

The Referendum Schools Debate

FEBRUARY 2014

CURRENCY

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MOTION:

“AN INDEPENDENT SCOTLAND NEEDS AN INDEPENDENT CURRENCY”



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KEY TERMS

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Eurozone

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INTRODUCTION

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In a visit to the Isle of Man in July 2013, First Minister Alex Salmond confirmed that he believed an independent Scotland should retain the pound within a formal currency union with the rest of the United Kingdom. This proposal was further cemented with the publication of the Referendum White Paper in November, which confirmed plans to retain the pound – describing it as the best option for an independent Scotland and for the rest of the UK [Ref: [STV](#)]. However a number of people from the No campaign have suggested otherwise - the UK Chancellor George Osborne describing currency union as “less suitable” to the current set up both for Scotland and for the rest of the UK [Ref: [STV](#)]. Others from both sides of the referendum debate question the freedom an independent Scotland would have to decide its own fiscal policy should it seek to form a currency union with the rest of the UK. The Scottish Green Party, who support independence, also support the adoption of a new independent currency, arguing that only by doing this can Scotland have full control over economic policy [Ref: [Scotsman](#)]. From the No side, Alex Massie suggests that “remaining subject to the Bank of England must diminish Scotland’s real independence” [Ref: [Think Scotland](#)]. The currency an independent Scotland chooses to use will have profound effects on how it would trade with the rest of the UK and with the wider world, and how much fiscal autonomy a Scottish government would have to control its own monetary affairs.

THE CURRENCY DEBATE IN CONTEXT

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The Pound: Scotland's Currency

"The pound is Scotland's currency just as much as it is the rest of the UK's." [Ref: [White Paper](#)] and for the Scottish Government, continuing to use the pound as part of a formal Sterling Area would be the best solution for both Scotland and the rest of the UK (rUK) – agreeing with the findings of the expert Fiscal Commission Working Group [Ref: [Scottish Government](#)]. This would help retain the extremely strong trading links Scotland and the rest of the UK share, and so would be in both countries' interests. Despite what some from the No campaign have suggested, there is no possibility of the rest of the UK preventing Scotland from continuing to use the pound [Ref: [Scotsman](#)] and it would serve rUK's interests to form a mutual agreement over a Sterling Area – Alex Salmond describing George Osborne's hypothetical attempts to deny Scotland the right to use the pound as "cutting off his nose to spite his face" [Ref: [SNP](#)]. Large revenues from oil & gas in Scotland and from other international exports would help strengthen the pound, so it would be in the rest of the UK's interest to negotiate and keep Scotland within the Sterling Area. The Scottish Government estimates, too, that the rest of the UK exports £59 billion to Scotland in 2012. Maintaining this, and the jobs dependent on those exports, are further reason monetary union makes sense. The Bank of England would continue to act as the central bank for Scotland, setting monetary policy that would suit the whole of the monetary area. Scotland would have a say in these policy decisions through a shareholder agreement with the rest of the UK [Ref: [Scottish Government](#)].

How independent?

Critics of retaining the pound come from both sides of the referendum debate. For the Yes supporting Scottish Green Party, while they

