◆ Premium

› Business

Boris Johnson's hard Brexit makes Scottish independence all but impossible, whatever the emotions

Follow AMBROSE EVANS-PRITCHARD

18 DECEMBER 2019 • 8:11PM

The heart pulls one way in Scotland, but the economic facts pull even harder the other way

The harder Brexit becomes, the less economically plausible it is for Scotland to break away and rejoin the European Union. The costs rise to prohibitive levels. Such is the Brexit paradox for Scottish independence.

Nicola Sturgeon missed a trick earlier this year. She should have told her Westminster troops to abstain on Theresa May's deal and let it limp over the line, since it created unique circumstances for secession on tolerable terms, or at least as tolerable as could be hoped for post-Brexit.

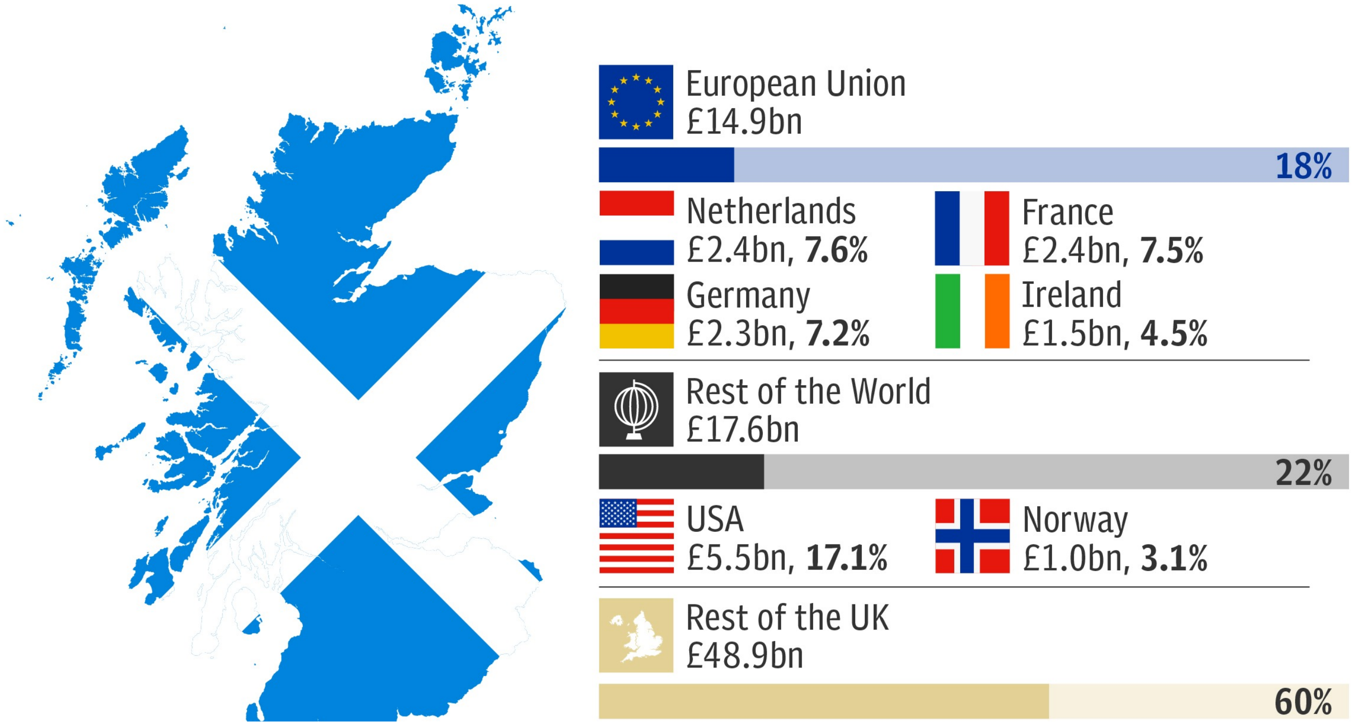
This is not obvious to those who see the Scottish drama chiefly in terms of emotion and identity politics. The relevant point is that Mrs May's Brexit package (https://www.telegraph.co.uk/business/2019/03/13/mays-no-deal-trade-tariffs-largely-theatre-stunt-frighten-everybody/) removed the risk of a hard economic border on the Tweed for an independent Scotland: specifically, in the words of a leaked EU briefing note, it "required" a customs union as the basis of the future UK-EU relationship.

It would have let Scotland leave the UK on terms that preserved intimate trade linkage and supply chains with its hegemonic market - England. There would have been no need for rules-of-origin documents and extra customs clearance at the Scottish land border.

If it is such a calamity for Britain to leave the EU customs union - as the Scottish National Party tells us - then it must logically be a greater calamity for Scotland to leave the UK union (https://www.telegraph.co.uk/business/2019/05/01/independent-scotland-now-inevitable-beginning-believe-might/) since the same problems exist and are greatly magnified. "The links between Scotland and the UK are much deeper, so the pain for Scotland would be commensurately larger," says Sir Andrew Large, ex-deputy governor of the Bank of England.

Over 60pc of Scottish exports go to the rest of this Kingdom. Just 18pc go to the EU. The imbalance is overwhelming and Scotland is not geographically close to Europe's industrial core, stretching from the Ruhr valley to Lombardy. It would face the logistical distance of Italy's Mezzogiorno.

