Scotland: Banking meltdown creates crisis for Scottish Nationalists

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20 March 2009

The failure of the two leading banking groups based in Edinburgh, The Royal Bank of Scotland (RBS) and Halifax Bank of Scotland (HBOS), has severely compromised the Scottish National Party's campaign for independence.

RBS stock is 70 percent owned by the British government, which has also had to secure hundreds of billions of pounds of the bank's "toxic assets". RBS posted the largest losses in British corporate history for 2008, with the bank announcing it had lost £24.1 billion.

Last year Prime Minister Gordon Brown and Chancellor Alistair Darling oversaw the purchase of HBOS by the Lloyds TSB banking group, propped up by £17 billion in public funding. This month, as Lloyds shares went into freefall, the government bought up at least 65 percent of its shares and guaranteed an estimated £275 billion of its bad debts through the Asset Protection Scheme.

The SNP has in recent years pinned its hopes for an independent Scotland on the strength of the country's financial sector, combined with previously high oil prices from the North Sea and the winning of inward investment from transnational corporations by slashing taxes on business.

The SNP claimed that an independent Scotland could be part of a north European "arc of prosperity", defined by party leader Alex Salmond as "Ireland to our west, Iceland to our north and Norway to our east ... London rule means we are competing with these other nations with one hand tied behind our backs."

Today, this region has been dubbed the "arc of instability".

The SNP's policy of independence, or at least greater control over taxation and spending, reflected the interests of a layer of the Scottish bourgeoisie who had vastly expanded their wealth largely on the basis of financial speculation.

British-based banking assets increased by nearly £4.5 billion between 2001 and 2008. RBS accounted for 45 percent of this increase, and by 2007 was the fifth largest bank in the world by market capitalisation. HBOS also achieved rapid growth, becoming a leading global financial institution.

Scotland's boardrooms enjoyed an orgy of private accumulation hitherto unimaginable. The total remuneration of Andy Hornby, chief executive of HBOS was £1.9 million for 2007. The year before, RBS had spent £1.6 million on a five-storey townhouse for the exclusive use of then chairman Sir Tom McKillop, who was paid a $750,000 salary for his part-time post. Sir Fred Goodwin, RBS chief executive from 2001, was awarded a salary and bonus package of around £2 million per year until his forced retirement in 2008, when he was famously given a £1.2 million "golden goodbye" and, aged just 50, awarded a pension of over £700,000 per year for life.

The SNP also offered itself as a more aggressive advocate of Scottish business interests.

In the main, the dominant sections of the financial, commercial and industrial bourgeoisie were not convinced of the case for independence. But the meteoric rise of Edinburgh financial institutions did create a base for calls for greater autonomy in setting taxation and, in some cases, support for outright separation.

In the 2007 campaign for the Scottish Parliament the SNP was given vocal support and large donations from hotelier Donald Macdonald, Tom Farmer, former owner of the Kwik-Fit garage chain, and Brian Souter of the Stagecoach transport group. Its most important convert was Sir George Mathewson, a former chief executive and chairman of RBS who now heads the Toscafund Asset Management hedge fund.

Even longstanding opponents of Scottish independence had warmed to the prospect of Edinburgh emerging from the shadow of the City of London to enjoy its day in the sun as a centre of global finance. Tory commentator Alan Massie, an opponent of the establishment of the Scottish parliament, expressed the new mood within the Scottish elite when he wrote in the Independent newspaper in 2007, "[T]he sight of the Royal Bank of Scotland mounting from its Edinburgh headquarters the biggest takeover in banking history [of Dutch bank ABN AMRO] was invigorating. A quarter of a century ago a rearguard action was necessary to prevent that bank from being swallowed up by the Standard Chartered or taken over by the Hong Kong and Shanghai Bank; now here it is displaying the acquisitive aggression that characterised 19th-century Scottish capitalism."

Massie went on to express sympathy for the SNP's demands for "a fair share of the oil revenues" based on full fiscal autonomy—"that is to say, money spent in Scotland to be raised in Scotland. The prospect alarms many Scots, but a diminishing number of us. Some of the younger Scottish Tories rather like the idea, though it frightens the Labour Party."

