

9 Political and economic autonomies

The currency conflict and global trade

No other argument has been raised as frequently in the referendum against Scottish independence as the uncertainty of what currency an independent Scotland would have. I will not repeat here the results presented in Chapter 2 but show how the problem of being able to pay with an internationally accepted currency was used to prevent the creation of the Scottish state. This is followed by a description of the measures that the Scottish autonomy movement has used in recent years to try to get to grips with the problem of its own currency.

9.1 Currency union

The secession campaign called for Scotland to leave only the political union with the United Kingdom. The monetary union, as well as membership in NATO etc., should remain unaffected. In the speech dedicated to the topic, Alex Salmond (SNP) promised on 16 July 2013,

“we will retain the pound. We would use our sovereignty to negotiate a formal currency union with the rest of the United Kingdom. [...] The Monetary Policy Committee of the Bank of England would consider economic conditions in Scotland when setting interest rates for the currency union area, and it would operate as a lender of last resort.” (Salmond 2013)

Salmond then argues that a currency union should be possible because, for example, there are no major differences in productivity between Scotland and the rest of the UK. However, apart from this economic factor, Salmond only mentions fiscal and regulatory motives for secession: “What independence would add is a full range of powers. Not just fiscal powers, but powers over the welfare system, economic regulation, employment legislation and key aspects of energy markets.” (Salmond 2013)

He links currency questions with decisions only the Scottish collective should make after secession. As I will explain in a moment, these questions about Scot-

land's budget income and expenditure and about regulation are linked to the currency union. Salmond hopes for mutual understanding and repeatedly threatens that otherwise, Scotland will not participate in the joint debt: "The UK can make the argument that Scotland has no title to a share of such assets. But if it does so there is an important corollary. If Scotland has no share of its assets, then it has no share of liability for UK debts." (Salmond 2013)

The union campaign disagrees. Through the UK government's Chancellor of the Exchequer, it announces its rejection of the proposed bilateral currency union. Here is Chancellor of the Exchequer George Osborne's drastic words ruling out a bilateral currency union with an independent Scotland on the eve of Valentine's Day 2014:

"[T]he pound isn't an asset to be divided up between the two countries after break-up as if it were a CD collection. [...] The value of the pound lies in the entire monetary system under-pinning it. A system that includes the Bank of England and the tens of millions of UK taxpayers [...] That's part of the choice that people in Scotland are being asked to make." (Chancellor of the Exchequer George Osborne 2014)

The Chancellor of the Exchequer also published the assessment of his adviser, Sir Nicholas Macpherson (then Permanent Secretary to the Treasury), on the rejection of the bilateral currency union. Based on the following reasons, the adviser warns against monetary union with an independent Scotland:

"First, the Scottish Government is still leaving the option open of moving to a different currency option in the longer term. Successful currency unions are based on the near universal belief that they are irreversible. [...] Secondly, Scotland's banking sector is far too big in relation to its national income [...]. An independent Scottish state would not face the same risk as it is inconceivable that a small economy could bail-out an economy nearly ten times its size. [...] Finally, Treasury analysis suggests that fiscal policy in Scotland and the rest of UK would become increasingly misaligned in the medium term." (MacPherson 2014)

Concerning the first objection, it should be noted that the Fiscal Commission convened by the Scottish Government at the time had published proposals that could cast doubt on the commitments made by the Scottish side. This applies in particular to the proposal to create a Scottish Monetary Institute in order to increase currency options in the future, as stated in the report: "The gradual build-up of such institutions would also increase the flexibility and range of potential macroeconomic options for Scotland in the decades ahead." (Beveridge et al. 2013: 34)

Other proposals from the Fiscal Commission have focussed on the work of the Bank of England as a single central bank: "[A]s an explicit shareholder of the Bank, the Scottish Government and Scottish Parliament should seek a role in providing

oversight of the Bank and its activities. This would create an appropriate system of accountability and representation for both governments.” (Beveridge et al. 2013: 185)

In addition, both governments should influence appointments (e.g. in the Monetary Policy Committee and Financial Policy Committee) and objectives of the joint central bank. In order to achieve coordination between the governments, it was proposed that a Macroeconomic Governance Committee be established.

These ideas were rejected in the union campaign. MSP Johann Lamont, the Scottish Labour Party leader at the time, warned against nationalising the Bank of England’s committees. These committees and the Bank were expected to provide expertise, not national or other representation: “all of this neglects one important point, namely that the MPC [Monetary Policy Committee] was deliberately set up as an ‘expert’ committee, not one that represents geographical interests.” (House of Lords 2013: §61)

Michael Moore (Liberal Democrat), the cabinet member responsible for Scotland in the Secretary of State for Scotland, takes the same view. Moore also sees a contradiction here between national sovereignty and expertise. He rejects any form of national input mechanism in the Bank of England. It is not about territorial political representation (government/parliament) but about the central bank and its committees offering economic expertise: “Territorial representation on the MPC [...] is quite out of keeping with its primary purpose and the way it is convened at present [...] I am clearly not persuaded that would work or is desirable.” (House of Lords 2013: §68)

Furthermore, what was the Central Bank’s view on a bilateral currency union with Scotland? Mark Carney, Governor of the Bank of England, gives “a technocratic assessment of what makes an effective currency union between independent nations” in his speech *The Economics of Currency Unions* (Carney 2014a: 2). The speech took place a few days before the Chancellor of the Exchequer’s ruled out a bilateral currency union with Scotland. Based on the theory of optimal currency areas, Carney explains that neither the economic structure nor the factor mobility between Scotland and the rest of the UK offers a reliable argument in favour of or against a bilateral currency union.

