Scottish currency options post-Brexit

A discussion paper

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Executive Summary

Pre-face:-

It is widely acknowledged that one of the weaker aspects of the 2012-14 Scottish independence campaign was the debate around currency. The strategy of adopting a Sterling union with the rest of the UK, even after such a union had been publicly dismissed by the pro-Union advocates, was deeply damaging in terms of both confidence in the pro-independence campaign itself and in uncertainty about the future of an independent Scotland.

In the wake of the 2016 EU referendum result, a second independence campaign has been deemed “highly likely” to take place within the next few years. It is vital then that the questions which the 2014 campaign could not answer are addressed now, before the second campaign is launched. This report seeks to take this opportunity to further the currency debate by explaining the concepts required to fully understand the details of the debate as well as laying out the options that an independent Scotland could reasonably face.

Key Points:-

• Countries rarely have full control over all aspects of currency management simultaneously. Compromises must often be made, though different countries arrive at different solutions to those compromises.
• Setting up a new currency, if an independent Scotland chooses to do so, will involve planning but the steps involved are well understood and opportunities arise for public involvement in some of them, particularly design of new notes and coins.
• Currency options discussed include a formal currency union with either Sterling or the Eurozone; Unilateral use of either currency; or a new Scottish currency, dubbed the £Scot, managed under various options of fixed, flexible or floated pegs.
• Whilst, economically, no single option is likely to be significantly better or worse than any other — merely different — the political weight tends towards the recommendation of a newly independent Scotland adopting an independent £Scot, initially pegged to Sterling but with the option of moving, changing or floating the peg as and when required or desired.
Introduction

There is fairly wide acknowledgement that one of the weaker aspects of the 2014 Scottish independence referendum campaign were those debates surrounding currency. A poll conducted by Lord Ashcroft[1] following the results of that referendum found that more than half of No voters cited currency as one of the top three reasons influencing their decision.

The official pro-independence campaign promoted, almost to exclusion, the policy[2] of an independent Scotland both retaining the pound Sterling (GBP) as the official currency of the country and with Scotland forming an official currency union with the remainder of the UK involving agreements such as official and formal representation for Scotland on the Bank of England Monetary Policy Committee.

It is not the place here to provide a full analysis of the independence campaign’s currency strategy, but it is now widely accepted that an inflexible position in favour of currency union was a weakness that needs to be rectified going forward. Exploring the comparative advantages and disadvantages of a number of feasible currency options is imperative, and should happen preferably before any future formal referendum period commences.

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In practical and political terms it was rather easier for the pro-union campaign, being the advocates for – more or less – the status quo, to take a position of being automatically against any proposal put forward by the pro-independence campaign without or even despite any regard for a comparative advantage of such a proposal.

There is little reason to believe that this state of affairs will differ significantly in any future campaign and that any proposal put forward will be campaigned against. It is the purpose, therefore, of this paper to discuss the comparative advantages and disadvantages of the reasonable options which an independent Scotland may take so that a full and objective understanding of issues can be reached.

The Impossible Trinity

When selecting a currency or method of using a currency in the event of independence, Scotland will have to bear in mind the full consequences of each of the options it may select as well as the risks and benefits they may entail. Generally speaking, many modern economies would prefer their macroeconomic situation to involve the following three factors.

1) **Full Macroeconomic Sovereignty** – As this allows that country to exercise macroeconomic levers such as raising/lowering base interest rates to suit the economy. High interest rates benefit those who issue loans and credit as well as savers, especially pension savings, but can be harmful to those with high debt levels such as mortgages and discourage borrowing for investment whereas the opposite is true for low interest rates. Typically an economy requires these two factors to be balanced and when economic circumstances change, the balance point can shift too.

2) **Fixed or stable exchange rates** – Currencies which rapidly change value with respect to those of their trading partners can find this to be a barrier to trade. As well as price volatility, currencies which see a period of deflation in their currency can see the price of exports drop and the price of imports rise which negatively affects the trade balance of the currency (this process, incidentally, applies a further deflationary pressure on the currency which can run out of control if left unchecked). Similarly, if the currency strengthens or hardens then whilst imports become proportionately cheaper, export prices rise which can cause demand to fall off. In an ideal situation, therefore, countries often prefer to stabilise or even fix their exchange rates so as to stabilise one factor affecting the trade balance.

3) **Free capital flow** – Historically speaking, many countries have, at some time or another, applied capital controls which restrict the flow of money in or out of a country. These flows, if large enough, can affect the volume of supply of money in an economy which may have adverse effects on prices and inflation. Conversely, the controls, if applied too tightly, can lead to restrictions on both inward investment (as capital cannot freely enter the country) and outward expansion (as domestic investors cannot expand outwards). In an ideal situation, countries, at least in recent decades, have erred on the side of allowing capital to flow freely although it should be noted that this can lead to adverse side effects such as predatory investments and so-called “hot money” which enters and leaves the economy very
quickly increasing volatility with destabilising effects. It can also lead to speculators leading a “run” on a currency which causes it to dramatically change in value. A prominent and infamous example of this occurring was seen in the UK in 1992 as a result of “Black Wednesday”.

Fully subscribing to these three factors has, however, been deemed the “Impossible Trinity”[3], a macroeconomic trilemma. By this thesis, three options are available to countries.

In option A, such as followed by countries within the Eurozone, monetary policy is pooled amongst members such that capital can flow freely and exchange rates are fixed, guaranteeing stability for internal trade but no country can raise or lower interest rates with respect to their partners (lest capital then flow unfairly towards or away from them to benefit from the rate differential).

In option B, followed by the UK and most other nations at the present time (as well as the Eurozone with regard to external trading partners), the country reserves an independent monetary policy. This allows money to move freely, but any change in interest rate causes money to move in or out of the country, such that the exchange rate adjusts till a new equilibrium is found. Differentials in trade balance can also affect said exchange rate (prolonged periods of trade surplus causes the currency to harden in value, till exports reduce in volume and imports increase, whereas prolonged periods of trade deficit tend to cause the opposite effect). Monetary policy must be robust enough to withstand potentially volatile swings in exchange rate.

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Finally, in Option C, as seen under the Bretton Woods regime (1944-1971)[4], member countries fix their exchange rates with regard to each other and maintain full monetary sovereignty with regard to their domestic markets but must employ strict capital controls so that large volumes of money do not flow disruptively in or out of the country.

