The fate of the UK's single market - the issue that the referendum campaigns failed to address and how it shaped the outcome

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The referendum produced a blizzard of claim and counter-claim about the consequences for the Scottish economy of a Yes or a No vote. However one defining economic issue, it seems to me, was overlooked throughout on all sides. Hardly anyone chose to explore, in any depth, the fate of the United Kingdom's single market in goods and services, labour and capital, if the political union that brought it into being came to an end, by popular assent.

Yes Scotland was at pains throughout to insist that, were there to be an in-out referendum in 2017 on UK membership of the European Union, the only way to preserve Scotland's place in Europe's single market would be to embrace independence. That implies being part of a wider, open market is vital to national economic success. So why did Yes have so little to say about the fate, were its campaign to succeed, of the much older common market Scotland currently enjoys, by being a member of the UK?

The No side had plenty to say about a related economic feature of the existing union. Its shared currency. No hammered away at why an independent Scotland could not expect to go on using the pound, as part of a formal monetary union, if it chose to leave. One of the main campaigning thrusts of Better Together was to accuse the other side of having no Plan B. What currency an independent Scotland might then use.

But where was Better Together's analysis of what a constitutional parting-of-the-ways might mean for one of the most potent symbols of that togetherness - the single market we all call, in its political guise, the UK? That common market is an order of magnitude older than its European counterpart. It has been three centuries in the making and is markedly more seamless in internal trading terms, labour mobility, investment flows and regulatory oversight than the European Economic Community, first created by its six core members under the Treaty of Rome in 1957, first embraced by the UK in 1973.

It has been an integral part of our shared heritage across these islands since the political union of 1707. The UK single market has helped make us all who we are. It has shaped our industries and many of our careers; informed and entertained us; built and furnished our homes; shaped our urban landscape as it clothed and fed us. It has enabled us to save and borrow and put something aside for our old age. In short, for good or ill, that UK single market has touched almost every aspect of our lives.

Strange then that its future received such scant attention in such a protracted campaign. A passing reference to the benefits of "a borderless UK" featured in the first of the nineteen papers published by the UK government in defence of the existing union. For its part the Scottish government promised the "social union" with the rest of the UK would survive us becoming independent again. We would all stay friends.

That left a nagging question. The social union Yes wanted to perpetuate has been mediated, for so long, in so many ways, by the UK's diverse and sophisticated single market. So how could that social union be preserved without retaining the UK single market too? A social union also implies freedom of association, across national borders. It was asserted that an independent Scotland, seeking EU membership in its own right, would not be required to join the Schengen Area.

Schengen, which Norway and Iceland participate in, requires free movement of people, without border checks, across national boundaries across most of the EU. The UK and Ireland are the only two member states currently enjoying a Schengen opt-out. Yes claimed an independent Scotland would also secure that opt-out, thus avoiding border controls with the rest of these islands. No insisted that an independent Scotland, to gain accession to the EU, would have to join Schengen. Since No prevailed neither claim will now be tested. So we simply do not know whether that free movement of people, such a vital ingredient in a social union and an essential pillar of the existing UK single market, would have survived independence.

We did see, late on in the campaign, a number of UK-wide businesses go public about the consequences for them of a Yes vote. Some financial services groups, headquartered in Scotland but with the vast majority of their customers south of the border, signalled an intention to move their registered offices south. Some major retailers warned of the prospect of differential pricing of goods if the existing UK single market was broken up by Scottish independence.

Such interventions were dismissed by Yes as further scaremongering, an extension of Project Fear. There was talk of boycotting companies, like Standard Life and the John Lewis Partnership, that dared speak out. However there was virtually no debate about the reality of border effects, however lightly policed, on free trade across them, especially when the status of these borders undergoes constitutional change.

The fate of the UK single market wasn't just neglected by both sides in the referendum campaign, it was posted missing elsewhere too. When the leading Scottish historian Professor Sir Tom Devine came out as a Yes voter a month before the poll, he provided his own analysis of why the 1707 union, "a marriage of convenience", born of "pragmatism" on both sides, had become so destabilised it was no longer fit for purpose.

"From the 1750s down to the 1980s there was stability in the relationship," he wrote. "Now, though, all the primary foundations of that stability have gone, or have been massively diluted." The British Empire, in which Scots had played such a significant role, was gone. The two great wars of the 20th century and the collapse of the old Soviet empire had left no "obvious other" to test our collective security. "Dinosaur heavy industries" hadn't survived the Thatcher era. Even the "new glue" of the post-war welfare state and the creation of the NHS was not enough to save a political union past its sell-by date.

Professor Devine cites "a silent transformation of the Scottish economy" as one of the 21st century realities propelling him on his journey to Yes. "We now have an economy that can sustain itself in a resilient way in world markets," he contends. "The English and imperial markets were once a great seduction for Scotland, but now Europe is of great importance."

