

# A trend to decentralisation could favour independence

Mark Littlewood | 13th October 2017

Following the SNP conference, it may seem that the prospects of a split from the United Kingdom happening any time soon have diminished markedly since the Brexit vote just over a year ago.

However, SNP supporters shouldn't spend too much time crying into their Irn-Bru. Although their ultimate goal of leaving the Union after a second referendum is now some years off, they should reflect that a substantial number of economic and electoral trends are on their side. In particular, increasing antipathy towards centralised, detached bureaucracies. If the SNP focuses on pressing for increased devolution, with independence as the culmination of this process rather than the trigger for it, it has a compelling case to make.

The SNP — and the Scottish electorate as a whole — were solidly for Remain in last year's EU referendum, leading many English eurosceptics scratching their heads as to why anyone would want to escape imposition of laws from Westminster only to enthusiastically embrace increasing interference from Brussels. It is true that membership of the single market implies a substantial loss of sovereignty in determining regulatory standards, but on the key areas of tax and spending, the European Union — for now, at least — is little more than a rounding error in setting government policy.

Scottish Nationalists can point to economic theory, as well as substantial empirical evidence, to argue that a big transfer of powers away from Westminster to the nations and regions of the UK could be a win-win arrangement. A challenge that needs answering by enthusiastic Brexiteers is that if the key reason for departing the European Union was to escape the clutches of a remote bureaucracy incapable of tailoring policy to local needs, then why are we apparently content with such overwhelming fiscal control by Whitehall?

## The UK is highly centralised

On many measures, we have the most centralised government in the developed world. About 95 per cent of all taxation is raised at UK-wide level, the highest of any member of the G7. In stark contrast, Canada has a 50-50 split between national and localised levying of tax. Even France, often characterised as the epitome of a centralised bureaucracy, allows around 13 per cent of tax to be levied by devolved authorities.

It is true that the United Kingdom allows a rather higher proportion of spending at local or regional level, a bit more than a fifth of expenditure. However, this is still at the very low end by G7 standards and such expenditure is not as discretionary as it could be. In many cases, local spending amounts to little more than meeting nationally imposed statutory obligations.

Of course, the Scottish parliament is considerably more powerful than an English local authority and its powers over income tax have been enhanced recently, but this still falls well short of the sort of the full-scale federalism we could embrace and the SNP should be aggressively arguing for.

The theoretical reasons for believing that decentralising tax and spending yields welcome results are not dissimilar to the benefits of a dynamic market economy as a whole. In both cases, one can expect experimentation to be encouraged, best practice to be copied and enhanced competition between providers of government services to lead to increases in quality. If Whitehall were willing to surrender only a further 15 per cent of tax-raising powers to the nations of the UK, the stimulating effects could be dramatic. On some estimates, it could boost GDP per capita by as much as 6 per cent, about £1,800 per person.

### **Decentralisation produces better outcomes**

Helpfully for those arguing for a diminution of Westminster's fiscal clout, the evidence backs up the theory. Countries with substantial levels of decentralisation tend to produce better educational outcomes, higher incomes and greater levels of investment.

In decentralised Germany, Frankfurt airport opened a third runway in the 1980s and a fourth runway just a few years ago. It faced similar problems around local disruption and Nimby campaigning as those threatening the protracted efforts to expand Heathrow. The difference in getting improvements to Frankfurt's aviation infrastructure over the line was probably down to the resulting tax revenues remaining in the state of Hessen. In federal America, social security reform in the 1990s was in large part down to the success of a radical experiment in Wisconsin, where a "workfare" programme led welfare claims to drop by 40 per cent in just two years.

In stark contrast, the United Kingdom appears strait-jacketed and calcified. To be sure, there are some measurable differences between the Scottish and English performances on health, education and a few other areas of policy, but there is nothing like the scale of diversity that a fully federal Britain would provide.

If the UK is to hold together over the medium term, it is reasonable for foreign affairs and defence to be determined at a UK-wide level. There may even be some continued central funding for in-work benefits. But the entire structure of the welfare system, the setting of all taxes and the level of private involvement in provision of state services of all kinds can be left entirely to the discretion of the four constituent nations.

At her conference this week, Nicola Sturgeon may feel that her dream of full-blown Scottish independence needs to be postponed. But she and her colleagues should redouble their efforts in demanding a huge transfer of competences away from London.

**Mark Littlewood is director-general of the Institute of Economic Affairs. Twitter: @MarkJLittlewood**