Balance of Payments

The balance of payments is a measure of the disparity between the total value of a country’s exports and imports (and is sometimes separated into the imports/exports of goods and the imports/exports of non-tangible services like financial products or other transfers of money such as remittances sent home by immigrant workers). Very few countries manage to exactly balance their imports and exports which means that some net value of money will, over the course of a financial year, either leave or enter the country. In very general terms, if a country runs a large trade surplus (i.e. it exports more goods and services than it imports) the currency will experience a tendency to harden and to rise in value with respect to other currencies (although many other factors such as interest rates, employment rate and market speculation can also affect currency value so currency strength may not immediately or necessarily rise simply due to a trade surplus). This strengthening causes goods and services to become comparatively more expensive for other countries to buy which reduces demand until the trade surplus is reduced. At the same time, imports become comparatively cheaper so demand for those tends to rise. This process, ideally and assuming no other factors, continues until the trade surplus diminishes and a new equilibrium is found.

Conversely, if a country develops a large trade deficit, it needs to buy in more foreign currency with which to pay for the incoming goods and services. This increases supply of the currency outside of the domestic market causing a weakening effect on the price. Exports become cheaper (and imports become more expensive) and the trade deficit reduces.

Of course, this describes an ideal scenario taken in isolation. If a country experiencing a trade deficit cannot increase exports or decrease imports (perhaps because of a political decision not to support domestic manufacturing) then the deficit may become systemic and the currency could weaken continuously unless some other mechanism
is open to governments to correct the imbalance (such as by adjusting interest rates, import and export tariffs or outright capital controls).

### Seigniorage

Another factor to consider when discussing matters of currency is the issue of seigniorage. In this era of fiat currency, this process operates as follows: a commercial bank approaches the Central Bank and sends them funds (say, £10) by electronic transfer which is held in an interest bearing account by the Central Bank. The commercial bank is then given physical currency to the value of the transfer (or, in the case of some Scottish and Northern Irish banks, are granted the right to print their own banknotes to that value). If and when a user wishes to remove a note from circulation (perhaps due to wear and tear), they can return it to the Central Bank which then re-issues the value of the note to the user either by giving them new physical currency or by electronic transfer (this is the “promise to pay the bearer on demand” seen on UK banknotes being fulfilled). The key in all of this is the fact that coins and notes rarely cost anywhere near as much to produce and distribute as their indicated face value (for instance, a US $10 note costs less than $0.1 to produce[5]). The difference in value between the interest generated in the holding account minus the cost of production of the note or coin results in an income we call seigniorage.

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By giving up the right to print one’s own money a state can be faced either with sharing or losing entirely this seigniorage income, as an indication of scale, the Bank of England generated £506 million in such income in 2015[6], which, whilst not often a huge amount in terms of national budgeting may be significant enough to influence decisions regarding currency choices.

### Central Banks, Currency Boards and Moral Hazard

The primary function of a central bank is to manage a state’s currency, interest rates and money supply (by printing or withdrawing money from circulation as required) as well as providing oversight of the financial sector of the state. They often also provide functions such as regulating the foreign exchange and/or gold reserves of a country which are used to both regulate the exchange rate of a currency – especially in the instance where a currency is pegged to an external standard – and to allow the backing of the state currency. Additionally, the Central Bank, with its ability to print money easily as required, can act as a “Lender of Last Resort” for both the commercial banking sector and/or the government of the state in times of crisis. It is in this last function that the debate often fell most sharply during the 2014 Scottish independence referendum as it was claimed that without access to one Scotland would, in the unspoken but implied inevitability of financial failure, find itself quickly bankrupt. This argument is, however, entirely predicated on the belief that the monetary system used at that time by the UK was the only possible manner in which one could run one’s state and currency. Other models are, of course, available.

With regard to the management of a hypothetical banking crisis, it is important to remember that having a Lender of Last Resort with which to bail out the banking failure is only one manner in which the crisis can be addressed. Regulation of banks, so that they do not take unwarranted risks, and legislation of that regulation, so that banks are held to account if and when they breach those regulations, are vital components of monetary management and may, as was the experience of Jamaica in 2008, result in crises not occurring in the first place[7] (of course, economics appears to very much be the science of explaining why none of the models of the past were able to predict the future so it is probably inevitable that some crisis will occur somewhere at some time no matter what is done). Additionally, the International Monetary Fund has the duty of being the Lender of Last Resort for the world (or, at least, those member states who pay the required membership dues) as was infamously demonstrated to the UK in 1974.

A deeper consideration should be applied when considering the role of a central bank as a Lender of Last Resort for governments and, especially, for the financial sector. There is growing sentiment[8],[9] that simply knowing that an unlimited bucket of free money was available to banks in the event that they “failed” acted as a “moral hazard” and was enough to encourage them to take risks which they would otherwise avoid if they were liable for their own losses. Surely there are none so bold as the gambler who cannot lose.

If a state decides to tack towards Option A of the Impossible Trilemma, and has either joined a currency union or pegged its currency to another, then it may find that many of the functions of a traditional central bank are either not required or have been ceded to a joint central bank. In this case it may be that a Currency Board is required to take over the functions remaining, often limited to maintenance of exchange rate and foreign currency reserves. Countries which take this option, such as Panama and the above-mentioned Jamaica, often tighten their regulation to compensate for that loss of control. The experience of Argentina[10], however, shows that failures in those regulations can lead to financial collapse in countries
with currency boards just as regularly as they can in countries with “full” monetary sovereignty. The “risks” involved in macroeconomics appear therefore to be largely independent of whether or not one’s country has “control” over the currency used. Instead, solid and dependable governance is a stronger correlator with financial stability.

This appeared to be the opinion shared by Don Brash, the then governor of the Reserve Bank of New Zealand when, in 2000, that country was deep in discussion over whether or not the New Zealand Dollar should be re-pegged to either the Australian or US (USD) dollar. Historically, New Zealand has, at different times, used both as well as having had been pegged to the GBP. In his report on the subject[11], Brash debunked many of the myths surrounding currency unions (including some repeated later during the independence referendum) and concluded that very few currency choices open to a country are either substantially riskier or automatically “better” than any of the others. Rather than the magnitude of the risk involved in a choice, more attention should be paid to the nature of said risk as the mitigation and recovery methods involved will be what is the determining factor in any choice. This and, of course, that the choice is as much a political decision as it is an economic one.

