Sterlingisation is how to destroy hope for an independe...

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This article by me was published in [The National](#) in Scotland, yesterday:

I FOUND Ivan McKee's article (*[The people of an independent Scotland make the decision on a new currency](#), June 25) in The National a little disappointing. I am sure McKee has good intentions in following the SNP line on the Growth Commission report, but much of what he says is misleading for those who are not terribly well informed on the significance of a country having its own currency. He also makes a number of claims about other countries that are not supported by evidence.*

McKee's main argument is that Scotland may end up with its own currency at some point after independence but that will certainly not happen on independence day, and may not for any considerable time thereafter. Instead, he argues Scotland should follow a policy of "sterlingisation".

What that would mean is that Scotland would use the pound as its currency although it would not be in formal currency with the rUK. In other words, although it would use the pound it would have absolutely no say over any policy that the Bank of England may wish to adopt with regard to it.

McKee claims that such a policy is not surprising for a small state, noting that "five of the 12 countries the Growth Commission learns from — Austria, Belgium, Netherlands, Ireland and Finland — don't have their own currency". This is a little disingenuous. Those five states are all members of the EU, with which they are in monetary union. They are not pursuing a policy of what might be called "euroisation": they have active engagement with the currency they use as a result, including representation on the European Central Bank. In exchange they have agreed to give up part if their independence to achieve this goal. That is a policy nothing like sterlingisation.

Of the other countries McKee notes, two have their own currency but keep its value tied to another — Denmark to the euro, and Hong Kong to the US dollar. But again the comparison is disingenuous. In the case of Hong Kong that is because it is hardly independent of China, which can provide it with the resources to track the dollar.

And Denmark does not make his case: the reason why it must retain considerable foreign currency reserves is precisely because that is the cost of maintaining its currency's peg to the euro.

If it did not do that and instead let its currency "float" it would require vastly fewer such reserves, as would also be true of Scotland if it let its currency float. And McKee should also let the Greece analogy go: no one is seriously comparing Scotland and Greece, which is in a special situation largely of its own creation.

Having dismissed these comparisons let me get to the core of my case. McKee says that having a national currency isn't a prerequisite for "real" independence.

Unfortunately he is wrong: that is exactly what the prerequisite of real independence is. Without its own currency Scotland would not be truly independent, most especially from the rUK. Let me just list the things over which it will have no control if it pursues sterlingisation.

Scotland would not have an effective central bank, which many see as key to economic policy. You can't have an effective central bank without your own currency.

As a result Scotland would have no control over the amount of money circulating in its economy, and so will not be able to use that control to influence the economy, including its inflation rate, which will be entirely beyond its ability to address.

Nor will Scotland be in control of its own government budget, so it would not be able to stimulate the economy by running a deficit, for instance. That is because the Government would be forced to balance its books unless it borrowed in a foreign currency, which would make it hard, if not impossible, to maintain parity with the pound.

And Scotland would not control the interest rate at which its government and the rest of the economy borrowed money and would instead have those rates (and other conditions) imposed upon it.

In other words, for all practical purposes, the Scottish Government would have no effective control of any of the measures used to control its economy. In fact, it would be worse off than it is now. It would have, post independence without its own currency, about as much power over the economy of Scotland as a local council has over that in its district, which as any councillor will tell you is minimal. It's fair to say that such a Scottish Government would be in office but virtually powerless. It is very hard to understand why anyone wishing for independence would wish for that.

And there is no reason for this policy of sterlingisation. First, it is not possible, as McKee suggests, to claim that Scotland could not have its own currency on the day of its independence. As Robin McAlpine has made clear, setting up a new country is not *something that is going to happen overnight. It will take at least three years to achieve after a vote for independence: to suggest anything less is simply not plausible. In that case it is entirely possible to have a functioning currency on the day of its independence.*

Second, let me address the underlying fear that underpins sterlingisation, which is that the new currency will suffer a market challenge on the first day it is in operation. To this my answer is, it might. That is possible. That is the sort of game financial markets play.

The Scottish currency may rise against sterling or it might fall a little. But let's put this in context. Sterling lost 10% of its value ppost-Brexit and inflation just about exceeded 3% as a result. That inflation was not a national disaster.

And nor would such a cost harm Scotland, and a 10% variation stretches the likely devaluation to its plausible limits. So I suggest that wise politicians should accept that such risks exist and simultaneously make clear that it is not worth shackling the welbeing of a country to prevent it happening. Instead they should say that it is the fear of markets and the shackling of the economy to measures that pander to them (such as austerity) that is precisely what makes countries vulnerable to such attacks.

A strong Scottish Government with its own currency, with clear willpower and the economic freedom to act in the best interests of the country can ride out such storms with ease because the policies of such a government will be economically fundamentally sound and it will, because it has that currency, have the full range of measures it requires to implement them.

But Scotland without its own currency will be in the exact opposite position; it will be fundamentally economically weak, forever destined to run every aspect of its affairs with the sole goal of "keeping parity with the pound".

What a sorry country that would be. The SNP has to be wise enough to reject such a prospect. I hope its membership is.