may consider support for a Sterling Area as a short-term step, an independent Scotland's economic priorities would be reasonably expected to diverge from the rest of the UK, making a separate currency an attractive prospect [Ref: [Patrick Harvie](#)]. A motion passed at their conference in October 2013 reinforced this, arguing that control over currency was vital for Scotland to exercise as much control over its economic policy as possible [Ref: [Scotsman](#)]. The Scottish Secretary Alastair Carmichael has questioned the idea that a currency union would work, arguing that it needs political integration as members of the Eurozone are now arguing in the aftermath of the collapse of the Greek economy in particular. Since the point of Scottish independence is to break political integration with the rest of the UK, he argues, the whole notion of a sterling union is contradictory [Ref: [STV](#)]. Others have questioned the extent to which an independent Scotland would be able to exercise influence over the Bank of England, which would control its monetary policy, with the National Institute of Economic and Social Research questioning how the Bank of England would share responsibility to both countries when the rest of the UK represents 10 times the population of Scotland [Ref: [Channel 4](#)]. A recent speech by the governor of the Bank of England, Mark Carney, stressed that any arrangements would be between the Scottish and UK parliaments, but that the Bank of England would implement any decisions reached. The SNP hailed this as an endorsement of their plans, which undermined warnings from the No campaign about the use of the currency [Ref: [SNP](#)]. Others, however, pointed to Mark Carney's remarks about seceding sovereignty in order to make a union work, which was seen as unworkable both from the point of view of Scotland [Ref: [Edinburgh Evening News](#)] and of the remainder of the UK [Ref: [Financial Times](#)]. The House of Lords has said that it would be unacceptable for the Bank of England's Monetary Policy Committee to have members

representing the interests of a separate country [Ref: [House of Lords](#)]. In order to protect its own interests, the UK may be likely to seek strict budgetary and debt constraints – this would limit the decisions an independent Scotland would be able to make [Ref: [Financial Times](#)].

Lessons of the Euro

The Scottish Government point out that countries around the world share currencies. France, Germany and the Netherlands all share a currency, yet retain control over their own resources and taxation policies [Ref: [Scottish Government](#)] and are considered independent. Others argue against the assumption that Scotland would be a weaker partner in the Sterling Zone, suggesting that a small country with significant natural resources would be in a strong negotiating position [Ref: [Herald](#)]. For some, the comparison to the Euro is a warning for an independent Scotland, arguing that for example, Ireland's economy has suffered due to its inability to make adjustments to its currency due to its being part of the Eurozone [Ref: [MoneyWeek](#)]. Once popular with the SNP as an option for independent Scotland, joining the Euro has fallen out of favour due to the crisis it has faced. Alastair Carmichael argues that monetary unions work best with political union. The EU has many within it seeking this kind of political union, partly as a response to the monetary issues [Ref: [Telegraph](#)]. Rather like a sterling union, this seems opposite to the goals of the independence movement, and may strengthen the case for Scotland using an independent currency should Scotland become independent.

ESSENTIAL READING

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ESSENTIAL

Scottish independence: What are currency options?

John Kay *Scotsman* 8 May 2013

Scotland's currency options

Philip Inman *Guardian* 23 April 2013

Scots face tough choice on currency

Mure Dickie *Financial Times* 23 April 2013

FOR

The cost of currency union is far too high

Jim Sillars *Edinburgh Evening News* 5 February 2014

Time to prepare for the Scottie

DeAnne Julius *Financial Times* 1 May 2013

How can Salmond argue Scotland shouldn't have its own currency?

Dominic Lawson *Independent* 23 April 2013

An independent Scotland must abandon the pound

Sean Keyes *MoneyWeek* 2 March 2012

AGAINST

Mark Carney is someone an independent Scotland can do business with

George Kerevan *Newsnet Scotland* 2 February 2014

Salmond right to commit to Sterling

Peter Jones *Scotsman* 7 May 2013

Why must Scotland take a pounding in currency row?

Iain MacWhirter *Herald* 2 May 2013

Keeping pound in everyone's interest

John Swinney *Scotsman* 22 April 2013

IN DEPTH

Sturgeon: Sterling is a position we will continue to argue for because we think it is right

Kate Devlin *Herald* 14 February 2014

Alex Salmond debunks myths over currency

SNP May 2013

Scotland analysis: Currency and monetary policy

HM Treasury 23 April 2013

Currency Choices for an Independent Scotland

Scottish Government Fiscal Commission Working Group April 2013

Money, money, money: three reasons for Scots not to go solo

Alastair Darling *The Week* 16 January 2012

BACKGROUNDEERS

Sturgeon: Sterling is a position we will continue to argue for because we think it is right