The United Kingdom's Currency Journey

It would be impossible within the confines of this paper to do justice to the history of the UK's experience with handling currency, though the particularly interested may wish to explore resources such as the Bank of England's history of the UK's use of exchange controls[12] or John Chown's A History of Monetary Unions[13], in which the UK features throughout. One of the points to take from these histories is that for all the dire warnings from the 2014 pro-Union campaign of the impossibility of any kind of currency arrangement other than the pre-existing use of Sterling, the UK itself has happily embarked on various kinds of monetary arrangements over the years and decades.

Prior to 1914 a strict gold standard was in use; through various international agreements such as Bretton Woods in the post-WWII period and through the Thatcher era of the 1980's the pound change the boundaries of its peg to the US dollar several times; it switched peg entirely to the West German Mark; then eventually it entered, then left, the first European exchange rate mechanism. Simply put, it is difficult to find an example of a monetary policy, except perhaps membership as junior partner of a full currency union, which an independent Scotland could reasonably embark upon and which the UK has not already done so (for better or for worse).

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In more recent times the UK has experienced a profound downturn whereby both the balance of payments and the Sterling’s exchange rate are declining in somewhat of a perfect storm. With interest rates already at historically low levels and the idea of introducing capital controls not likely to find many fans within the financial houses of the City of London, the UK has found itself in a position of having stretched the traditional levers of macroeconomics to the limits. This period may serve to highlight the now relative weakness of those powers as political tools such as tax, investment and other incentives are used to correct imbalances instead. If so, this will further lend credence to the idea that a country's currency policy is as much a matter of politics as it is economics.

Scotland's Choices

With the above background knowledge kept in mind it is now possible to examine all of the options that a newly independent Scotland could reasonably select in terms of each of their unique advantages and disadvantages.

Currency Union

It may well be that the circumstances of an independent Scotland within the EU and the rest of the UK (with or without Northern Ireland) outside of the EU renders the possibility of a formal currency union practically, politically or legally impossible. On the assumption that it can happen, under this proposal, similar to the one offered in 2014, Scotland would request a formal currency union with the remainder of the UK and would formally gain representation on the Bank of England Monetary Policy Committee. This representation would in fact be a strengthening of the position currently seen in the UK whereby Scotland's position is not formally taken into account except as part of the aggregate of the whole of the UK. In this case, the continuity of the pre-independence
situation would be maintained so there would be no need to formulate a new currency or distinct Scottish monetary policy. Currency based trade barriers with the rest of the UK would remain as they are and there would be no exchange rate issues internally.

The primary disadvantage of this position, from an economic standpoint, is that such a currency union is dependent on all members of it being part of what is known as an “optimal currency area” - that is, there would be no overbearing tendency for currency to flow systematically from one area of the zone to another. Outside of a currency union, the Impossible Trinity would ensure that either interest rates or exchange rates would adjust to limit this flow but inside a union, especially if interest rates and exchange rates are specifically set to advantage, say, a large financial sector located in one corner of the country and to the detriment of manufacturing elsewhere, then overbearing strain can result on the union. Whilst the Scottish Government’s Fiscal Commission Working Group argued that the UK was indeed an optimal currency area[14], the economist Jim Cuthbert, in his paper for the Reid Foundation, argued that it is not[15].

Certainly, one goal of a successful currency union should be to encourage, develop or, at least, maintain economic ties between the constituent nations. These unions tend to operate against any attempts to diverge the economies of the nations involved thus, in the Scottish case, may tend to run contrary to the goals and aspirations of those who seek independence for economic reasons.

In his History of Currency Unions[16], John Chown identifies several such instances whereby currency unions can and do fall apart, sometimes for the above reasons, sometimes for purely political ones and that it would be a mistake to simply assume that such unions will be permanent. Given this, one must also look at the formal agreement by which the union takes place. Whilst a currency union necessarily involves the giving up and pooling of monetary sovereignty it may not require the relinquishing of political sovereignty but only in instances where the union agreement includes the unilateral right of any member to withdraw from that union. If one does not exist and a country retains no right to withdraw then an additional risk factor of becoming “trapped” within a union which either no longer benefits the member or actively works against the member’s interests can result. A currency union of this nature should, at all times, be maintained so there would be no need to formulate a new currency or distinct Scottish monetary policy. Currency based trade barriers with the rest of the UK would remain as they are and there would be no exchange rate issues internally.

The first of the commonly offered options for Scotland which does not maintain a currency of its own nor enters a formal currency union but simply imports a volume of currency from another country and uses it unilaterally, either with or without authorisation.

“[Sterlingisation] would be simpler politically to achieve as no formal agreement or permission from the rest of the UK would be required, but it would involve the same loss of direct control over interest rates and external exchange rates as inherent to the currency union option.”

In many cases this would be the US dollar (hence the general name) but in Scotland’s case it’s rather more likely that the GBP would be used in this manner. This case would be simpler politically to achieve as no formal agreement or permission from the rest of the UK would be required, but it would involve the same loss of direct control over interest rates and external exchange rates as inherent to the currency union option. Further, the decisions of the Monetary Policy Committee controlling the GBP would not be legally required to factor the Scottish economy into even the aggregate mathematics when deciding those interest rates. It is for this reason that dollarised countries are usually significantly smaller than the primary economy of the currency. Examples include countries such as Ecuador, whose GDP is 1% of that of the United States; Andorra whose GDP is 0.03% of that of the Eurozone; or Lichtenstein whose GDP is 0.7% that of Switzerland[17]. By contrast, Scotland’s economy is around 10% the size of that of the rest of the UK thus the potential exists for growth or shrinkage in the Scottish economy to have significant influence on the other. Attempts to ignore Scotland from macroeconomic calculations may have adverse consequences.

In terms of managing such an economy it is likely that some kind of monetary board would be required if only to monitor money supply within the domestic market as interventions in the form of capital controls or currency injections may be required if interest rates and exchange rates lead to the risk of capital flight from the country. It should be noted however that the macroeconomic controls mentioned throughout here can be considered relatively weak levers compared to tax and economic policy thus any “price” paid for loss of control over currency may well be more than “paid for” in terms of stability with regard to primary trading partners and continuity of currency.

**£Scot – Pegged to Sterling**

The first of the commonly offered options for Scotland which maintains relatively close ties with the economy of the rest of the Sterling zone but which nonetheless involves the creation
and launching of an entirely new currency, which this paper shall dub the £Scot or “Pound-Scot”. This option is predicated on the perceived advantage that voters would prefer some sense of continuity throughout the political upheaval of independence. This strand of thought tends to run contrary to most recent historical independence movements which often seek to distinguish themselves from their former ruling nation (often the UK) as quickly as possible. However, it could reasonably be argued that this may serve to highlight the relative uniqueness of the Scottish independence movement rather than act as a criticism of it.