Some leading right-wing commentators went further, supporting full independence. George Kerevan, associate editor of the Scotsman, expressed surprise in a 2006 article in Prospect magazine that "so few on the radical, free-market right understand why Scottish independence has become necessary."

"[L]ooking over its shoulder at the Celtic tiger in Ireland," Scotland, Kerevan claimed, could succeed only if it tackled the problems of high public spending, low productivity and "a Stalinist, super-centralised Scottish NHS."

"The only way to destroy this conservative, subsidy-driven culture is by cutting off its financial lifeline to England," he stated.

These nostrums found their echo in the rightward shift of the SNP. Since its rise to prominence in the late 1960s, the SNP had combined its appeals for Scottish separatism with reformist promises in order to win support from the working class. However, in line with the general movement to the right by the Labour Party and the trade unions, the SNP has with ever greater openness presented itself as the party of Scottish business.

Reflecting popular opposition to the government of Tony Blair, the SNP won the elections to the Scottish Parliament in 2007, replacing Labour as the largest party in Scotland for the first time in 50 years. Forming a minority government, one of the first actions of new First Minister Alex Salmond was to establish a Council of Economic Advisers chaired by Sir George Mathewson.

Since winning office, the SNP's budgetary policies have led the Scotsman newspaper to note that the party had "effectively buried the image of the SNP as a left-wing, tax-and-spend party."

Amongst the Scottish elite there was a growing demand for a bigger slice of oil revenues. Accountancy firm Grant Thornton claimed in 2007 that on the basis of North Sea oil prices of over $100 per barrel an independent Scotland, or one with additional control of revenues, could slash corporation tax to 12.5 percent. Faced with these demands, in 2008 Labour, the Liberals and the Tories in Scotland established a commission under the chairmanship of Kenneth Calman to examine the extension of powers for Holyrood, including "fiscal autonomy".

Burst bubble

With the bursting of the financial bubble last year came a corresponding deflation of the exuberant mood within Scotland's elite. The Lloyds TSB takeover of HBOS produced a panic. Concerned with the future of Edinburgh as a financial centre, Salmond warned that the Scottish economy could be plunged into "turmoil" unless the company remained an Edinburgh-based operation.

Despite the massive bailout from the UK government, Salmond still attempted to use the crisis at HBOS to promote his case for Scottish independence. He claimed that the Bank of Scotland part of HBOS could be preserved under a separate Scottish state, or that leading Scottish figures in finance could have made a counter bid. Such a plan, even if it were possible, would still have involved pumping billions in taxpayers' money into financial institutions, leading to the gutting of public services and attacks on workers' pay and conditions. But an "independent" Bank of Scotland would be at least as dependent as Lloyds TSB and HBOS on the global capital markets, currently still locked up as a worldwide depression looms.

George Kerevan was forced to reflect in the Scotsman in February, "For the first time in three centuries, Scotland lacks its own independent banks to marshal local savings and focus lending according to Scottish needs," going on to propose a nationalised RBS, secured by the UK government, under the control of the Scottish government.

The SNP is still pushing for a referendum on independence, but with little prospect of the necessary legislation being passed through Holyrood due to Labour, Liberal and Conservative opposition, Salmond is focusing on winning new borrowing powers for his government.

Salmond previously rejected any dialogue with Calman due to his commission's remit explicitly rejecting independence as an option. However, faced with demands from Scottish business to increase spending to stimulate the economy the SNP has acceded to work with the other parties in gaining concessions to Holyrood within the UK.

"Our inability to borrow is clearly an anomalous situation that must be addressed urgently," SNP finance spokesman John Swinney stated in a submission.

The economic crisis has objectively undermined the vision of an independent Scotland courtesy of RBS and HBOS, but it has not removed the dangers of the breakup of the United Kingdom driven by the interests of the regional elites. Against the reactionary establishment of a capitalist state that would pit workers against each other across new borders, the Socialist Equality Party advocates the establishment of a United Socialist States of Europe as the only way to guarantee and advance the social and democratic rights of working people.