



HOUSE OF LORDS

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Witnesses: Ms Katie Schmuecker, Professor John Simpson and Professor John Tomaney

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Members present

Lord MacGregor of Pulham Market (Chairman)
Lord Hollick
Baroness Kingsmill
Lord Lawson of Blaby
Lord Levene of Portsoken
Lord Lipsey
Lord McFall of Alcluith
Lord Shipley
Lord Smith of Clifton
Lord Tugendhat

Examination of Witnesses

Ms Katie Schmuecker, IPPR North; **Professor John Simpson**, Economist (Northern Ireland); and **Professor John Tomaney**, University of Newcastle.

Q244 The Chairman: Good afternoon and thank you very much for coming. Our witnesses today are Ms Schmuecker from IPPR North, Professor Tomaney of Newcastle University and Professor Simpson, an economist from Northern Ireland. Clearly, some questions will be relevant to the north of England, some to Scotland and some to Northern Ireland. Please answer when you think that they are of relevance to you, but some will be directed specifically. I will begin by asking a question that comes in two parts. Can you describe to us how the wealth and economic activity in Scotland and the north of England compare? In what ways are they similar and in what ways are they dissimilar?

Professor Tomaney: If we had been asked that question in the 1970s, we would have said that Scotland's performance and that of the north of England were quite similar. But since that period, if we take a broad measure such as GVA per head at a regional level, we see a marked divergence between the performance of Scotland and that of the north of England, particularly a region such as the north-east of England. In terms of GVA per head, from the end of the 1960s onwards we see London and the south-east of England pulling away from

the UK average; we see the northern regions declining in relation to the UK average; and we see Scotland, from about the 1980s, performing around the UK average. So the gap in percentage terms in GVA per head between a region such as the north-east and the south-east is something like 40 points, whereas Scotland is around the average—in the middle of the two curves on the graph. There has been a divergence in economic performance both between London and the south-east and the rest of the country, and also between the north of England and Scotland, in terms of that broad measure.

Ms Schmuecker: That is absolutely right. I will quantify that a little more. The most recent GVA per head figures that came out for 2010 showed Scotland at £20,200 and the UK at £20,400, whereas the figure for the north-east was £15,700. I have rounded the figures slightly. Certainly Scotland is performing at more or less the UK average, not just on GVA per head but also on other economic measures such as employment rates, unemployment rates and levels of economic activity. On all those measures, Scotland is near to if not at the UK average, whereas regions such as the north-east lag.

Q245 The Chairman: How would you describe the way in which the north of England and Scotland look at each other, and the degree of economic integration between the two? Is the north of England more integrated with Scotland than with the rest of the UK? In that context, would the economic cycles of Scotland and the north of England converge or diverge if Scotland became independent?

Ms Schmuecker: It is difficult to answer that question because the data that you would need are not readily available. Clearly there are areas of common sectoral interest. For example, in the oil and gas industry, the two economies are very interdependent down the supply chain. The central belt of Scotland depends quite heavily on the Port of Tyne and on Teesport for the export of goods. So there are examples of where the two economies are interdependent and intertwined. Certainly they have some things in common: for example, a

slightly higher proportion of manufacturing in the economies of both places. To say how independence would affect that, one would almost have to get out a crystal ball; it is extraordinarily difficult to begin to disentangle some of these things. It would depend very much on what decisions an independent Scotland would take and what kinds of barriers might be established across the border between the two countries. So it is difficult to answer that question.

Professor Tomaney: I will add to that that if we were to compare the degree of integration between the north of England and Scotland, and the north of England and Wales, for instance, we would see that there was a much higher degree of integration in the case of the north-west of England and Wales. That is because we are dealing with a functionally integrated urban region with quite extensive overlapping travel-to-work areas. That is not the case in the relationship between the north of England and Scotland. On labour markets, for instance, the degree of integration is comparatively low. There are other functional forms of integration that Katie Schmuecker just mentioned. I agree with her that it is very difficult to predict what the impact of independence would be on the kinds of integration that exist between different regional economies. It would all depend on the extent to which a kind of jurisdictional competition emerged between England and Scotland in battles for resources such as foreign direct investment and so on. We have some insights into what that might look like, based on past and current trends. They may accentuate or intensify post independence.

The Chairman: I think that we may come to some of the issues that may affect that later in our questions.

Q246 Lord Tugendhat: Leading on from that, perhaps you could tell us what the sentiment of business in the north of England is towards the debate over Scottish independence. Is there any evidence that it is having any impact as yet on companies' choices

of where they locate? Is it having an impact in Northern Ireland as well? Is it in the front of people's minds and influencing decisions, or is it something that people have not really faced up to in these two areas?

Professor Tomaney: My view on that would be—again, no research has been done on the question, so evidence is somewhat anecdotal—that in my discussions with business people, it has not emerged as a key priority. It is not at the forefront of the thinking of business people. They have many more pressing concerns on their minds in the current climate. Having said that, some business organisations have begun to think about these issues, and I think that they tend to see Scottish independence more in terms of threats than opportunities. That is my impression, based on discussions I have had with business organisations. But in a sense this is not being widely discussed by the man on the Newcastle equivalent of the Clapham omnibus. It perhaps gets a mention in the press.

There has been some public attention in relation to a small number of high-profile inward investment decisions taken recently that have favoured Scotland. I will give a couple of highly publicised examples. The decision of Gamesa to invest in a facility for the production of offshore wind turbines in Leith rather than Hartlepool, for instance, got a lot of attention. The other was the decision of Amazon to locate a facility in Scotland rather than in north Tyneside. That generated a degree of political and media attention, but it was very short lived. I have no idea whether these decisions speak of a larger trend or whether they are straws in the wind. It is difficult to tell at this stage. There have always been examples of investors choosing Scotland over the north-east, and there have been examples of the opposite. So it is hard to know whether this is a trend or whether it is just a couple of well publicised examples.

Q247 Lord Tugendhat: What about Northern Ireland?

Professor Simpson: I will provide some scene setting in answer to your question. At the moment there is a fear in the business community about the well integrated economy of these islands, which has been improving in integration terms over the past few decades. The fear is that that degree of economic integration will somehow fracture. The form this might take is now up for debate, with speculation about when Scotland might decide to act. Certainly there is an increasing awareness that this could become, in investment terms, more of a competitive relationship. Some business people would describe it as a situation where they would prefer it if the elements of these islands were not going to compete for who gets the biggest bit of assistance from whichever Government in whichever part of these islands. There is a fear of this split. We already have a very divided set of islands, with levels of devolution. The ultimate devolution was when the Irish south of the border went their own way. We have spent the past few decades trying to repair the border so that we have much more of an economically integrated island. The question is: is anything likely to emerge from this that will fracture the seamlessness of the economies of these islands?