Under this scheme the Scottish macroeconomic board would likely be required to gain control over substantial foreign exchange reserves on or before the launch of the currency. As a rough rule-of-thumb, ‘Western’ countries currently maintain foreign exchange reserve levels of around 5% of GDP with ‘weaker’ or more volatile countries like the BRIC nations ranging between 15% and 30% of GDP[18]. Taking the 5% figure for Scotland’s case would place foreign reserve levels at around £10 billion. This is a fairly substantial sum for Scotland to find but, as Robin McAlpine has pointed out[19], if the launch of a new Scottish currency is Scottish Government policy then the costs of setting one up can become part of the separation negotiations between Scotland and the rest of the UK. The reserve, for instance, could either be claimed as part of Scotland’s “share” of UK assets or it could be mortgaged against an equivalent value of UK debt. Either way, this provides a distinct advantage over a plan where, for instance, an independent Scotland continued to use the GBP (either by currency union or Sterlingisation) for a period after independence and then attempted to set up a new currency at a later date. In that instance, the exchange reserve would have to be built up by some other means (likely by borrowing).

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By pegging to the GBP, likely at a ratio of 1:1, the £Scot would benefit from some sense of continuity and prices would be immediately and easily convertible in a way that was somewhat trickier during the UK’s decimalisation process. Another benefit would be that major retailers and areas which see a large proportion of cross-border trade would likely readily accept both currencies. (The author has some personal experience of seeing this effect in cities like Geneva, Switzerland where many people, particularly students, work in the city but live in cheaper regions in neighbouring France. As a consequence many retailers accept both the Swiss Franc and the Euro.)

Pegging to Sterling would also come with the advantage of maintaining a fixed exchange rate with what is currently Scotland’s largest trading partner, whilst giving Scotland full monetary sovereignty, the ability to adjust interest rates and to implement capital controls (or avoid implementing them) as required. An advantage of this option over Sterlingisation is that seigniorage becomes directly payable to the Scottish Central Bank (and hence the Scottish Government), rather than either not being available (as in Sterlingisation) or being attained only as a (potential) share of the Bank of England’s income (as in the Currency Union option). In contrast to the case of a formal currency union without a right to withdraw, full sovereignty would be preserved as it would always be within Scotland’s power to review the peg to Sterling and, if required, to change or adjust it.

The peg need not be a strict 1:1 peg long term. To account for day-to-day differences it could be possible to follow the example of Denmark against the Euro and partially float the currency by setting a band within which the currency is allowed to vary slightly whilst still securing a large part of value against the Sterling to avoid large swings. On a slightly longer time scale, differences in inflation, trade balance or other factors between the two blocks could result in what’s known as a “crawling peg” adjusted annually or on a regular basis but which is not so volatile as a freely floated currency[20]. As a final consideration, even a fixed exchange rate regime does not strictly require to fix on a 1:1 basis. As an illustrative example, the East Caribbean dollar has been pegged to the USD at a rate of 2.70:1 respectively since 1976.

Of course, as reassuring as a peg may appear it could be that the value of Sterling evolves in a manner that simply does not suit the Scottish economy. At present, the appreciating tendencies caused by Scotland’s trade surpluses (outside of oil exports, which are denominated in USD) are more than countered by the trade deficit across the rest of the UK. This likely benefits the Scottish economy by keeping the currency relatively weak in a similar manner to Germany’s exports benefiting from the depreciating effects of the Southern Eurozone countries on the Euro. This state of affairs, however desirable, is not necessarily permanent and an independent Scotland using this currency arrangement can and should be prepared to exercise monetary and political sovereignty and to take steps up to and including changing the peg if and when it becomes advantageous to do so.

On another track, whilst pegging to Sterling is a logical assertion as a consequence of it being our largest trading partner, at present this too may not be a true statement in perpetuity. Indeed, if Scotland wished to expand trading
operations to other countries like the Eurozone or the BRIC nations (for instance) then it may be that pegging to Sterling eventually becomes disadvantageous. It may also be that the peg acts in a similar manner to the currency union by discouraging such divergence in the first place, which may or may not be politically to Scotland’s liking. These scenarios, however hypothetical, should be borne in mind when one is considering the future development of a country which could run decades or longer into the future. The advantage of monetary sovereignty can and should therefore be exercised when necessary. Whilst it may be somewhat difficult to break the straight 1:1 peg initially, once it is done and a general acceptance is reached that the £Scot no longer exactly matches the GBP then it becomes much easier, politically, to make further changes if and when required.

**£Scot – Pegged to Euro**

At present the balance of Scottish exports is such that only about 30% goes to Eurozone countries (approximately 60% goes to the rest of the UK, 5% to the US and the remaining 5% to the rest of the world[21]) so at first glance it would seem that pegging to the Euro would entail many of the practical difficulties of a new currency with a peg but with substantially reduced benefits. The prime advantage in adopting this approach from the outset of independence would be as a signal to the EU that Scotland wished to converge towards the European market as quickly as possible (a scenario which is perhaps conceivable in light of Brexit and potentially tense negotiations which, as of the writing of this paper, are still to commence). Once again, in matters of currency, politics is at least as important as economics. Signalling this intent during the independence campaign could be a source of significant loss of confidence from voters and, if the campaign is successful, may result in a loss of goodwill during separation negotiations as the rest of the UK may not enthusiastically hand over a share of foreign reserve assets (or other ‘shares’ of assets) to a country which has signalled an intention to ‘break off’ economic relations.

Politics aside, the GBP has, in the wake of the Brexit vote, experienced one of the largest single day drops in value of any currency since the dissolution of Bretton Woods. With its far larger economic base the Euro is substantially less volatile than the Sterling over shorter time scales (although Don Brash noted that smaller currencies tend to be less volatile than larger ones on longer time scales and that the two effects tend to balance[22]). Whilst the Euro should in no way be seen as immune to such shocks it may well be less prone to them, thus if overall stability (rather than stability with regard to one other currency) is the goal of a Scottish currency peg it may be that the Euro provides a more suitable option than Sterling.

