
MV Capital Management Weekly Market Flash

Nae Today, Sí Demà?

September 19, 2014

In the end the cooler heads prevailed. By a wider margin than the final polls had suggested, Scotland chose to remain in the United Kingdom. Turnout was over 85%, validating the outcome of a peaceful, democratic process. Unsurprisingly, this news has given yet another shot of cheer to the capital markets. So, one less X-factor in the mix, all is well and back to perpetually elevated asset prices, yes? No, not by a long shot. Scotland voted no, but it is increasingly likely that somewhere in Europe, in the not too distant future, a referendum on independence will succeed. The urge to secede is, sadly, alive and well.

Breakaway Fever

The Scottish margin of 55-45 was decisive. Seen another way, though, nearly half the country thought it was a bad idea to stay part of a union that arguably has been a pretty good deal for most, over a period of three centuries. And this desire to upend longstanding political arrangements is hardly limited to the land of heather on the hillside. There are 37 active breakaway movements across Europe, and they suggest a geography more akin to the Schmalkaldic Wars of the 16th century than that of 21st century Project Europe. In the Spanish region of Catalan, momentum is gaining for an independence referendum in November. Bear in mind that unemployment in Spain is currently 24.5%, compared to just 6% in Scotland. The Spanish government rejects the constitutionality of any such referendum, but one can hear cries of “sí demà” (“yes tomorrow” in Catalan) on the streets of Barcelona.

The Age of Mistrust

Rationally, there would seem to have been little reason for the outcome in Scotland to be anything but a resounding choice to stay in the UK. Scotland has its own parliament, a result of the Scotland Act of 1998 that began a process of devolution. It controls its own healthcare, education and justice system, and collects its own taxes. Westminster has generally been amenable to passing increased governing responsibilities to Glasgow. Surely this is a preferable arrangement to the uncertainty and loss of leverage that would come with independence?

Independence movements are rooted in emotion, not reason. But they reflect a problem that reaches well beyond Europe’s borders: a fundamental mistrust of present-day institutions and the elite sliver of the world’s population that runs them. Modern nation-states came into being on the basis of shared ideas and ideals. Particularly in the developed world, though, good ideas for governance seem to be running thin. Our institutions continue to project an image of power – but so did the court of Versailles in 1788. We blithely dismiss the implications of independence movements at our own peril. Yesterday was a victory for sanity. But in Madrid, Milan and elsewhere, the governing class will need to do more to keep the breakaways from getting to yes.

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