Q248 Lord Lawson of Blaby: May I ask a supplementary question on that? You alluded to your experience of part of the United Kingdom gaining its independence right next door to you. Are there any lessons from that which you think might be of interest or relevance to the rest of the United Kingdom in the event of Scotland going the way that the Republic of Ireland did? If so, what are the lessons?

Professor Simpson: I think that the strongest lesson—I am not sure how widely this view is held—would be that the attempt following Irish independence to become a protective economy with protective tariffs and an “ourselves alone” approach turned out to be a mistake, as the Irish themselves would agree. But it took until the 1950s for that to be corrected. On the island of Ireland, we now have an agreement that the one thing we do not

want to do is make the economy of the island more divided and fractionalised than is necessary.

Q249 The Chairman: Professor Tomaney, I would like to follow up on the question of Lord Tugendhat. I do not know whether you have seen the written evidence we have had from Newcastle international airport. It is quite short. They express obvious concern about the possibility in the case of Scottish independence of air passenger duty being very different from what it is at the moment. They analysed the risks of this and put forward a possible solution that I think is pretty unlikely. Their conclusion was that the consequences of such a move for the economy of the north-east of England would be devastating for jobs. I do not know whether that has had much publicity in the north-east. Lord Shipley may like to ask further questions about that. What is your reaction to that analysis?

Professor Tomaney: It has had a little publicity. The question of air passenger duty charges has had a huge amount of publicity in the region. It is probably fair to say that Newcastle airport has been one of the most vociferous opponents of increases in that charge. The argument is that it is a restraint on the competitiveness of Newcastle airport. They can provide evidence that some of their passengers come from Scotland to fly out of Newcastle. I think that their argument is a bit speculative, and that there would be European-level state aid restraints on what any Government could do in relation to this kind of competition. But you could envisage a situation in which there was a heightened degree of competition between, say, Newcastle and Edinburgh airports for the passenger market of the Lothians, and even for the passenger market in the north of England—people could travel north. That has to be set in the context of the complicated scene of airport capacity across the north of England. There are big questions about whether we have the right configuration of airports and so on. That would have to be brought into the mix.

Professor Simpson: Chairman, the issue that you asked about already exists in a very intense form on the island of Ireland between Northern Ireland airports and Dublin. The Irish Government have a passenger duty of €3 per flight, which is very small. The British rate applies in the same way to departing Belfast flights as it does to flights departing from anywhere here. The net result has been that the Treasury here has agreed that Northern Ireland should have the authority to set its own air passenger tax on long-haul flights outside these islands. Northern Ireland politicians argued strongly for that because of the distortion of trade from Belfast to Dublin, but one interesting thing is that the net effect is that it is becoming a Barnett formula-type question. If you are going to have tax authority yourselves, do not expect the Treasury to subsidise you if you then cut your rates. However, the intention of Northern Ireland politicians is to match the Dublin rates.

Q250 Lord Hollick: Did Gamesa or Amazon give any reasons for their decision to locate north of the border rather than in the north-east?

Ms Schmuecker: There is some speculation—although in the work we have done we have not been able to find evidence for it—that in the Amazon case one thing that was on their mind was the SNP's commitment to dropping corporation tax to a Republic of Ireland level in an independent Scotland. We think that there are huge questions about their ability to do that, but that is believed to be one reason why they located where they did. Perhaps more concretely, there was also a subsidy of £1.8 million towards training costs. That leads us to a very interesting question about the degree to which there is a level playing field between the north-east of England and Scotland. Obviously, the north-east of England no longer has its regional development agency, which in the past would play a role and be involved in those kinds of negotiations, and would have had a budget to be able to make a similar sort of offer. The local enterprise partnerships that we now have in place in England do not yet have any

sort of capacity and do not as yet hold budgets of the sort that would enable them to engage in that sort of activity.

Q251 Lord Hollick: When these decisions were made in the past, was the availability of skills at the forefront of the decision?

Ms Schmuecker: Absolutely. If you look at the reasons on which companies base their location decisions, tax is in there but it is not the most important thing. The most important things are the cost of labour, the adequacy of skills, transportation—a lot of things rank higher than tax in locational decisions.

Professor Tomaney: In the case of Gamesa, the company strongly emphasised in its public statements the package of skills and training support that the Scottish Government and Scottish Enterprise were able to provide. We cannot be 100% certain about how much that weighed in the decision, but it was certainly something that the company emphasised. I endorse what Katie Schmuecker said. In Scotland, when it comes to competition for big investments such as the Gamesa one, you have a very powerful set of institutions with a great deal of autonomy to develop their own tailor-made packages. That clearly does not exist in the English regions. It did to some extent with the regional development agencies, but we do not have those any more; they have been replaced by local enterprise partnerships, which are on a much smaller scale. There is an inequity there, without question.

Q252 Lord Shipley: I have a question for Professor Simpson. The context for this is the submission that we have received from Newcastle international airport, which wants a level playing field in air passenger duty. Professor Simpson, you talked earlier on the basis of historical experience about the importance of the economy of these islands being integrated. Do you think that it is right for there to be different rates of air passenger duty within the United Kingdom—and within Ireland?

Professor Simpson: Your afterthought is the heart of the difficulty. Clearly, at the moment both the British Government and the Irish Government can set air passenger duty, which they do not need to harmonise. The Irish Government have taken the view that a very low level of air passenger taxation is appropriate to their needs in terms of tourism and everything else. The Northern Ireland politicians have spotted this, and we now have a very much improved infrastructure links with Dublin airport. The two main Northern Ireland airports say that they are losing a proportion—they might make it sound a bit bigger—of traffic to Dublin, where the fares can be lower because air passenger duty is lower. There is now pressure on the Northern Ireland Administration, given devolution—which is not quite independence—to set its own rate. In some ways, that is a race that I do not like to see happening. It would be better if we had better co-ordination of the arrangements.

Q253 Lord Shipley: Might it follow that such a race might occur in different kinds of taxation, not just around air passenger duty? Could what has happened in the air passenger duty field easily happen elsewhere?

Professor Simpson: Air passenger duty is the second area in which this has happened. The primary example will be seen next week, when the Treasury will be debating whether to give the Northern Ireland Administration permission to set its own level of corporation tax. That has been worked out in legal terms within the European framework following the example of the Azores—which one or two of you may have come across—under a framework whereby a region may be allowed to set its own rate of corporation tax provided that it is not subsidised from the centre. Northern Ireland hopes to get permission from a reluctant Treasury to set its own rate of corporation tax, which it would like to set at 12.5%—guess why—which would compare with the Irish rate. Indeed, a certain First Minister said that he might even make it 10%. The net result is that a proportion of Northern Ireland's Barnett formula revenue will have to be forgone. The big issue in the

debate is that the political parties are saying that they will do that, but the public are saying in opinion polls that they do not like the thought of taking away £X million from education and health in order to pay for this.