**£Scot – Basket Peg**

The possibility of using a peg on the £Scot as a means of overall stability opens up another potential compromise solution whereby Scotland adjusts its peg in a fluid fashion as dictated by defined criteria. One such way of doing this would be to peg to a basket of currencies without limiting to just one. For instance, from 1974 Australia pegged their currency against a Trade Weight Index[23] weighted by the percentage of their exports to each of their trading partner currencies. China has pegged the renminbi to a similar system since 2008 and has, according to some studies[24], effectively manipulated that peg as a means of adjusting trade prices in their favour. Another possible method would be to weight against the relative GDPs of Scotland’s trading partners[25] which, it is contended, may be more appropriate to today’s more globalised world.

In most cases a basket peg, however calculated, would likely weight towards the Sterling and Euro and could help Scotland trade in a relatively stable manner despite shocks which affect one or other of our partner currencies. It is possible that this stability could work to Scotland’s advantage in the years immediately after the rest of the UK leaves the EU, and as rUK’s economic trajectory begins to diverge. In this case a situation can be seen where Scotland could act as a relatively stable middle-person between the two trading blocs which may open up opportunities to attract business or investment which relies on such a niche. The economist Ronald MacDonald suggested the idea of a basket peg as a potential option for Scotland and has produced a report[26] offering the details of how one possible scheme for such a peg could be structured as tailored specifically for Scotland.

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On the other hand, with Scotland’s export ratio being 6.3:1[27], it could be that a basket peg ends up so closely mirroring Sterling that the advantages of the rest of the basket are comparatively slight whilst the cost (economic and political) of not having a 1:1 peg with GBP is seen as greater, especially if banks
institute transaction fees or large exchange rate spreads for cross-currency payments. Whilst, globally, the cost of transactions between currencies has been becoming steadily easier and cheaper[28] and banks sometimes can and do institute transaction fees even for single currency transfers, there is a perception that the launch of a new currency could result in these fees becoming more prevalent. If necessary, regulation and legislation – perhaps mirrored on EU cross-border payments regulations[29] – could be implemented to cap or eliminate fees.

£Scot – Freely Floating

As the GBP is fully and freely floated on the market it could well be an option to simply allow the £Scot to do so as well. The principle problem with a peg lies in finding the appropriate level to which to peg the currency so that exports are maximised but without pricing out imports (including the imports of components which are manufactured into higher value exports – one could consider German and American made optical components which form the basis of high value photonic equipment manufactured in Scotland). By allowing “the market” to freely set the price of the currency, the most efficient level is reached and is re-adjusted on a continuous basis as the economic environment adjusts.

“The concern with this option, especially in the early days of independence, is that market speculation could seriously affect the price of the currency in the immediate aftermath of the shock of the referendum result.”

The concern with this option, especially in the early days of independence, is that market speculation could seriously affect the price of the currency in the immediate aftermath of the shock of the referendum result. Witness the nearly 8% drop in value of the GBP against the USD in the day after the 2016 EU referendum result as evidence of that. However, if an entire independence campaign was run on the basis of this currency option it is likely that the markets would have time to acclimate themselves to the change so the shock may be softened. It is also worth noting that having a pegged currency does not make one immune from either loss of market confidence or even from predator attacks as witnessed, once again, by the UK in 1992[30] when the GBP was unceremoniously dumped out of the European Exchange Rate Mechanism.

Another concern for this method is that Scotland’s relatively small size, in GDP terms, compared to some other currencies may lead to increased volatility in the exchange rate. As explained earlier, the experience of New Zealand[31] has shown that whilst smaller volume floated currencies show greater volatility than larger ones on shorter timescales, the larger currencies tend to be more volatile on longer time scales. This can be seen as analogous to the way a large ship can push through waves that would toss about a small boat but that small boat can effortlessly ride up larger waves which would sink the ship in short order. Once again, a floated currency is not necessarily more risky than a pegged one, it is simply that the nature of the risks are different and must be dealt with in a different manner.

With that in mind (and remembering the Impossible Trinity), a fully floated currency may give Scotland access to other economic levers with which to compensate for the lack of exchange rate control. Iceland, whose krone is among the smallest volume freely floated currencies in the world, employs a system of carefully managed capital controls[32], especially with regard to speculative or “hot” money which has a tendency to enter and leave an economy purely on the basis of making a profit for a forex trader and which does not significantly interact with the “real” economy of goods and services except to increase volatility. One must also remember the other political and economic tools which would be available to Scotland such as tax and subsidy, investment, and the economic confidence which comes with generally sound political governance.

The Euro

The Euro is somewhat of a strange creature in the context of the Scottish independence debate, especially with regard to EU membership. One of the oft heard complaints about Scotland taking on EU membership independently of the UK was that we would be somehow compelled to join the Euro. Whilst it is true that one of the conditions of membership is a requirement to commit to joining the currency union at some future date, and that Scotland’s independent membership of the EU may result in the loss of the UK’s opt-out from that union, it is equally true that the convergence criteria[33] for admission includes the completely voluntary joining for the exchange rate mechanism ERMII (essentially a flexible peg to the Euro). No country can be compelled to join ERMII and no country can join the Euro without first being a member of ERMII, ergo no country can actually, in reality, be compelled to join the Euro against its will. Even from a logical standpoint, such an attitude makes little sense. In an era of fiat currencies which depend entirely on user confidence, a compulsion to join forced upon an unwilling populace would surely be a very effective means of undermining that confidence.

From an independence campaign standpoint, it must be acknowledged that the convergence criteria do take time to implement and require the use of an independent currency
which can be formally linked to the ERMII for a minimum of two years. It is therefore, especially in light of Brexit, unlikely that Scotland would qualify to be able to join the Eurozone from day one of independence. This would not, however, prevent a campaign from being run on the basis of joining as soon as possible and would not prevent Scotland from setting up its currency with a view towards Euro accession, either by immediately launching a £Scot pegged to the Euro (either informally or via ERMII) or by simply unilaterally using Euros in a manner similar to Sterlingisation (taking into account the caveats and conditions of either option).

Euro use by Scotland could well be to its benefit. As outlined above, the structure of the Euro gives richer, exporting countries a significant subsidy. Some estimates place German prices at around 25% lower than they would be under a freely floated Deutsche Mark[34] (although those same sources note that simply focussing on industrial export price can mean one misses the more holistic impact on the economy).

However, the Euro must also be considered in the frame of ever present “Euro crisis”. Whilst the currency has successfully navigated several predicted dates of its imminent demise[35],[36], the systemically flawed features of its setup identified by former Greek Finance Minister Yanis Varoufakis[37] cannot be discounted. To reiterate Chown’s warning about currency unions, they can and do fall apart. Sometimes unexpectedly. Sometimes for no good reason.