However, the institutional factors—in particular, the banking union and fiscal policy of an independent Scotland, which refers to sovereign politics as the environment of the economy—need to be considered. At 12.5 times GDP, Scotland had a banking sector three times larger in 2012 than the rest of the UK, where the figure was 4.3 at the time (see Carney 2014a: 19). However, this is only possible thanks to the UK’s common banking regulation, which, as the eurozone shows, is difficult to achieve between independent states:

“The existing banking union between Scotland and the rest of the United Kingdom has proven durable and efficient. Its foundations include a single prudential supervisor maintaining consistent standards of resilience, a single deposit guar-

antee scheme backed by the central Government, and a common central bank, able to act as Lender of Last Resort across the union, and also backed by the central Government. These arrangements help ensure that Scotland can sustain a banking system whose collective balance sheet is substantially larger than its GDP. The euro area has shown the dangers of not having such arrangements, as well as the difficulties of the necessary pooling of sovereignty to build them.” (Carney 2014a: 8)

A banking union and a harmonised fiscal policy are decisive political factors for a successful monetary union. A successful monetary union cannot be achieved solely through a similar economic structure or high-factor mobility of labour, imports, exports and capital. It also depends on the members of such a monetary union finding fiscal and regulatory policy compromises.

Due to the social and regulatory policy divergence envisaged by the secession campaign, which is largely modelled on the Scandinavian social democracies, and because of Scotland’s large banking sector, one reads between the lines here—especially when it comes to experiences of the “euro area”—there is hardly any potential for bilateral agreement. The Scottish Government is more likely to face a moral hazard. In a monetary union, the Scottish Government, which is committed to egalitarianism, could assume that it would have to be rescued by the other member of this monetary union:

“[T]he threat of default by one country may trigger a generalised crisis, particularly if the liabilities of the crisis country are held by the banking system of the broader currency area. It will be in the interests of other countries in the union to bail out a country in crisis, and that reduces the incentives for countries to run their finances prudently in the first place. At a minimum, this ‘moral hazard’ problem suggests the need for tight fiscal rules, to enforce prudent behaviour for all in the union, although credible sanctions for breaking those rules are hard to develop. There is an obvious tension between using robust fiscal rules to solve this problem, and allowing national fiscal policy to act as a shock absorber.” (Carney 2014a: 9)

For this reason, the question of an optimal monetary union is also a question that politicians must answer. In a monetary union, the necessary institutional arrangements can only be created by restricting national sovereignty:

“The euro area is now beginning to rectify its institutional shortcomings, but further, very significant steps must be taken to expand the sharing of risks and pooling of fiscal resources. In short, a durable, successful currency union requires some ceding of national sovereignty. It is likely that similar institutional arrangements would be necessary to support a monetary union between an independent Scotland and the rest of the UK. [...] Decisions that cede sovereignty and limit auton-

omy are rightly choices for elected governments and involve considerations beyond mere economics. For those considerations, others are better placed to comment.” (Carney 2014a: 10)

Nine days before the referendum, Carney repeated this assessment. At a trade union conference, he responded to an audience question about whether an independent Scotland could count on a bilateral currency union by again referring to the eurozone. We only have to look across the Channel, Carney said, to see what happens if one of the three mechanisms is missing, i.e. common trade (high factor mobility), co-ordinated regulation (‘banking union’) and fiscal policy. He, therefore, stands by his assessment that monetary union is also a political issue. At the moment, he does not recognise any political willingness to compromise here:

“I have said before that we take note of all the positions of all the major Westminster parties to rule out a currency union between an independent Scotland and the rest of the UK. So it is in that context, if you put it together, that a currency union is incompatible with sovereignty.” (Carney 2014b)

The subsequently published minutes of the meeting of the Financial Policy Committee, which discussed the issue of Scottish independence in June, July and September 2014, show that the rejection of the “main parties in the Westminster Parliament” was affirmed (Financial Policy Committee 2014).

Against the background of the alternatives discussed at the time (an overview is provided by Armstrong/Ebell 2014; Comerford 2014), the only option left to the separatists was unilateral monetary union with the British pound, known as “sterlingisation”. In this case, Scotland would have retained the currency without being able to influence monetary policy.