Professor Tomaney: Let me add a more general comment on this competition between airports. Clearly, across Europe there has been a huge explosion in competition between cities and regions for tourism markets based around all kinds of investment in airports. There is no question that in France, for instance, regional and city governments have in effect subsidised the development of airports in order to attract tourists. In the case of the relationship between, say, Newcastle airport and Edinburgh airport, the fear is that we too will see the quite fierce competition in the airport industry that is already happening on a Europe-wide scale, which to some extent is driven by the demands of the low-cost airlines.

Q254 Lord Levene of Portsoken: Are we not in danger of somewhat losing the plot here? If I remember correctly, air passenger duty was originally brought in to try to reduce pollution—

Lord Lawson of Blaby: That is what was said.

Lord Levene of Portsoken: I agree that is what was said. The notion that air passenger duty can be used as a competitive element to encourage more people to travel seems to cut right across the whole notion of the tax in the first place.

Professor Tomaney: That is why I made the broader point that we should not get fixated on air passenger duty, because local and regional authorities across Europe find lots of ways to support their local airports in the competition for passenger numbers. That can include building new terminals and reducing landing charges and all sorts of things. When you create new jurisdictions, there is the possibility of interjurisdictional competition. In the case of the north-east, that is something that any sensible business person or politician ought to be thinking about. These new forms of competition might emerge if we have an independent

Scotland that is able to vary all kinds of taxation—not necessarily just air passenger duty—or make investments in infrastructure such as airports.

Q255 Lord Smith of Clifton: We have already touched on the Barnett formula. As you know, the Barnett formula is the means by which government expenditure is rebalanced among the nations of the UK. Given that citizens in the north have average household incomes below those in Scotland, do you believe that this balancing is unfair to the regions? In the event of Scotland becoming independent, do you expect that there would be demand for a similar redistributive method to the north of England? Would there also be implications for Northern Ireland? We have already touched on that to some extent.

Ms Schmuecker: In considering the Barnett formula, it is important to remember that at the moment it has no bearing whatsoever on the distribution of funding within England; it applies only to the distribution of funding to Scotland, Wales and Northern Ireland based on levels of spending in England. The Barnett formula is essentially based on spending decisions in England with a population formula and some historical practice attached to it, so it is a sort of combination of historical accident and a population formula. Certainly our research into this area has found that, if you look at the amount of spending in each part of the UK, including each English region, compared to levels of need, the amount of funding that goes to each part of the UK does not really correspond to a fair formula—if you take fairness to mean that spending is in some way in line with the level of need in the different parts of the country. Certainly, Scotland and also London emerge as the strong outliers, in that they are the places that receive more public spending overall compared to the level of need that is exhibited in socio-economic terms. Therefore, there are definitely good grounds for arguing that the Barnett formula does not deliver according to need. Of course, the Barnett formula is not designed to deliver according to need. I think that we have to remember that when

we are talking about these things, and I think that a good argument can be made as to why a needs-based formula would be better.

On what might happen to the Barnett formula as we go through this process, there are two issues. One is that, under independence, the Barnett formula would no longer apply to Scotland but could carry on just as it is applying only to Wales and Northern Ireland. However, it is fair to say that the Barnett formula does not have a huge number of fans in Wales or Northern Ireland—although perhaps I should not include Northern Ireland—so I think that there would potentially be an opportunity for revisiting the formula at that point.

An interesting question is what happens under a devolution-max scenario because, as has been mentioned, under the Azores ruling the provision of greater fiscal autonomy to the different parts of the UK cannot be offset by fiscal transfers from the centre to make up the difference. One of the things that northern businesses tend to be a little bit concerned about is not so much Scottish independence as devolution max, which they regard as giving Scotland the best of both worlds: on the one hand devo max gives Scotland fiscal instruments to use, but on the other hand it still involves a fiscal transfer from the centre. However, I think that the Azores ruling makes it quite questionable as to how far that could be the case, because it would have to be within EU rules.

However, when you are cutting and cutting the amount of the block grant in order to reflect the amount of fiscal autonomy that the different parts of the UK have, there comes a point at which you need to question whether the Barnett formula can be sustained. There is a big question about the point at which that might happen. Certainly, there are people in the north of England who have long regarded the Barnett formula as unfair—they regard the amount of spending per head that Scotland receives as being rather unfair—and would like to see it reformed. The difficulty of course in the case of the north of England is that, if you were to create a block grant to give to the English regions, who would spend it? There is no

institution or representative body that is equivalent to the Scottish Parliament that would be able to be in receipt of that grant. There are those practical difficulties, but I certainly think that many people in the north of England would be glad to see the back of the Barnett formula.

Professor Simpson: The Barnett formula has had the effect of redistributing resources to the three territories. That is not in dispute. As Katie Schmuecker has said, the Barnett formula does not apply to the north-east or north-west, but nevertheless, in terms of identifiable expenditure in the United Kingdom, that could be argued for on the basis of need. I am just scanning the figures here: for the year 2010-11, against a United Kingdom baseline of 100, Northern Ireland's expenditure allocation came out favourably at 121—in other words, it was 21% up—whereas Scotland came out at 115 and the north-east of England came through with 107. The important point about Scotland becoming independent is that such levels of spending would not then be in difficulty, because the hope of those arguing for Scottish independence is that they would be able to finance that level of spending because of the way in which revenue that is not currently allocated to Scotland could accrue to it.

What can be said for Wales and Northern Ireland, if they are to have devolved Administrations, is that something like a Barnett formula is necessary. Over the years—including when some here would have been in important positions in HMG—attempts have been made to assess how to introduce a needs-based formula, but we have continued to live with the Barnett formula, which is a marginal incremental adjustment formula. The Barnett formula is crude, but certainly from the Northern Ireland perspective any discussion about changing it creates the fear that the net answer would probably be lower, and that is not entirely popular.

Q256 Lord Shipley: Katie Schmuecker mentioned earlier that there is no regional body to which a block grant could be given if there was to be a disbursal along the lines of the Barnett formula. That takes me to this question: if Scotland became independent, is there more likely to be a demand in the northern regions—in the north-east in particular, where there was a referendum back in 2004 in which there was very little support, but also in Yorkshire and the north-west—for some kind of representative body that would represent more than, say, combined authorities or local enterprise partnerships? That might be north-wide or it might cover the three regions or it might be something slightly different from that.