A final concern about the Euro is again the principal of political sovereignty mentioned in the discussion of a Sterling union. Whilst the Euro’s accession protocols are voluntary, once a member has acceded there is no current legal or political protocol in place for the withdrawal of a member (or even of the expulsion of a member which threatens to destabilise the union). To give it due regard, the European Union has proven to be the master of political hindsight (i.e. when Greenland’s exit from the EEC was later codified into the formal exit protocol that the UK will likely use to exit the EU) and the simple fact that no exit protocol exists simply means that, even in the near-miss of the Greek economic crisis of 2015, no member has actually left the Eurozone so no exit protocol has been required. One may also consider, in fairness, the potential for moral hazard inherent to a codified exit protocol which may encourage member states to either join before fully committed or to take more risks whilst inside in the knowledge that leaving is a relatively straightforward option.

The Gold (or Oil) Standard

Gold has held an almost mystical appraisal in the eyes of humans, quite probably from the first day we pulled the shiny, almost useless, rock from the earth. It and silver have long underpinned the value of currency both from the days when coins were directly minted in the metal substances to later times when coins and paper money were convertible into it. The British Pound Sterling derives its name from its original definition as a value convertible into one pound-weight of silver (now worth about £210 at July 2016 prices). The idea behind a gold standard is that the volume of money in one’s economy never exceeds the value of the gold backing it (whether that gold is stored in coins themselves or in the vaults of the Central Bank). If a government wishes to increase the volume of money, then it must acquire more gold but conversely, the volume of money cannot decrease unless the stored gold volume decreases. Therefore, the backing of a gold standard grants stability to a currency.

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The disadvantage is that an economy can only grow as fast as the gold supply can. That price stability means that when supply exceeds demand prices cannot always change to compensate, which results in either wage reductions or unemployment, as was seen most graphically in the US in the Great Depression of the early 1930’s (The UK abandoned the gold standard in 1931, which arguably lessened the impact of Britain’s Depression[38]).

Neither does such a standard automatically assume stability. History abounds with examples of politicians “debasing” their currency by reducing the actual gold content of the coins below their “face” value. A modern country using electronic and paper money could today achieve the same effect by some kind of fractional reserve on the gold store by which the amount of money issued was some multiple of the actual reserves held, say 10:1. A debasement could then be achieved simply by adjusting the multiple, say to 11:1, and printing more money till that limit was reached. The principles is the same as with moving a currency from a fixed 1:1 peg to another: it may initially be politically difficult, but once it is done it becomes comparatively easier to do it again.

The use of oil as an alternative to gold as a commodity peg has been discussed in the case of Scotland by MacDonald[39] and may hold some appeal being that it is one of Scotland’s major exports, hence one of the great drivers of Scottish balance of payments. One major drawback to this particular aspect of a currency
plan is that if the peg is made when the price of oil is low and then it appreciates sharply, the oil economy can grow at the expense of the non-oil economy (so called "Dutch Disease"[40] named after the period in the 1970’s when the Dutch guilder rapidly appreciated due to the oil boom, causing a decline in the other sectors of the Dutch economy). Since oil exports only make up around 25% of Scotland's exports[41] a small rise in the oil sector could well cause larger absolute harm to the wider economy.

Additionally, the practical considerations of a long term peg to a finite commodity in a world which, when reserves run out or sooner, will eventually become less reliant on oil should be kept in mind. If demand or supply for oil drops below a certain point then the currency could be adversely affected. Finally, the political ramifications of formally linking the Scottish currency to oil, both in terms of undermining the oft-heard pro-independence argument that the country's economy was not reliant on oil, as well as opening the currency up to global shocks similar to the one felt by Russia in 2014[42] as a result of the Saudi Arabian led attack on oil prices, cannot be discounted. This risk factor would have to be taken into very serious consideration and counter-measures spelled out should an oil peg be deployed.

Cryptocurrencies

A comparatively new entry into the financial field and one which has yet to be fully tested at a national scale, cryptocurrencies like Bitcoin[43] could represent a future direction for the concept of money in a digital age.

"In very simple terms, a cryptocurrency is a decentralised digital fiat currency whose units or coins are denoted by a complex identifying code."

In very simple terms, a cryptocurrency is a decentralised digital fiat currency whose units or coins are denoted by a complex identifying code (somewhat analogous to the serial number on a printed banknote but longer). Whenever a coin is transferred between users the transaction is passed to a peer-to-peer network for verification (performing the service a bank would normally use to verify a digital payment) and recorded in a public ledger (known as the blockchain). The transaction verifiers, known as miners, are occasionally rewarded for their computer processing time via the regular injection of new coins which are distributed amongst the miners. This method of creating money and verifying payments has been seen as attractive by those who wish to either remove the middle-person involved in processing the transactions (i.e. the banks) or wish to remove the power and responsibility of creating new money from large, unaccountable corporations.

Warren Coats[44] voiced some concerns about the viability of these currencies, mostly in terms of the usual economic factors involved in emerging technologies (namely that without widespread acceptance, payment is difficult therefore price is hard to define) but also in that the advantages of a purely electronic cash transfer system is not that hard to duplicate with traditional currencies (as anyone who has used contactless payment systems can attest). The reliance on an unknown verification system rather than a bank with a commercial reputation may also disincline people from making large purchases using the currency (which would undermine confidence and hence the value of the money).

Further, there are still technical challenges to the long term viability of cryptocurrencies which have not yet been readily addressed. At the moment, the time to process transactions made by cryptocurrencies is dependent on the total processing capacity of the miners and can take anywhere from seconds to hours. Granted this is a lot faster than older systems like personal cheques which could take days to verify but it is much slower than other electronic systems in place which, from a user standpoint, is instantaneous. Another technical challenge lies in the fact that the total volume of currency available to be mined is usually set ahead of time. If coins can be minted indefinitely then eventually the value of each individual coin will depreciate to zero. But if, as is the case in the original Bitcoin protocol, the total number of coins is finite then at some point (estimated to be 2040 for Bitcoin) no more coins will be produced. If no more coins are available to miners then some other form of compensation would have to be provided to induce them to process transactions (possibly some sort of transaction fee from which Bitcoin is currently free. This in itself could disincentive use).

Essentially, Coats argues that while cryptocurrencies should be considered seriously as a potential transaction medium they should not be over-idolised as a total solution which is infinitely superior to existing forms of money. Even if and when all of the technical challenges identified[45] are solved, many of the economic challenges involved with interactions between currencies, like exchange and interest rates, would still remain.