Are we really being asked to believe that that economic transformation in Scotland in the past three decades - one that has turned Scotland into the most prosperous per-capita part of the UK outside London and the south-east of England - came about despite the core significance of that UK single market, not, in large measure, because of it?

With 70% of Scottish exports still going to the rest of the UK and non-oil exports to the continuing UK accounting for nearly one-third of total Scottish GDP, how can Professor Devine dismiss English markets as an old seduction, now supplanted by the lure of Europe? He must know the UK is currently registering strong GDP growth, while eurozone economies are stalling and are stalked by the spectre of deflation.

Nowhere in his analysis, does the long-term economic significance of the UK single market, or its fate were Scotland to become independent, feature. It's a big omission. Notably the three and a bit decades since 1980, in which Professor Devine claims to have detected that "silent transformation" in Scotland's economic prospects, is precisely the period over which Scotland's two oldest banks set strategies for themselves that led not to resilient independence, but near-death experiences.

Up until the mid 1980s Bank of Scotland (BoS) and Royal Bank of Scotland (RBS), like banks south of the border, were reluctant to embrace the competitive opportunities offered by the UK single market. They adhered to a commercial non-aggression pact with their English counterparts, buttressed by the fact that Barclays owned 35.4% of BoS while Lloyds owned 16.4% of RBS.

Barclays had acquired its stake in BoS in 1971, through a deal to allow its wholly-owned subsidiary, British Linen Bank, to merge with Scotland's oldest bank. British Linen became the Bank's merchant banking arm, while Barclays retained its dominant minority shareholding in BoS until 1985. That entire holding was then sold on to Europe's largest mutual life assurance business (and the Bank's close Edinburgh neighbour), Standard Life. In 1996 Standard Life decided such a large stake in one bank unbalanced its equity portfolio. In a tense, politically-charged episode it sold its BoS shares to a range of institutional investors.

Lloyds built up its stake in RBS in the late 1970s with a view to launching a full takeover bid for its Edinburgh rival. But it was beaten to the punch by RBS agreeing a merger with another London-based bank, Standard Chartered, only to find itself on the receiving end of a rival hostile offer from the Hongkong and Shanghai Banking Corporation (HSBC). When both these deals were thrown out by the Monopolies and Mergers Commission, any prospect of Lloyds winning control of RBS evaporated too.

By the end of the 1990s both Scottish banks, having escaped the clutches of English rivals, had themselves turned predator. In 1999 BoS launched a hostile bid for a struggling English clearer, NatWest. When its Scottish rival, RBS, decided to bid for NatWest too and saw its offer prevail, BoS threw itself into a merger with the biggest demutualised building society, Halifax, creating a combined bank called HBOS. Emboldened by its NatWest conquest, RBS went on (in concert with two continental banks) to outbid Barclays for control of Dutch banking group ABN AMRO.

Eight years on, as the great financial crisis broke and cash was running out, both RBS and HBOS had to throw themselves on the mercy of the UK Treasury. Lloyds, which in 1979 had wanted to take control of RBS, was prevailed upon to swallow HBOS whole. It is still digesting that meal, shedding tens of thousands of jobs, scraping through the latest European bank stress tests. A shrunken RBS remains more than 80% owned by the UK taxpayer. Two transformations certainly. But hardly welcome ones. Only the resilience of the UK single market kept these banks afloat.

While it featured only peripherally in the referendum campaign, the historic significance of the UK single market and doubts about its future had Yes prevailed may still have shaped voting intentions. We don't yet know nearly enough about why Scots voted the way they did. We know something of how patterns varied by age, gender and social class. We also know that many in the cohort that voted most strongly No, older voters, made up their minds many months before the actual vote.

That group has been accused by some on the Yes side of acting out of downright selfishness. It could equally be argued these were the very people who, because they had lived the longest, were the most frustrated by a political debate that, despite its intensity, failed miserably to address intuitively-obvious questions from the outset. Questions like what would happen, if Scotland became independent, to the UK single market that had shaped so much of their own lives.

As the polling analyst Professor John Curtice puts it "In practice voters were faced with a choice between two uncertain futures. Nobody could be entirely sure what the economic consequences of independence or remaining in the Union might be. Against that backdrop we should not be surprised that people's evaluations of those consequences were influenced by their current circumstances and psychology."

To suggest that the fate of the UK single market may have helped determine the outcome of the Scottish referendum campaign is not to argue that free trading blocs like it or the more embryonic European single market are invested with any more historical permanence than political unions are. There are too many other formidable forces at work in these first decades of the 21st century.

Globalisation of production. Rising income inequality. Tensions between growth agendas and those that prioritise wellbeing. The mismatch between the fiscal demands of nation states and tax avoidance strategies of global corporations. The pressures the growing digital economy, with online distribution of goods and services, is placing on traditional territorial models of matching supply and demand, even those that have embraced free trade and single markets. To name but five. If Scotland is destined to revisit its national question, I would hope the then state of its market relationship with the rest of these islands gets greater scrutiny than it did this time. But by then there will doubtless be many other great issues fighting for consideration.

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