Professor Tomaney: I think that there is often an incipient demand for more local power, but we face this paradox in the north of England that, whenever additional local power or constitutional change is offered, people reject it. That has been the case not just in the referendum on a regional assembly but in the recent mayoral referendums, which were defeated, in Newcastle and other northern cities. My view is that you could very easily envisage a situation in which tensions rise and a sense of unfairness grows among the population, but whether that would be transformed into a clearly articulated demand for a widely agreed set of institutions, I am not clear and I am not sure that I see the evidence that that would be the case. Wherever we have these constitutional proposals, it seems to be much easier to make the case against them than to make the case for them. Therefore, I do not see that as inevitable by any stretch of the imagination. That is not to say that it is impossible to create a widely founded consensus about the case for institutional reform, but I think that one of the lessons that we have learnt from previous attempts, as it were, to offset devolution to Scotland and Wales with changes in the English context—whether at the city level or at the regional level—is that this has to be something that emerges from the regions themselves rather than something that is in any way perceived as being imposed on

them from the centre, however rational the arguments might be that the centre is making. That is the lesson that I draw from the failed efforts to date.

Ms Schmuecker: I would certainly agree with that, but I think what is inevitable after this process is that simply having the conversation about Scotland's constitutional feature—whether that is devo max or independence—will have some sort of back-wash into England in the sense of a debate about how England is governed. That may well take the form of a discussion about an English Parliament or a discussion about how business is done here in the House of Commons, but I think that it is very important that, as part of that, there is a discussion about what a decentralisation of England looks like. If England has been the hole in the middle of the devolution settlement, the way in which England is governed has been the hole in the middle of that question.

If you look at the two options that have already been rejected in referendums, the problems that they both shared was that it was not clear enough what was actually on offer and how that would be able to be used or how it would be a more powerful system than we currently have in place. It was very difficult to say in concrete terms what an elected regional assembly or an elected city mayor would be able to do above and beyond what already happens apart from some vague promise of more powers to follow, which—believe me from personal experience as one who, in a prior life, worked for the campaign for an elected regional assembly—can be difficult to sell to voters. I think that this debate will come back and we need to have a very serious discussion about what an answer to that part of the English question—the degree to which England is centralised—might look like. There are various options that are beginning to be discussed around, possibly, elected mayors for city regions or some other more powerful form of city regional government, such as a combined authority model to provide some kind of north-wide body. If you are talking about the spending of block grants, it may be that the bigger scale makes more sense there.

Professor Tomaney: Following on from what Katie Schmuecker has said, it seems to me that in England we have struggled really for about 30 or 40 years to come up with a solution to the governance of England at the sub-national scale. We have this pendulum that has swung towards regionalism in the 1960s and 1970s, back towards localism under the Thatcher and Major Governments, back towards regionalism under Labour and back now towards localism. In relation to questions of sub-national governance in England, a change of Government usually involves ripping everything up and starting again. What we seem to struggle to do is to achieve a consensus about what would be the appropriate lasting kinds of institutions at the sub-national level that would help to deal with the kinds of social and economic challenges that the north of England faces. I think that remains an outstanding challenging. It did not surprise me at all that there was a big wave of rejection of the proposals for city mayors because there was no real consensus around that idea; there was a lot of dissension in fact and a lot of opposition and controversy, mixed with an even bigger dose of ignorance and disinterest, which was really the main public response to it. I think that this is an important question, which we have consistently failed to address successfully in England.

Q257 Lord Levene of Portsoken: Professor Simpson, you were saying earlier that people in Scotland might not have realised that they had the opportunity to spend this funding that is allocated to them in different ways. Where do you think that funding would come from?

Professor Simpson: What I was trying to say was that the present Barnett formula allocation results in Scotland having a level of expenditure that, on the basis of comparison with the English regions—less so with Northern Ireland—gives a level of expenditure that must be about appropriate if not a bit generous in terms of need. The interesting thing about Scottish independence is that, if we had had to debate it in the context that Scotland would

not be able to raise enough revenue to maintain its present level of services, the debate would be different. However, it has become a realistic debate because those who would see themselves as a Scottish Government believe that they can maintain the present levels of service and possibly improve them with new arrangements. That only applies to Scotland because there is this underpinning of a very strong assumption about potential revenue.

Q258 The Chairman: Are you referring there to North Sea oil?

Professor Simpson: Yes. As Professor McCrone tried to illustrate when he gave evidence to the Committee, that makes the further assumption that Shetland—I have learnt to pronounce it as “Shetland” rather than “the Shetlands”—remains within Scotland. Obviously, we are making that assumption, but Professor McCrone drew our attention to the fact that the only other changes within the European framework within the past 40 to 50 years was when Greenland, which had been part of Denmark, decided to leave the European Community. The Faroes are also in a different relationship with Denmark. The concept of different relationships is there and is for debate. If this independence concept has to be argued through the right international institutions, the question will be: what will be the international constraints?

Q259 Lord Lipsey: Can I return to immigration policy? The current Scottish Government have indicated that, with further devolution, they would have a very liberal immigration policy, whereas the north of England, as part of Britain, would have a tightening immigration policy. Do you think that the two bits could have different policies operating? What would the effects of that be? It would be particularly interesting to have Professor Simpson's observations on this, given the situation that has obtained in Ireland, where there has been a liberal immigration policy in the south and a more restrictive one in the north.

Professor Simpson: My assessment of the position in Northern Ireland over the past 10 to 15 years has been that we have had a liberal migration policy as part of the European Union.

To my surprise, as someone who grew up never having met anyone from outside the British Isles who had come to live in Northern Ireland by choice, I find that Northern Ireland now has a very large population of Lithuanians, Latvians, some Estonians and some Poles, due to the workings of the labour market across Europe. Indeed, one of the immediate effects of the current recession has been the degree to which these immigrant communities have felt under pressure, and some have returned to from whence they came. What is happening in Northern Ireland is paralleled now in the south of Ireland, which is now living with a return to a scale of emigration that people thought had gone. That has returned because of the exceptional severity of the present changes. I would say that we have signed up to a very liberal migration policy within the European Union. You will not find many people coming to Northern Ireland from south of the Mediterranean or from the Far East, but nevertheless migrants make up a significant part of the labour force.

Professor Tomaney: This is one of a number of areas where it is difficult to predict what the outcomes would be, and I do not know of any serious research that is being done to investigate this hypothesis. One area where I have heard concern expressed is in competition for international students. Almost all British universities are now very reliant on attracting foreign students, who are a key component of their business model in most cases. If you had a situation where obtaining a student visa was very difficult for England but relatively easy for Scotland, that would be an example of where a different immigration policy regime could have quite a big economic impact on the north of England.