The National Bank of Scotland – Creating a Central Bank

No matter which currency choice that an independent Scotland selects there will likely have to be at least
some thought given towards creating a Central Bank (or, similar organisation in the event of some kind of currency union). Whilst the duties of such an organisation were outlined in an earlier section it would do well to examine these a little deeper with specific reference to Scotland. This is not likely to be a trivial task and it will be one which must be considered seriously as the consequences of mismanaging the money supply and economy of Scotland would be severe.

**Founding, Infrastructure and Size**

The precise path through which Scotland is likely to achieve independence is one without very many precedents in the modern world and thus the procedure by which we would found our Central Bank is likely to be particular to our situation.

Examining cases of countries of a similar size to Scotland and who have found themselves requiring a Central Bank, such as New Zealand[46], Norway[47], or Slovakia, the experience has been that they have been able to found a new organisation within months of independence or on exit from a currency union. The post-Soviet states, for instance, were often able to draw upon the resources of a federal banking system which was rather more decentralised than is the case in Scotland. It is feasible that a bank currently in public hands, such as RBS, could be reconfigured into a Scottish Central Bank (although the division of assets of this kind will be the subject of negotiation).

If existing assets in Scotland are unsuitable for use as a Central Bank (e.g. no suitable building exists for its HQ) then one may be constructed which could take some years and would require some kind of transitional arrangement. This need not hamper the functioning of the organisation though. The model of Slovakia[48] could be taken as a guide in this case. Having achieved independence in 1993, they founded their Central Bank within months. The new HQ offices began construction in 1996 and were officially opened in 2003.

In terms of the actual size of a Central Bank for a country the size of Scotland, there appears to be a high degree of variability depending on the tasks required of the organisation. Some countries like New Zealand operate a relatively slim Central Bank employing around 200 people whereas others, such as Norway which requires a great deal of management of its sovereign wealth fund, employs around 800. Regardless, it is clear that a Scottish National Bank would be a significant source and sustainer of skilled jobs for the Scottish financial sector and the city in which it was based, almost certainly Edinburgh.

**Currency Management and the Foreign Reserve**

As mentioned previously, a Scottish foreign reserve fund would likely amount to around 5% of GDP or about £10 billion. This is a significant sum for Scotland to raise but not an insurmountable one.

“In the simplest and most politically co-operative scenario, Scotland would acquire a share of the UK’s foreign reserve as part of the separation agreement which would cover the full amount required.”

In the simplest and most politically co-operative scenario, Scotland would acquire a share of the UK’s foreign reserve as part of the separation agreement which would cover the full amount required. If Scotland has agreed to take on a share of the UK’s national debt then the value of the foreign reserve could be mortgaged against an equivalent value of debt taken on. A third option, in the case that the remainder of the UK steadfastly refuses to relinquish any assets or debt, could be for Scotland to issue bonds and simply borrow the money required on its own terms. The viability of this option will be highly dependent on the interest rates or yields asked for these bonds which cannot be easily predicted ahead of time. To illustrate, as of mid-2016 the bond yields of many industrialised countries are sitting at historic lows in a field where the historic records stretch back several centuries. In some cases, notably Germany, Switzerland and, in some instances, the UK, these yields have reached negative values[49] where investors are willing to pay national governments for the security of storing their money in bonds. If Scotland finds itself able to capitalise on these low yields then borrowing money on our own terms (for any assets, not just for founding a Central Bank) may be a cheaper option compared to taking on a share of extant UK debt.

**Economic Monitoring and Management**

One of the important functions of a Central Bank which may be true even if the organisation has little direct control over currency (as would be the case in a currency union for instance) is the monitoring of economic activity
such as employment levels, economic size and rate of change, monitoring and making transactions on the financial markets, managing the foreign reserve in relation to the trade balance and other related activities. Some limited models for central banking or for currency boards may be willing to take a laissez-faire attitude to some of these activities and thus may be willing to forego some of these activities. On the other hand, the political climate may be that more intense scrutiny and regulation of the economy and especially of the financial sector of Scotland (which may well seem attractive to London financial houses who wish to remain inside the EU post-Brexit). Prudent management may well serve to protect Scotland against another financial crash of the kind witnessed in 2007. The advantages of a Central Bank able to provide well founded economic data on which the government can base policy should also be readily apparent.

Investment and Intervention

The Common Weal has advocated the formation of a National Investment Bank[50] which would promote and co-ordinate borrowing and investment within the real economy (as opposed to financial speculation). Whilst this scheme could and should be implemented under the current devolved circumstances in Scotland, it may be that the activities of the NIB could be taken over by, or form the basis of, a National Central Bank upon independence.

“Direct control of investment and targeted economic intervention by the Central Bank could be considered analogous of Norges Bank, the Norwegian Central Bank, and their responsibility for the management of the international portion of Norway’s Government Pension Fund.”

This kind of direct control of investment and targeted economic intervention by the Central Bank could be considered analogous of Norges Bank, the Norwegian Central Bank, and their responsibility for the management of the international portion of Norway’s Government Pension Fund which, especially recently, often takes an active role[51] in managing companies in which it is invested rather than simply extracting dividends as a silent partner. In a similar manner, Scotland could choose to grant the National Bank of Scotland with the powers and mission of direct public investment into the Scottish economy.

Creating a New Currency From (Almost) Scratch

In the event that a newly independent Scotland would wish to create a new currency it would have to tackle the practical considerations involved in doing so. Whilst many countries have traversed this process at some time of another (often due to their new-found independence; sometimes due to loss of confidence in their old currency) the process itself is far from trivial. International Monetary Fund advisor Warren Coats has been involved in the drawing up of new currencies for countries such as Kazakhstan and Kyrgyzstan in the wake of the collapse of the Soviet Union; Bosnia and Herzegovina after the collapse of Yugoslavia as well as nations such as Iraq and Afghanistan during their periods of regime change (Iraq, for example, wished to remove the image of Saddam Hussein from their currency after his deposition). Coats describes three basic stages.

Design

The first stage is to agree on a design for the new currency including who or what should be depicted on the notes and coins. This has, in the past, been an issue of notorious politicking. Negotiations over a united Yugoslav currency resulted in months of division along ethnic grounds. Infamously, the Euro (EUR) ended up not featuring famous buildings and landmarks from across the continent but instead rather generic images of bridges and gateways which are said to be representative of European architectural eras but which, and this is crucial, did not actually exist in the real world at the time of printing (some of the bridges on the notes have since inspired the design of real world bridges in the Netherlands and so have completed the logical pathway in reverse).

