury maintained that 70% of North Sea revenues were attributable to Scotland. On this convention, Scotland was not a beneficiary of the tax/spending relativities between 1979 and 1995, but a net contributor to the UK pool of some £27bn.

If the 70% convention is applied to the current Red Book projections for North Sea tax revenues and royalties, then the revenues attributable to Scotland and the proportion of planned Scottish spending these would fund between 1996/97 and 1998/99 are as in table 1.

Table 1

North Sea Revenues and Scottish Public Spending 1996/97 - 1998/99 (£bn)

	Total Tax and Royalties	70% Convention	Proportion of Scot. Pub. Spend.
1996/97	3.2	2.1	14.6%
1997/98	4.2	2.94	20.5%
1998/99	4.7	3.29	22.9%

As the data indicates, substantial, and rising, revenues would be attributable to Scotland towards the end of the century. This would fundamentally alter the assessment of tax/spending relativities within the UK. By 1997/98 and beyond, these revenues would in and of themselves cover more than one-fifth of Scottish Public Spending.

We are not, of course, claiming that this means that such revenues would or could accrue directly to Scotland. All revenues accrue to the Exchequer and are pooled and distributed across the UK. What we are saying is that if the above average per capita spending is to be focused on by critics of a Scottish Parliament then the likely above average tax contribution from Scotland should be noted as well. Full territorial hypothecation of identifiable expenditure but only partial territorial hypothecation of tax sources is inconsistent, and misrepresents the likely politics of public spending between Westminster and a Scottish Parliament.

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The only conclusion that can be drawn is that the data cited by the critics of the Parliament, and indeed currently available from the government, does not self-evidently support the assumption that Scotland is privileged by current tax-expenditure arrangements at a UK level. If policy-led tax expenditures are included, automatic criteria-based programme expenditures are excluded, and full territorial hypothecation of tax sources as well as expenditure is undertaken, Scotland is a net contributor to the UK tax-expenditure pool, not a net beneficiary. This is not to make a nationalistic point - the pooling of needs and resources within the union can be justified - but it could be a possible Scottish response to ill-informed complaints by English nationalists about the scale of the Scottish budget, and it will certainly influence the politics of public spending between Westminster and a Scottish Parliament.

The second key argument put forward by critics of the Parliament is that the establishment of a Scottish Parliament would lose Scotland the expenditure advantages that, they maintain, it currently enjoys. Moreover, they argue that the Parliament would find itself in a simple dependency relationship to Westminster and the Treasury. As we have noted above, in tax-expenditure terms, no advantage presently exists to Scotland within the union and therefore cannot be lost. However, our real objection to these assumptions is the model of post-devolution politics, and of inter-governmental relations that appears to inform them. Clearly it is presently impossible to state what will happen when a Scottish Parliament is established, but more realistic scenarios than those presented by the Parliament's critics can be posited if we examine the likely politics of public spending in the context of a Scottish Parliament.

An analogy between the position of local government and the likely position of a Scottish Parliament has been drawn by many of the Parliament's critics. Indeed, they imply that with only a 3% tax-raising power, its position will be even more constrained than that of the average local authority (Midwinter and McVicar 1996 p.50). For all that it is a false analogy, the case of local government is instructive. Lacking the bargaining resources of a Scottish Parliament, local government in Scotland has mounted an effective political campaign which has consistently shifted the burden of responsibility for expenditure cuts in local government services on to the Scottish Office. In 1996 the Scottish Office was coerced into changing its initial position, and was forced to find additional resources from within its block, because of an effective political campaign by local authorities. Consequently, we can postulate that if Whitehall finds it difficult to control expenditure among local authorities then that problem will be magnified by a proportionately elected and publicly accountable Scottish Parliament which has assumed full responsibility for the portfolio presently covered by the Scottish Office. It

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will be a more legitimate and powerful political actor than any local authority has ever been. Therefore, those who have argued that the Parliament will be nothing more than a 'Caledonia Council' have been grossly misleading. In these circumstances to maintain that the Treasury will be able to exert its control over a Scottish Parliament is to endow it with Olympian powers that it has failed to display in its dealings with local authorities throughout the 1980s and 1990s.