Beyond that, it is very difficult to predict what the effects of competition around migration laws would be. A lot would be determined by the relative state of the economies. Edinburgh and to some extent Aberdeen are successful regional economies within the Scottish context and have been very powerful magnets for migrants, and the Scottish Government's fresh talent initiative was obviously aimed at all of that. By comparison, migration has not had such

a big impact on the economy of north-east England because the opportunities there have not been as great: we have been growing at a slower rate and we have been creating fewer jobs than the Edinburgh and Aberdeen economies. It is a question not just of the policy regime but of the economic performance and whether there is a demand for labour, and it is very difficult to predict what the impacts of that would be.

Ms Schmuecker: I think that that is right. The only thing that I would add is that, when the fresh talent initiative first came about, there was a view in the north of England that the sorts of issues that Scotland was trying to tackle through that policy—attracting a high-skilled workforce that would be more entrepreneurial and more innovative and using that as a way of offsetting an ageing and declining population—are all challenges that face the northern regions as well. At the time that the fresh talent initiative was introduced, there was certainly some discussion about greater variation within immigration policy within the UK, which was something that Scotland had managed to negotiate with the UK Government despite not formally having devolved powers in that area.

Q260 Lord Hollick: Has the existence of free education in Scotland had a detrimental impact on the higher education institutions in the north-east? If Scotland became independent, it would be required under European rules to extend free education to those from elsewhere in the United Kingdom. That might be rather difficult to sustain.

Professor Tomaney: I am unaware of any detrimental impact to date on north-east universities as a result of the differences in fee regimes between Scotland and England. We do not really know what is going to happen once English fees go up to £9,000—I have asked my vice-chancellor this very question, and he said, “I don’t know”—so most universities are in a position of leaping into the dark in all of this, and it may be that there are impacts and implications that we cannot foresee. Having said that, I agree that it seems unlikely that the current Scottish policy position could be sustained in the context where an independent

Scotland was a member of the EU. If the position was sustained, that would be a potentially big threat particularly to universities in the north-east, where there would be a tremendous incentive to move across the border to get low-cost higher education. That would be almost inevitable, one would have thought, but it seems unlikely to my mind that such a policy scenario would develop.

Q261 The Chairman: Why do you say that it would be unlikely?

Professor Tomaney: There are questions about how it would be paid for by the Scottish Government and there are questions of how that would be regulated at the European level. I can foresee all kinds of questions being raised about that, but it is an imponderable at this stage.

Q262 The Chairman: Is not the most likely scenario that the Scottish universities would have to offer no tuition fees to students coming from England?

Professor Tomaney: That was my point, and I wonder how a Scottish Government would fund that sort of scenario. That would require some very big decisions on the part of the Scottish Government as to how they deployed their resources in effect to subsidise the education of England's students. How that would play out, in political terms and in media terms, I do not know, but you could envisage a situation in which a student who had to pay £9,000 a year to study at Newcastle University could go to Edinburgh University for a free education. I foresee many obstacles before we reach that point.

Q263 Baroness Kingsmill: Would it not work the other way round? Would not the Scots be obliged to abandon their free higher education policy? They would have to charge the same as the UK as part of EU law.

Professor Tomaney: That was my point.

The Chairman: That would be quite a difficult policy issue for a future Scottish Government.

Professor Simpson: I am sure that we would all agree that the current institutional arrangements are an unfortunate accident of the way in which the European rules have been framed. Would any of us have invented the present division if it had been up to us? To give an illustration of how this can become even more awkward, it is the right of anyone living in Northern Ireland to claim an Irish passport, so it is possible to arrive in Scotland carrying an Irish passport saying that you come from another country, which allows you to ask for free university education, even though you come from part of the United Kingdom and therefore should be asked to pay.

The Chairman: That is interesting.

Lord Smith of Clifton: In my experience, these things are very price sensitive. In Northern Ireland in the 1990s, the university of which I was vice-chancellor had the largest proportion of EU students of all British universities because they all came up from the south—they were Irish rather than “continental”—and that changed again when the regime changed in the Republic, which introduced fees. We then had an even bigger increase in applications from the south. There had always been a significant number of Northern Irish school leavers who went to the south, but that also stopped. And these were not big fees—we are not talking about £9,000 a year. So cross-border student transfer levels seem to be very price sensitive.

Professor Simpson: One of the artificial distortions of borders on these islands has been the way in which it has interfered with higher education.

The Chairman: But we will not go there today.

Q264 Lord McFall of Alcluith: Professor Simpson spoke about Scotland becoming independent and the Scottish Government feeling confident that they would be able to maintain the same level of services. Do you believe that such confidence is sound, in your experience?

Professor Simpson: Some of the best Scottish accents that I hear support that view, and I rely on them because of the authority with which they deliver those statements. The short answer is that the evidence as published by the Scottish Parliament gives you options that show that that is possible. I suspect that we would all prefer an authoritative analysis of that before any referendum or political decisions are ultimately made. If I were an average citizen north of the border, I would want to know whether the Scottish Government could finance itself.

Q265 Lord McFall of Alcluith: Let me say then, in the finest Scottish accent, stop giving me the patter and give your real view. Do you think that it is soundly based?

Professor Simpson: In short, my suspicion is that it is not.

Q266 Lord McFall of Alcluith: Okay, that is fine. That is what I am looking for. In terms of devo max, given that Calman has already given the Scottish Parliament power to vary taxation, what do you envisage devo max would comprise?

Ms Schmuecker: I think that it depends very much on how we get to the point of having a conversation about devo max. What I mean by that is whether it is in the referendum question. I think that, if devo max is offered as one of the referendum questions, opinion polling evidence suggests that it is the most likely answer, which most people would support. The Scottish Government would then have a very strong basis from which to negotiate if it had a referendum answer behind it. If devo max is not included in the referendum and it comes down to a negotiation between the UK Government and the Scottish Government, I think that we are likely to see what the IPPR has started to refer to as “devo more” rather than devo max—just to introduce some more jargon into the proceedings—by which we mean something that is beyond the Scotland Act 2012 but not quite as fulsome as full fiscal autonomy or whatever people think devo max might look like.

Q267 Lord McFall of Alcluith: Perhaps Professor Tomaney could give his opinion on that and his views regarding any concerns about the possible differences in tax rates between an independent Scotland and the rest of the UK.