Scotland would appear to hold immediate advantage in this subject as the country already issues our own distinct versions of Sterling bank notes, often featuring distinctly Scottish landmarks, castles and historical figures. Indeed, we’re already quite familiar and comfortable with handling money with identical value but different designs and regularly do so almost without realising it.
The implementation of a “new” design of note should therefore cause far less confusion or concern than it would in many other countries.

The process of designing a new currency has, especially when it is to be used to replace a failing one, often been a matter for intense secrecy and security. The knowledge that such a move was being considered could harm public confidence in the existing currency and hasten its demise precipitously. In Scotland’s case, however, this debate – having already been in the public eye for some years now – could very well be opened up to public consultation. A public which feels invested in a new currency and feels that the images depicted on the new notes and coins represent them could well feel rather more confident in that currency than they would be if the process were kept behind closed doors.

**Distribution**

Once designed the currency needs to be printed/minted and distributed. Protections granted in the 1707 Treaty of Union enshrined this right:

“That, from and after the Union, the Coin shall be of the same Standard and Value throughout the united Kingdom, as now in England, and a Mint shall be continued in Scotland, under the same Rules as the Mint in England, and the present Officers of the Mint continued, subject to such Regulations and Alterations as her Majesty, her Heirs or Successors, or the Parliament of Great-Britain, shall think fit.” – The Treaty of Union, Article XVI

Despite this, Scotland’s own mint ceased operation in 1710 and was formally abolished in 1817[52]. Given the cost and impracticality of setting up a new mint and printing house for the sole purpose of creating a new Scottish currency, as well as the constitutional question of the legality of doing so before independence, it is likely that one of the commercial printing houses such as De La Rue (The England based company which handles the printing of GBP as well as the currencies of 150 other nations) or Giesecke & Devrient (The German company which occupies the position of second largest printer of banknotes after De La Rue) could be approached to aid in production. It is worth noting that at least one source[53] has reported that De La Rue was placed on standby in 2012 to aid Greece in the event of an emergency exit from the Euro, so the ability of these companies to assist on even very short timescales should be considered.

That said, and as we’ve seen with the aftermath of the 2016 EU referendum, it is possible that events could run beyond the control of politicians and Scotland could well find itself formally independent rather faster than imagined. In this case one may have to consider some kind of transitional arrangement before any new Scottish currency could be launched. Whilst not an ‘ideal’ model to exactly emulate, the breakup of the Austro-Hungarian Empire in 1919 may provide some inspiration. The new Kingdom of Serbs, Croats and Slovenes decreed that notes held in the territory were to be recalled and overprinted with a stamp of authorisation before they could be recirculated.[54] This was to give the Kingdom the time required to properly issue new currency. It should be noted with caution however that this precise example was largely a failure due to the ease by which the stamp of authorisation could be forged. For emphasis, this particular option should be considered only as a short term, transitional option which has been used in historical contexts. It is readily conceivable that with the increased use of electronic monetary transfers and the increased speed and technology of printing and distribution compared to a century ago the actual requirement for this to be used would be limited.

**Education and Launch**

Once designed and printed, the new currency would be ready for launch. If the process has been well discussed in advance, and especially if the public has taken an active role in design, then the process should be relatively straightforward. Indeed, the UK has already dealt with a rather more disruptive change in this respect than a future independent Scottish Government is every likely to have to deal with.

“The UK has already dealt with a rather more disruptive change [to its currency] than a future independent Scottish Government is ever likely to deal with.”

On 15 February 1971, Decimal Day, the UK and Northern Ireland abandoned the centuries old system of counting currency in pounds, shillings and penceys and replaced it with a new decimal system. Whilst the new decimal pound was set on par with the old imperial pound and some sense of continuity was therefore maintained, it is no mistake to consider this event as functionally equivalent to the launch of an entirely new currency with an entirely new mode of counting (240 old pennies were replaced with 100 decimal “new pence”). This process also required the recall and minting of an entirely new set of coins as well as the conversion of all tills, registers and vending machines to accept the new coinage. Conversion charts were available for some time after Decimal Day to assist shoppers and
educational programs, such as ITV’s ‘Granny Gets the Point’, were produced to help educate especially older citizens. If an independent Scotland decides to move to a new currency it is rather unlikely that a ratio of anything other than 1:100 between the primary currency unit and its subdivision (whatever their names are) would be chosen. The education process should therefore be considerably easier than the process successfully endured in 1971.

Conclusions

The primary lesson to take away from the discussion of currency options for an independent Scotland is that no single option is, in general economic terms, particularly any riskier or less viable than any other (it is simply that the risks are different and should be managed accordingly). Economics is a dynamic event and no single currency option is likely to remain the optimal choice for an independent Scotland for all time.

When selecting a currency option Scotland should therefore consider, as a first principle, the options which allow the Scottish Government to capture and retain monetary and political sovereignty over the decision. This will grant Scotland the ability and power to change its mind and adjust monetary policy, up to and including currency arrangements, if required or if it is advantageous to do so.

In this sense it is clear that if and when Scotland enters another formal independence campaign the advocates of independence should begin from the standpoint of using independence to launch a new, independent Scottish currency. Minds should be kept open to the potential of one currency union or another but, particularly in the case of a Sterling union, it should be for the advocates for remaining within the UK to make the case for that union over the advantages offered by the £Scot.

"From the point of view of confidence and stability, the £Scot should be initially pegged to Sterling on a 1:1 basis and maintained there for at least some kind of transition period to allow markets to settle and to avoid sudden capital flight problems."

From the point of view of confidence and stability, the £Scot should be initially pegged to Sterling on a 1:1 basis and maintained there for at least some kind of transition period (perhaps years) to allow markets to settle and to avoid sudden capital flight problems (bearing in mind ‘hot money’ flows from or to Scotland can be damaging). Beyond this period, the peg should be regularly reviewed in light of Scotland’s economic trajectory with respect to the UK, the EU and other trading partners. It may be useful to track an Australian style Trade Weight Index or similar for this purpose. The Scottish Government should stand by to adjust the peg or remove it entirely if politically and economically advantageous.

The political and social advantages of allowing the people of Scotland to aid in the design of the new Scottish currency should be embraced. Having made the choice to create one, the public should be able to invest some kind of ownership or belonging in it by allowing the expression of newly independent identity through it. This would greatly aid in the adoption and confidence of the new currency as well as go some way towards assisting the citizens of Scotland in settling into their new found place in the world.

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