Kate Devlin *Herald* 14 February 2014

SNP must realise Osborne's pound stance has currency

Alison Rowat *Herald* 14 February 2014

Osborne's politics of Dirty Harry on currency union

Iain MacWhirter *Herald* 13 February 2014

No Campaign's political posturing on currency lacks business sense and economic credibility

Business For Scotland 13 February 2014

England must reject currency union with Scotland

Martin Wolf *Financial Times* 30 January 2014

Scottish independence: Carney says Scots currency plan may lead to power loss

Andrew Black *BBC News* 29 January 2014

5 indicators of growing certainty on currency union with Scottish independence

Michael Gray *Business For Scotland* 23 January 2014

A currency is anything that two people agree is a currency

John Kay *Financial Times* 6 August 2013

Scotland's currency row: a critical moment for the 'yes' campaign

Severin Carrell *Guardian* 1 August 2013

Independent Scotland could 'keep pound similar to the Isle of Man'

STV 16 July 2013

Currency, oil and debt: The economics of Scottish independence

Scotland Tonight 16 May 2013

Debating a Scottish Currency

Coree Brown *University of Edinburgh* 10 May 2013

Uncertainty a Major Currency in Scottish Independence Debate

Jeremy Cook *Huffington Post* 24 April 2013

Sovereign Scots may have to drop sterling

John Kay *Financial Times* 24 April 2013

Are the SNP's plans for a currency union a) Expedient, b) Sensible, c) Dangerous?

Alex Massie *Spectator* 23 April 2013

Osborne's wrong but we need to consider a Scottish currency

Peter McColl *Bright Green* 23 April 2013

Scottish independence: Why would Scotland turn itself into Greece?

Jeremy Warner *Telegraph* 11 October 2012

Osborne: eurozone crisis shows Scottish independence plans would not work

Severin Carrell *Guardian* 6 September 2012

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IN THE NEWS

Alex Salmond responds angrily to Osborne's rejection of currency union

Guardian 13 February 2014

Westminster parties to rule out Scottish use of the pound

Financial Times 12 February 2014

Scottish independence: 'Own currency needed if Yes'

Scotsman 24 June 2013

Scots want to keep the pound

Herald 9 May 2013

Currency row is dismissed by Alex Salmond as bid to scare Scotland

Independent 23 April 2013

Currency union with Scotland may not be in UK's interest, says Osborne

Guardian 23 April 2013

Monetary options show the limits of independence

Financial Times 23 April 2013

An independent Scotland would end up like Panama without control of the pound, George Osborne warns

Daily Mail 23 April 2013

Scottish independence: Banking experts say 'got for Scottish pound

BBC News 2 April 2013

Scots should keep the pound, says Nobel winner Stiglitz

Scotsman 28 February 2013

'Independent Scotland needs its own currency'

Scotsman 21 February 2013

Independent Scotland 'should dump pound if it wants control over tax'

Telegraph 21 February 2013

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ORGANISATIONS

Bank of England

Better Together

The Committee of Scottish Bankers

The Scottish Government

Yes

ABOUT THE STV/DEBATING MATTERS REFERENDUM SCHOOLS DEBATE

Debating Matters has teamed up with STV to give secondary school pupils across Scotland the opportunity to debate the big issues in the run up to the referendum on Scottish independence in 2014. The Scotland wide competition will give school pupils, many of who will be eligible to vote in the referendum on independence, the chance to research and discuss issues which will affect the future of Scotland. STV will provide a platform for debates and cover the competition on air and online. Debating Matters has produced these special editions of our acclaimed Topic Guides on the motions for debate.

STV.TV/DEBATE



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- I am a sixth form student and would like further details about events in my area
- I am interested in becoming a Debating Matters judge
- I am interested in sponsoring/supporting Debating Matters
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organisation

Professional role
(if applicable)

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