Professor Tomaney: This is an area where the north of England could be at an enormous disadvantage if there is an independent Scotland with a full range of tax-raising powers, including the ability to lower corporation tax below the English level and to intervene in all kinds of other ways to make Scotland tax competitive. That is a really big threat for the north of England. I also agree that, in many ways, devo max may be the bigger threat if Scotland stays within the UK but has a very substantial range of autonomy in relation to the setting of taxes, whether those are corporation tax rates, personal tax rates or whatever.

That could be as big a—if not a bigger—challenge for the north of England as independence would be because it would pose quite profound challenges for the north of England, which is nowhere near having the capacity to compete in that sense.

However, I would emphasise that I see these things as part of a long, evolving process. The divergences can really be said to have begun in the 1970s when the Scottish Development Agency was first established, which gave certain kinds of economic development advantages that were not available in the north of England. In a sense, many of the debates about what is necessary for economic development in the north of England have taken their cue from developments that have taken place in Scotland. Many of the things that we are worrying about now in terms of Scotland's ability to attract a higher proportion of foreign direct investment are already there. We can already see that Scotland has advantages. The question is how much more advantage will independence, devo max or more devolution or whatever provide.

Q268 Lord McFall of Alcluith: Under such a system, could you see a greater degree of mobility of labour across that border? As happened in the case of Northern Ireland and the

Republic of Ireland, could there be huge sheds on either sides of the border determined by their favourable tax treatment on either side?

Professor Tomaney: Yes, I think that you could see that. In the case of Ireland from the end of the 1980s through the 1990s and into the 2000s—the “Celtic tiger” era—clearly, Ireland had a rapidly growing economy with huge labour shortages that was sucking in labour not just from Northern Ireland but from all over Europe. If the Scottish economy recovers through the financial services sector in Edinburgh or through the oil and gas industry around Aberdeen continuing to grow, you can envisage a situation where people move north to take advantage of that, as they do already. A lot of the oil and gas companies in Aberdeen employ engineering workers from the north-east of England—you meet them in Amsterdam airport or Heathrow flying back from wherever they have been in the world—so that phenomenon already exists. Without question, it could accentuate.

Q269 Lord McFall of Alcluith: Professor Tomaney, I notice from your CV that you have looked at issues of identity, territory and democracy in relation to devolution in other states. In terms of the independence referendum, the economy will certainly feature. How much do you think the elements of identity, territory and democracy will feature in the referendum?

Professor Tomaney: My view is that there are plenty of examples from around the world where, if you like, questions of identity and territorial attachment trump economic arguments. There are many cases from around the world where you could make a strong argument that the countries should not have separated—Czechoslovakia may be a case in point—but, once the issue is cast in terms of identity, I think that it is very difficult to bring economic arguments to bear in those debates. The questions of identity have a power and a logic that are different to the arguments about economic development. There is always this argument that having our own institutions will allow us to develop our economy more

successfully on the one hand, and on the other hand there is the argument that separating will have economic costs associated with it. In the end, my suspicion is that those arguments are not really the ones on which voters will make up their minds in referendums; they will make up their minds on much more basic questions, in which issues of identity can be—although perhaps not always—very powerful.

Q270 Lord Hollick: Three weeks ago, the Chancellor of the Exchequer suggested that he would be in favour of devolving more tax-raising powers, in particular individual taxes, to Scotland. I happened to be in Scotland at that time and it was fairly roundly rejected as being a half-measure where a full measure was needed. What was the reaction in the north-east of England?

Professor Tomaney: I am unaware that there was any reaction.

Ms Schmuecker: There was not much of a reaction.

Professor Tomaney: What you have to understand is that, with the exception of a certain number of issues that appear in the local papers, there is not a high level of understanding even among decision makers in the north-east of England about the way in which the debate in Scotland is developing. I consider myself relatively informed about these issues, but it is actually hard to find out. You have to read *The Scotsman* every day or listen to Radio Scotland online. You may do that when something really interesting is happening, but on a day-to-day basis even the most informed and educated people in the north-east of England do not know what is happening in Scotland and do not know what the terms of the debate are around devolution and independence. That is a bit of a worry in a sense, because there is a lot happening that our political leaders in the region should have something to say about, but they do not know and are not able to make informed comment or show leadership.

Q271 The Chairman: Does that point about lack of knowledge and lack of interest also apply to leading businessmen? I can see it applying to Joe Soap in the pub, but does it also apply to those others?

Professor Tomaney: To the extent that we can talk about, if you like, a north-east elite comprising political leaders and business leaders, in my experience—I talk to them individually and collectively from time to time—I do not find a high level of knowledge about what is happening in Scotland; on the contrary, I find the opposite because there is a high level of ignorance and, in many cases, misunderstanding about what is happening.

Ms Schmuecker: I would agree with a lot of that. Certainly some of our work on the possible implications of Scottish independence or devo max for the north of England has come about as a result of the reaction among some business leaders and political leaders about what might happen in Scotland. Regarding this fear that an independent Scotland will slash its corporation tax and business will immediately drain north over the border, our research shows that that is somewhat overplayed as there are all sorts of obstacles in the way of that happening. Similarly, on the fine-grained detail of what sorts of fiscal powers and levers might be devolved, there just is not that level of engagement with the debate at the moment. If you look back to the 1970s, politicians from the north of England scuppered devolution, but although there is interest around these questions there is not yet a very high degree of gripping the details.

Q272 Baroness Kingsmill: Part of the purpose of this inquiry is to raise consciousness a bit and to explore some of the issues. An interesting issue is what currency Scotland would use in the event of independence. Would it be the euro or the pound? Some have even speculated that it might be the groat or some such. There would be implications if Scotland chose to have a currency other than the pound, and it would be quite interesting to hear your views on the matter. Anecdotally, I spent my summer last year at Lake Como, where

the roads were jammed with Swiss coming over the border to spend all their Swiss francs in the euro area—though a stop has been put to that now. What is your view on that issue?

Ms Schmuecker: That is another question that is incredibly difficult to answer with any degree of certainty whatsoever, other than to say that a lot of Scottish people whom I know complain that in England they cannot even spend the current Scottish bank notes let alone any other currency. The only thing that I can say about this, which may or may not be interesting to you, goes back to our earlier conversation about what “devo more” or devo max might look like and how an independent Scotland might be constrained in its activities. If an independent Scotland kept the pound—as the current leadership in Scotland is talking about—that would maintain a monetary relationship with the UK Government and would give the UK Government a lever with which it would be able to influence what happens in Scotland, perhaps through some sort of fiscal pact. Of course, there are other options open, such as using the euro, which may or may not be an option, or creating some other currency or simply using the pound without the UK’s permission, as some South American countries have done with the dollar. There are various options out there, and it is very difficult to say with any certainty which one Scotland might opt for. However, there is an interesting dynamic around what might happen if Scotland keeps the pound. Maintaining that element of the relationship would, I think, give the UK Government some leverage over the degree of harmonisation of tax rates, for example.