In the post-devolution political environment, it has been claimed, English MPs will be unwilling to sustain expenditure differentials and a Scottish Parliament will be politically unable to resist their depredation. This scenario is indeed possible, but highly unlikely. A Scottish Parliament will be created only by Labour, or by a Labour-Liberal Democratic coalition. In either case their ability to remain in government is likely to be dependent on support from MPs returned from Scotland. Furthermore, both parties are signatories to the Constitutional Convention and have accorded legislative priority to establishing a Scottish Parliament. Both parties have argued that the Parliament is intended to secure, not to destroy, the Union and when elected on a proportional representation basis it will have a status and democratic legitimacy accorded to no local authority. Thus, a Scottish Parliament will hold greater bargaining resources than a local authority and, as such, will have to be treated with care by Westminster.

The pessimistic predictions of critics of the Parliament are underpinned by a simplistic analysis of the UK political and budgetary process. Public spending negotiations are best understood as a highly political process where government departments seek to protect their budget and will form multiple supporting alliances with other departments in their negotiations with the Treasury (Thain and Wright 1992). It is quite possible to envisage a situation wherein a Scottish executive, acting as the representative of a Scottish Parliament, will enter into alliances with Whitehall spending departments, 'against' the Treasury, in much the same fashion as the Scottish Office does now. Moreover, as Alan Alexander argues in an article in this edition of **Scottish Affairs**, there is every likelihood that Scottish local authorities will also engage in active lobbying of Westminster and Whitehall in order to protect or increase the 'Scottish Block' of public spending. However, the legitimacy that an elected Scottish Parliament will confer on to a Scottish executive will change the nature of these interactions in fundamental ways. The elected nature of the Parliament, and its executive, will be an important 'resource' to be exploited throughout the bilateral and multilateral negotiations which constitute the public spending round, and this will confer upon it a legitimacy that no Whitehall department can muster. Moreover,

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given Labour's recent pronouncements on public spending (**The Times** 21 January 1997), and the fact that the Scottish Parliament will in all likelihood be led by a coalition majority, it is likely that the Parliament will be more willing to 'engage' with a Westminster government of whatever political persuasion to protect Scottish public spending and the Parliament's right to raise additional expenditure through taxation. Thus, the ability of a Scottish executive to defend claims for maintaining expenditure levels, or for increasing expenditure, will be unprecedented within government circles. As such, the possibility remains that the position of Scotland, far from being undermined by the devolution process, may in fact be strengthened.

Here we come to a final and more fundamental weakness in the arguments put forward by those who seek to undermine the Scottish Parliament: their understanding of intergovernmental relations in the UK. Richardson and Jordan (1979) characterised the decision-making process within Whitehall as 'Departmental Pluralism', where different government departments fought to retain control of their own 'fiefdom' at the expense of a corporate view of government policy. Indeed Rhodes (1988, p.3) went as far as to argue that British central government was fragmented to such a degree that its position in constitutional and 'real politique' terms were at odds with one another:

The constraints in the centre reside in its fragmentation. There is no single centre but multiple centres ... the weakness of the centre resides in its ability to co-ordinate these multiple centres. The constraints on the centres reside in their non-executant nature; they do not deliver services but are dependent on a variety of other governmental units.

Thus the highly fragmented nature of central government has created a series of complex inter-dependency relationships, in which central government has become dependent upon other actors for both policy formulation and implementation. In turn these actors are dependent upon central government as the final decision-making arena within the political system. This process has been described as one of 'mutual interdependence' between governmental and non-governmental actors, where no one actor dominates the whole decision-making process and where negotiation and bargaining characterise interaction (Jordan and Richardson 1987, Rhodes 1988, Marsh and Rhodes 1992). Thus, arguing that a Scottish Parliament will be the compliant 'junior' to a Whitehall government and Westminster Parliament, is to offer a misleading analysis of the nature of the governing process in the UK. The relationship between a Scottish Parliament and a Whitehall government will, in all likelihood, be multi-dimensional and highly complex. As such, it is

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much more likely to resemble the 'mutual interdependence' model than the 'power dependency' model suggested by many of the Parliament's critics.

It is worth noting that in a previous publication a leading critic of the Scottish Parliament, Professor Arthur Midwinter, writing with one of the present paper's co-authors, noted the limitations of a simple power dependency model of intergovernmental relations:

...recent years have seen a growing recognition of the *interdependence* of the two levels of government, rather than concern for issues of central control or local autonomy.

