

Anything but an independent currency is a choice for Sc...

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I wrote this blog yesterday morning in response to The National newspaper in Scotland coming out in favour of the SNP's currency plan, which is to use sterling after independence without the UK's consent (so-called "sterlingisation"). But I sent it to The National instead, and this morning [they have published it](#), and so I share it now:

IT was disappointing to note that [The National has decided to support the SNP Growth Commission](#) on the issue of the currency of an independent Scotland. Along with friends at the Common Weal think tank, I have thrown some effort into seeking to persuade Scottish nationalists that if they are serious in wanting an independent Scotland, then they must also be serious about wanting it to have its own currency on the day it comes into existence.

My fear is that with The National now backing away from this, the SNP leadership will get its way, and that this will be a disaster for Scotland, as I have previously noted.

The National appears to have just two arguments in support of its opinion. One is that it is not clear that Scottish people want a new currency after independence. The other is that Scotland could do just fine without one. The first is probably true, but not relevant. The second is, I think, just wrong.

I accept that many in Scotland will say, if asked now, that they do not want a new currency. People don't like change. They resent learning new things. They are risk-averse. So of course they will say they do not want a new currency. It would be staggering if they said anything else. But that's not the issue. If they want a new country then, in my opinion, they have to have a new currency.

I would be the first to say that no-one could force anyone to use that currency after independence. The option of keeping sterling accounts would, of course, remain. Some in Scotland might, as a result, choose to still hold sterling after independence. No-one can force them to do otherwise.

But what a government can require is that its currency be used. To ensure that happens, all it has to do is demand that all tax be paid in it. That would, for a start,

mean that every employee in Scotland would be paid in Scottish pounds to ensure PAYE was correctly operated. And almost all traders would use the Scottish currency in that case, to ensure they could settle their VAT without currency risk. In that case the new currency would be used as a matter of fact.

And people would get used to it remarkably quickly. As evidence, I recall decimalisation in the UK. It was presumed that it would take many months for the changeover to take place and for the existing currency to disappear. It did not: the change happened almost overnight and everyone got on with the new currency, accepting it as a matter of fact. The same would happen with a Scottish currency. The National's argument does not, then, hold water.

Much more important, though, is the argument that Scotland does not need its own currency to succeed. This is just wrong, and in my opinion catastrophically so.

First, it is wrong to argue that Scotland will be a small state as an independent country. In fact, Scotland would be a mid-sized European state post-independence.

Secondly, similarly sized states without their own currency have not won from that lack: the euro has not been good for such countries, for example, even if it has worked for Germany and maybe France.

Thirdly, and more importantly, if “sterlingisation”, which is the SNP’s plan (which is using sterling without the rest of the UK’s consent, as the SNP is suggesting Scotland should do) was so good then rather more states than just Ecuador, Lichtenstein, Montenegro and Panama would have a policy of this type at present. But they don’t. And those countries are hardly examples to be followed, I would suggest.

In that case, let me spell out again why pegging against the currency of another country would be so wrong for Scotland. Firstly it’s because governments must have their own currency or they cannot pursue monetary policy to manage their economies. The interest rates that Scotland might set may be very similar to those elsewhere after independence: they tend to move together. But to deny Scotland the option of such a policy choice would be to deny it economic independence.

And without its own currency the Scottish Government would also be unable to pursue a fiscal policy, which is the alternative tool to monetary policy available to any government wishing to manage its economy. Fiscal policy is all about deciding how big a deficit a government wants to run — and deficits are good because they are the way that the currency that a country uses is created.

Quite literally, notes and coins are part of the deficit. And running a deficit is essential when economies are in the doldrums because in that situation this is the only way to pick them up. Without its own currency Scotland could not do that. So Scotland’s government would be unable to do anything to prevent economic downturn, except

from borrowing from the rest of the UK, which would stimulate the rUK's economy, but not Scotland's.

So a Scotland without its own currency would not be economically independent at all. Which is why the vast majority of states — and almost every successful one barring a few euro-using countries — have their own currencies. Those countries have their own currencies because they know that what I am saying is true. In that case, the people of Scotland should not be misled on this issue.

The fact is that a meaningfully independent Scotland has to have its own currency. Without it, Scotland would not really be independent. It's that black and white. The Growth Commission is wrong on this issue. No small state can properly and decimalisationThey independently function with any degree of success without its own currency: this is a fact.

The independence movement has to decide: does it have the confidence to be an independent, successful and modern economy managing its own affairs with its own currency, or does it simply want to have apparent responsibility devolved to Holyrood and yet choose to have no economic power to implement anything of consequence in a supposedly independent Scotland for the benefit of its people, which is what keeping sterling would actually mean?

The SNP have to decide. But if they are true to their principles there really is only one decision they can take. Anything but an independent currency is a choice to stay in union with the rest of the UK.