Professor Simpson: If I were in the unhappy position of being asked to advise an independent Scotland on what to do in terms of its currency, I would have no doubt in advising in the present circumstances, which are likely to remain for the next three to five years, to maintain parity with sterling and to make arrangements for that with the English Government—if I may use that term for the bit that would be left.

One question is whether the Scots would readily be allowed to become a member of the European Union and whether they would even apply to become a member. Let us assume for the moment that they would apply. The question would then arise as to whether the European legislation now says that new member states are expected to adopt the euro. In those circumstances, I would be saying to the Scottish Government, “Please ask the Commission not to push you down that embarrassing road at the moment, because you can maintain a friendly working relationship with sterling.”

Baroness Kingsmill: But there is no time pressure on any new member to adopt the euro.

Lord Lawson of Blaby: There is a legal requirement, but it is without a deadline.

Professor Simpson: Okay, you can sign a promissory note.

An important precedent that may be useful is what happened to the Irish. The Irish maintained parity with sterling all the way through from 1920 until the moment that the ERM became part of the philosophy with the prospect of the euro, but we did not get upset about that. Irish notes were circulated—they were called punts—and they were at parity and there was no doubt about the matter. There was no debate that I am aware of about using the Irish central bank as a lender of last resort, yet there was an Irish central bank—not to be confused with the Bank of Ireland, which is a commercial bank—but life went on and it was a surprise to all of us when the Irish currency then diverged from sterling after what must have been over 50 years.

Lord Tugendhat: We live in a different world now from that of the 1920s, 1930s and 1940s.

Professor Simpson: That is true, but the thought that we need to make a break, with no currency link, is an unnecessary constraint. We could negotiate a currency arrangement whereby sterling would be maintained so long as the Scottish monetary authority—whatever

it might be called—behaved in a way that was consistent with maintaining the value of sterling.

Q273 Baroness Kingsmill: It seems a slightly hypothetical thought to suggest that Scotland would do anything other than maintain parity with sterling, but much of what we are talking about is hypothetical because we are trying to get to the essence of these things. Do you think that there would be any adverse consequences for the north of England or for other parts of the UK if there were two currencies?

Professor Tomaney: This is extraordinarily difficult to predict. All that I can say is that I am not aware of any serious study that has looked into this. On that basis, I will maintain silence.

Baroness Kingsmill: We are grateful to academics who appear before us because they have time to think about these things, whereas others do not.

Professor Tomaney: To be perfectly and totally honest, I have not given any thought to this question and that is why I am maintaining a dignified silence.

Professor Simpson: If you are talking about two currencies with parity of value—in other words, the pound and the Scottish note would be worth one for one—the island of Ireland demonstrated that in the 1950s and thereafter. There was no difficulty. The tension comes when, for whatever reason, you want to alter the relative value and allow devaluation, which changes the monetary arrangements. But I think that we can envisage a Scottish situation over the next decade where, with sensible arrangements, there would be no need to think of a separate currency unit.

Professor Tomaney: Baroness Kingsmill has probably set out a very good master's student dissertation project, which I will take back with me.

Baroness Kingsmill: We would very grateful to hear the fruits of it, such as they may be.

The Chairman: We are getting an analysis of the currency issues from some of our other witnesses, so it might be worth your looking at what they have to say to us.

Q274 Lord Levene of Portsoken: In the event of Scottish independence, do you think that that in itself might have an effect on the rate of growth of the Scottish economy?

Professor Tomaney: Again, that is a very difficult thing to predict in advance. I take the view that, if Scotland becomes independent, the break will not be as sharp as we might think in terms of its economic performance. Scotland has been moving in the direction of relatively good economic performance for quite some time, so I do not see independence making that much difference to that trend. Scotland has two very well performing sub-regional economies in the Edinburgh region and the Aberdeen region, and I do not see Scottish independence necessarily making much difference to the performance of those two regions.

As to what evidence we can draw from elsewhere in the world, we can draw on the Irish example of independence, which led to a retrograde economic performance throughout most of the 20th century. We can point to other examples in central and eastern Europe—up until about 2008 anyway—where countries that left the USSR then performed remarkably well. However, the context is everything here. It is not simply the constitutional arrangements but the wider economic context; it not just what is happening in Scotland but what is happening in neighbouring countries, including not just the UK but elsewhere in Europe. It is very difficult to say that independence will contribute to a better or worse economic performance.

Q275 Lord Levene of Portsoken: What about the other side of the coin? Would Scottish independence have any effect on the growth rate and the economy of Northern Ireland or the north of England?

Professor Tomaney: It could make a difference if there were a growth of interjurisdictional competition. That could make a big difference. If Scotland were able to compete more effectively, for instance for foreign direct investment or for labour, that could be very detrimental. However, I would say that the longer-term threat to the north of England—if

you want to put it in those terms—is less from what happens in Scotland than from what happens in London and the south-east of England. The really big divergence in economic performance is not between the north-east and Scotland—although there has been a divergence—but between the north of England and London and the greater south-east, which is pulling away in economic terms from the rest of the country. One danger of this debate in the north of England—and as we come closer to independence, the danger rises all the time—is that we think that this is the big issue when really the big issue is our relationship with London and the south, where the really big gaps in economic performance lie.

Q276 Lord Levene of Portsoken: But we are looking specifically in this context at what effect this would have either on the Scottish side of the equation or on the rest of England side of the equation.

Professor Tomaney: One effect could be that we give far too much attention to the Scottish question and not enough attention to our relationship with London and the south, which is crucial. How resources are distributed around England, how we construct industrial policy and the degree to which that has a regional component, and what happens to the future of local government are all really big questions.

Professor Simpson: To pick up on what Lord Levene said about the difference between the north and south-east of England, it occurs to me that what we have lived through in the past three to four years is an effective devaluation of costs in the north of England relative to the south, which may need to go a lot further before it makes a big difference to economic activity. The change in the cost structure of everything is likely ultimately to do something to twist the balance of what is happening in England. To go back to the original question, if the independence of Scotland and the setting up of its own Government is not clear-cut and is done with any sense of apprehension that the economic integration of these islands will in

any way be disrupted, in the lead-in and first few years of Scottish independence, the thought of uncertainty will damage prospects for Scottish development. At the moment people are not saying with certainty that Scotland will become independent and that they know exactly how it will function from day one.