Scotland does not trade much with the rest of the EU. It trades with England

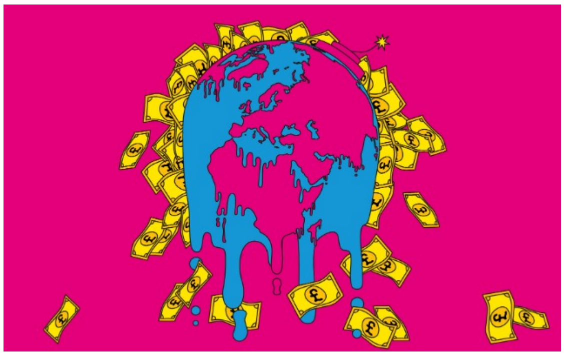


I leave it to others with fingers on the northern pulse to judge whether the Scottish people really would wish to go through the trauma of withdrawal having observed how difficult it is to break up a 44-year union, let alone a 400-year merger of the kingdoms, especially if Boris Johnson ensures that powers devolved from the EU over fisheries, farming, the environment, etc, go generously to Edinburgh and are not whittled down by 'Section 12 regulations' in Westminster as Theresa May seemed bent on doing.

It is surely a unionist imperative at this juncture to endow Scotland with greater self-government as a nation within the UK than it would enjoy as a nominally-sovereign member of the EU, without a legal opt-out from the euro, at the mercy of the Fiscal Compact and the deflationary anti-Keynesian ideology of monetary union.

From a strict economic point of view nothing has improved for the independence cause since 2014, and much is now worse. Gone are hopes of an oil and gas rentier endowment. Brent crude no longer trades in a range around $110 a barrel as it did from 2011 to 2014, creating the illusion of a permanent plateau and permanent subsidy.

Agile frackers in the US shale belt have upset the balance of power in the global oil industry with short-cycle operations that kick in whenever prices rise above $60, leading to a supply surge that nips each rally in the bud. The OPEC-Russia alliance keeps having to extend output cuts to stop prices falling.



Yes, US shale growth might level off in the early 2020s but by then electric cars will be cheap enough to match the combustion engine, eating away at the proverbial 'marginal barrel', with the prospect of fossil car bans in the major cities of Europe accelerating the switch. In short, North Sea oil is in terminal political and commercial run-off.

I have no doubt that the resourceful Scots could make their way alone once they get over the first decade of economic trauma, welfare cuts, and systemic austerity - certainly faster than Ireland's half century in the wilderness, thanks to De Valera's autarkic obscurantism. But from a fiscal standpoint Scotland is currently a dependency state, in stark contrast to Catalonia, Flanders, or Alto Adige. It is not a net contributor to the central budget: it is a recipient of net transfers on a grand scale.

The Institute for Fiscal Studies says the implicit budget deficit was 7.9pc of GDP last year (https://www.telegraph.co.uk/business/2019/08/23/scotlands-huge-deficit-means-numbers-independence-dont-add/). Somehow the SNP is going to cut this to under 3pc over a decade, to placate EU inspectors and bond market vigilantes, and do this in the midst of a first order macroeconomic shock, with an ageing crisis for good measure. "It is a recipe for an almost never ending dose of austerity," says Professor Ronald MacDonald from Glasgow University.

Such was the retrenchment imposed by EU-IMF Troika on Greece, which failed even on its own crude terms, causing the debt ratio to rise by shrinking the underlying economic base. The cuts cannot be squared with the SNP's promise of a nordic social policy paradise. "Global investors should not worry about Scoxit any time soon," is the acid verdict of Mike Gallagher from Continuum Economics.

The 2014 confusion over the interim Scottish currency remains. Would it shadow sterling without the Bank of England acting as a lender-of-last resort in a liquidity crisis, and without adequate reserves to defend the peg in the way that Hong Kong's well-armed currency board defends its shadow peg?

Latest columns | Ambrose Evans-Pritchard

Triumphant Boris means Brussels can no longer play the divide and rule game	**All is forgiven: Europe's leaders pray for Boris, horrified by thoughts of a Corbyn upset**	**Germany's hard-Left 'Corbyn problem' is only just beginning**

Would a future Scottish coin be fixed to the euro (ERM-2), and therefore be painfully misaligned with UK and US trade flows. The incoherence is spelled out in "Choose Your Poison: the SNP's Currency Headache" by These Islands, the forum of Scottish pro-union economists.

What of the SNP's assertion that an independent Scotland would begin "debt free" (by some off-books conjuring trick) and with a "solidarity payment" from London as a dowry? One might reasonably suppose the exact opposite: that Scotland would inherit its share of the accumulated UK debt, and that this would spiral upwards to 100pc of GDP in short order due to the structural deficit. Were it to repudiate these shared liabilities by asserting the doctrine of "odious debt", as if it were a conquered Baltic state escaping the Soviet Union, its woes would compound.

Were Scotland to go further and declare unilateral independence - like Catalonia, where regional leaders have been locked away in an Iberian Gulag - it would start life in diplomatic as well as economic ostracism, a turbo-charged variant of the worst 'no deal'. Spain would without question block EU accession in such circumstances. Scotland's position would be catastrophic.

This is now the post-Catalan, post-Brexit reality. Nicola Sturgeon may have to settle for less than she lets on - whatever the pro-forma demands for Indyref2 - instead exploiting the SNP's electoral triumph this month as leverage to secure full 'Quebec' status within the UK.

A Borisian Brexit is not the clincher for Scottish independence so widely assumed in the world media. One might equally argue that it renders the dream all but impossible. Money matters in the cold light of day.