(Midwinter and Mair 1987, p.162) (original emphasis)

It eludes us why a model rejected then should now be used to characterise the likely relationship between a Scottish Parliament and Westminster. The emphasis on imposition and absence of contingency built into the model has two serious consequences for those who argue that a Scottish Parliament will be dependent upon the Westminster government. First, the possibility that the Public Expenditure Planning system itself will evolve and change as a consequence of a Scottish Parliament is not envisaged. Yet this seems to us to be a real possibility when negotiations will be conducted by the executives of two elected Parliaments and not simply between the Treasury and a spending department. Second, the conclusion that 'these political arrangements cannot be left to be resolved after the event' (Midwinter and McVicar 1996, p.51) implies that decisions can be taken by policy makers and simply imposed on others. This ignores the literature on public policy making which emphasises complexity, interdependence and the implementation gap (see above). Our view would be that these issues could not possibly be resolved before the event and will be resolved as part of a post-devolution negotiated order. As suggested above, that negotiated order will not be characterised by an asymmetry of power.

The final assumption made by critics of the Parliament is that if it is to operate from a limited fiscal capacity, and be substantially constrained by Westminster, an elected Scottish Parliament is not worth having. If indeed limited financial autonomy precludes political choice and if dependence on block allocations from Westminster 'is not a mix for enhancing political accountability' (Midwinter and McVicar 1996, p. 51), then it would be impossible to defend local government as opposed to local administration. At minimum, a Scottish Parliament will have a legislative capacity that local government lacks and therefore, within constraints, the ability to enact the aspirations of the Scottish people. Equally, it will have a mandate to represent

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Scotland within the UK and internationally, something which no local authority has been able to achieve.

In our view, even if we accept the assumptions criticised above, a Scottish Parliament would still be worth having. Even a purely 'allocative' Parliament would democratise Scottish public spending decisions by opening the Scottish Office Block up to wider public scrutiny. However, we doubt the view that financial relations determine political relations. Financial arrangements express politics, they do not condition it. The assault on local government in the last 17 years has been financially mediated but it was conditioned by the politics of central-local relations. Equally, for a Scottish Parliament, if substantial friction around financial allocations occurs, it will express the political frictions of Scotland's relationship to the rest of the UK at any point in time. A key complaint about the last 17 years is that no vehicle has existed to allow such frictions to be expressed. Moreover, given that the Scottish Office administration in these years was formed by the Conservative Party which won less than one sixth of Scottish Parliamentary seats at the 1992 election, and which imposed expenditure limits on local authorities, none of which it controls, whatever the frictions, whatever the constraints, it is hard to imagine a Scottish Parliament being anything other than an improved 'mix for enhancing political accountability'.

CONCLUSIONS

To sum up, the assumptions that underpin the arguments made by the critics of a Scottish Parliament are a mix of the plain inaccurate, the simplistic, and the inconsistent. This does not, of course, mean that their predictions will not prove to be accurate. If they are, that outcome will be fortuitous and in spite of a methodological approach which is not grounded in rigorous academic analysis and the adoption of a discredited and dated theoretical model of inter-governmental relations in the UK.

At minimum, we have demonstrated that an alternative, and better informed, scenario exists to counter that suggested by critics of the Parliament. Our scenario recognises the reality of mutual interdependence between levels of government within the UK and suggests that a Scottish Parliament would have a significantly better bargaining position than that assumed by its critics. If a UK central government, of whichever political persuasion, entered into a war of attrition and sought to make a Scottish Parliament unworkable by undermining its financial basis, their actions would lead to the very process they say they are seeking to avoid, the destabilising of the Union. In addition

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the political dependence of any Labour (or coalition) government on Scottish votes makes any such attack on Scottish spending unlikely, but, if it happened, the Scottish Parliament would have a powerful negotiating position. In particular, the revenues from North Sea oil and gas would become focal issues, and the possibility of independence, and not merely devolution, would be a permanent constraint on Westminster.

Moreover, the idea that the creation of a Scottish Parliament would bring about an attack on Scotland's relative spending levels seems rather ill-informed as these levels are already under attack. The Government's published spending plans for the next three years show that Scottish Public Spending will fall in cash terms from £14.59bn in 1996/97 to £14.49bn in 1999/00. This marks a reduction of £100 million before inflation is taken into account; local government spending will carry the brunt of these reductions. Moreover, over the same period the plans also indicate that the Scottish share of the UK Control Total of Public Spending is planned to fall from 5.49% to 5.15% (HMSO 1996a,b). Far from a Scottish Parliament having a detrimental affect on Scottish Public Spending, our argument outlined above has been that it is the only vehicle likely to defend Scottish spending levels within the UK on their merits and to force recognition of Scotland's tax contributions to the UK. We do not envisage the proposed Parliament as a lottery ticket which will resolve the problems of future public spending in Scotland. We would argue the Parliament will not make the situation worse, and our analysis indicates that it has the potential to make it very much better.

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