Q277 Lord Levene of Portsoken: That is exactly why we are having this inquiry—to try to find out what the implications might be, so that when people come to make a decision they will do it with their eyes rather more widely open than they were before they had seen what we had been able to find out.

Professor Simpson: But the net result, depending on how your Committee deliberates, will be that if you can set a series of statements about what the assumptions are on which Scottish independence ought to take place—if you are going to make a judgment—or might take place if you are softening it, there will be issues about relationships with the European Community, the relationship of Scotland to the European Community, the currency situation and the limits on fair competition in terms of the economy as opposed to a level playing field across the business community on these islands. If you can paint a picture which then becomes attractive and can sell it, a Scottish Government might have a better prospect. That was not how you set out, was it?

The Chairman: I think we are looking more neutrally to see what the implications are. A lot of the things that you said today demonstrate that a lot of people have not really thought about the implications, from the currency to the volatility of North Sea oil, for example, and a whole number of other issues. This is what we are seeking to probe and make some conclusions on before the vote.

Q278 Lord Lawson of Blaby: I would like to get away from independence and talk about devo max, because it is also within our terms of reference to look at the consequences of this. I think it was Professor Tomaney who suggested that in so far as there was a threat to

the north of England, and in particular to the north-east of England, it might come more from devo max than from independence. Devo max might be a way for the Scots to have their cake and eat it. Of course, whereas with independence the Barnett formula hand-outs would disappear, with devo max presumably they would not. Certainly the formula has endured for a long time beyond all reason—except for political reason. What thought is being given in the north of England to what should be the response to devo max in Scotland? Would the north of England argue against devo max—or, as Katie said, “devo more” or “devo a little bit more”? Would the north of England say, “If they are going to have devo max, we want a whole lot of new powers”? Where does the situation go?

Professor Tomaney: My view on this is that there is no considered north of England opinion on these issues. There was some leadership on these questions until about 2010. Organisations such as the Northern Way, and to some extent the regional development agencies, had the capacity to do some thinking on these questions. The Northern Way, on behalf of the regional development agencies in the north of England, contributed to the Calman commission. That was the beginning of some thinking that could have been very useful, but it has since gone. No doubt Katie Schmuecker will talk about what IPPR’s commission is doing. My view is that there is no widespread consensus across the north of England about what we should do next. There are lots of different ideas, but they do not go very deeply into the political structures that are now made up mainly of local authorities and so on. There are no large regional-level institutions that can represent the north of England in that sense. Devo max throws up some very profound questions for the north of England, but there is not a huge amount of sophisticated thinking about how the north of England should respond. Even where that sophisticated thinking is taking place, it does not extend very widely.

Ms Schmuecker: Certainly, as John Tomaney alluded to in his answer, IPPR North—as you are doing in this inquiry—is trying to bring greater clarity to these issues and to raise some of the questions more broadly in the north. The idea that devo max is the best of both worlds we have to treat with a bit of caution because of EU rulings that we have seen in other parts of Europe—particularly the Azores ruling in Portugal. It is quite clear in European precedent that if a country is given fiscal autonomy, this cannot be offset by a central transfer if the way in which it chooses to use that autonomy has negative implications for its budget, because it then falls foul of EU state aid rules. The precedent has been set, so if we do have some form of devo max that involves substantial fiscal autonomy for Scotland, it will have to be offset by cuts to the Barnett formula grant. Certainly one of the concerns of those in the north of England who are beginning to think about these issues is that Scotland will be able to slash its corporation tax on the one hand and still receive its Barnett formula on the other. I find it extremely difficult to believe that that would be the outcome of any negotiation, let alone be legal in European terms.

The big problem for the north of England is the lack of a level playing field that I talked about earlier. As we saw with the Amazon decision, Scotland already has the capacity to offer subsidies to foreign direct investment, which is beyond what the north of England can do. It can already create its own regional industrial policy, which the north of England cannot do. It also has resources to put behind such a strategy. It already has economic powers that the north of England does not, and they are probably set to grow. This is not an argument against devolving more powers, but for ensuring that other parts of England have the capacity to compete. There are some proximity issues and some reasons why the north of England will feel this—perhaps the north-east of England in particular, because the population is a bit further to the north. Capital is more mobile than labour, but you may get some movement of labour across the border if there is a favourable income tax regime in

Scotland, for example. Scotland is already capable of attracting mobile capital in a way that perhaps the north of England cannot—and we know that capital is more mobile than labour, so if Scotland is able to give an even better offer, we may see a continuation of that trend, to the detriment of the economy of the north of England.

But we have to be very careful and be very clear about the constraints that Scotland will face in its room for manoeuvre. It is not Ireland in the 1990s. It will not be able to slash corporation tax in the same way. It has a much bigger welfare state that it may have to pay for under a maximal version of devo max. There are constraints on borrowing and on the degree to which it will be willing to slash spending further. All those things will constrain its ability to slash corporation tax, which is the one area about which businesses in the north of England, in so far as they have thought about this, are concerned.

Professor Tomaney: Perhaps I may add something to that. I agree that to the extent that this issue is discussed among businesses, the discussion tends to focus on the idea that corporation tax will be crucial to Scotland's competitiveness in the future. I do not think that actors in the north of England understand that Scotland's relatively superior economic performance over the past 20 or 30 years has been based not on tax competition but on the emergence of two world-class economic clusters in the form of financial services in Edinburgh and oil and gas in Aberdeen. They have not arisen as a result of tax competition. They have arisen to a large extent as a result of adept industrial policy interventions on the part of Scottish institutions. If you look at the competition that is taking place between the north of England and Scotland in relation to the offshore wind energy industry, the degree of sophistication that you see in Scotland in terms of plans for the development of the sector is far superior to what you will find in England. That is not to say that the north of England will not get some investment—and it has had some investment in this sector—but Scotland's attractions are not just to do with the financial incentives that it can offer now and might be

able to offer in future. They are to do with much more subtle forms of support in areas such as skills, technology and so on. It is these long-term policies that have made a difference in Scotland.

The Chairman: Thank you very much indeed for coming. Several of my colleagues have referred to the fact that there is not a great debate even in the south of England about a lot of the issues such as the currency, the volatility of North Sea oil and the impacts of all of these and many other issues. That is precisely the reason that we established this inquiry—to try to illuminate some of these issues before any crucial votes are taken. I was fascinated by some of your responses that indicated that there is not much interest in the north-east at the present time in this. The point that Ms Schmuecker referred to about proximity was one of the reasons why we particularly wanted to have this session with you this afternoon. Obviously that is very obvious in the case of the north-east of England. I hope that you will follow our further sessions and ultimately our final report, which will come out later this year. Meanwhile, I thank you very much for coming.