According to Iain Macwhirter, by rejecting a single currency union, the UK government and its union campaign may have won the referendum. However, in the longer term, it will have made it clear to the Scottish people that Scotland has no place in the UK as a nation. The battle for the referendum has been won, but the war for Scotland has been lost: “The pound exclusion has changed the relationship between Scotland and England, because no one north of the border can be in any doubt now that the Union has ceased to be partnership of equals, at least as far as currency is concerned.” (2014: 49)

Ultimately, political influence on the means of payment, which is essential for the micro level of the economy, created what was probably the most important motive against Scotland’s secession. The aspiration for statehood emerging as a democratic revolution has been destroyed by the influence of the sovereign in the form of the Central Bank and the office of Chancellor of the Exchequer.

The optimistic analyst reports at the beginning of 2014, which discussed the possibilities of a new and prosperous small state (e.g. Hill/Porter/Bryce 2014; Zipfel/Vetter 2014), became increasingly negative in the autumn and especially in the week before the referendum (see esp. Folkerts-Landau 2014). Secession was not only problematic due to the dependence of Scotland's national budget (approx. 19 %) on volatile oil and gas revenues. The economic danger was seen even more clearly in the concentration of trade links in imports and exports between Scotland and the so-called remaining United Kingdom (hereafter rUK). Over 70 % of Scotland's Gross Domestic Product (GDP) is due to this rUK-centred trade and a small trade deficit (see the cost analysis by Comerford 2014). This deficit and the rejection of a currency union by the Union side would make it impossible for Scotland to build up the financial reserves it would need for a unilateral currency union ("sterlingisation") with the extremely high bank deposits registered in Scotland (12–15 times GDP). Hong Kong was cited as a comparative case. Hong Kong has a similar USD currency board but a USD reserve equivalent to its annual GDP. A week before the referendum, companies in the retail sector (e.g. Kingfisher, Sainsbury, Timpson), but especially in the finance and insurance industry, announced so-called "contingency plans" and threatened to raise prices and relocate their headquarters to England if secession were to occur under these circumstances of currency uncertainty.

Not only did the union campaign attempt to cite economic reasons against secession, but performance roles in the political system (i.e. political elite) used their own opportunities to darken the economic diagnosis of secession. The major parties in Westminster have decided against a bilateral currency union, and the Central Bank has followed suit. The UK's political union has merged with the currency/central bank. Leaving the political union also excludes you from the 'banking union', as the Chancellor of the Exchequer unequivocally states, and as the Governor of the Bank of England suggests, based on the institutional factors of successful currency unions.

The union campaign used currency uncertainty as an argument against secession. This argument also made sense because the secession campaign had campaigned on divergence from Westminster regarding the welfare state (fiscal policy) and economic regulation. See, for example, the welfare divergence mentioned in a report at the time: "As things stand, the economic structures of Scotland and England are very similar. [...] But there are already differences, even under devolution. Public sector spending per head is 11 % higher in Scotland than the UK overall." (House of Lords 2013: 12)

Currency and self-government were played off against each other. You can opt either for the state-guaranteed currency, including the central bank, or for Scotland's self-government, including worries about with which money (e.g. currency) one pays the bills. One in two people (57 %) who voted against secession in the referendum cited currency as the most important reason for this decision (all figures

based on Lord Ashcroft 2014). This currency problem is also very real reason why property owners and pensioners voted against Scottish statehood by an above-average margin in the referendum (Foley 2024: 138). The have-nots did not have much to lose and were therefore more likely to vote for secession, as a Radical Independence activist explained. Radical Independence focuses on areas of social housing “like council estates and housing schemes” because ultimately, it is precisely those “who have the least to lose that are most likely to vote Yes” (RIC activist, 2014).

9.2 Anticipating the question of currency

As a symbol of the economy, the pound sterling has been used to combat the unity of a Scottish state that emerged in the secession referendum. By rejecting the bilateral currency union, British government has weakened the democratic autonomy aspirations of Scottish statehood. In sociological terms, this is a struggle between the economy and politics as two function systems of modern world society. Political actors initiated the battle. As a means of payment, money symbolises the unity of self-reference and external reference of the economy as a function system. Functionally equivalent, the state symbolises the unity of the political function system (Luhmann, 1984, p. 624). Let us look at how the Scottish quest for statehood attempts to win this battle in the longer term.

Nicola Sturgeon asked for economic expertise on the currency and other issues of an independent Scotland through the Sustainable Growth Commission set up following the UK’s 2016 EU referendum. The report was published in May 2018. It proposes adherence to the currency union known as sterlingisation. To this day, this issue remains controversial among those in favour of Scottish political autonomy. At their party conference in November 2021, SNP members voted 481 to 38 against this recommendation and in favour of establishing an independent Scottish central bank to use the Scottish pound as a means of payment (Nutt 2021).¹

Regardless of the currency issue, the Scottish Government is trying to increase its autonomy by seeking new international dependencies. To this end, trade relations are being deliberately pluralised. The extent to which international trade is changing and how it compares to other small democratic states, such as Norway and Denmark in particular, is measured within the National Performance Framework as “International Exporting” and has been evaluated since the government strategy “A Trading Nation” published in 2019 (Scottish Government 2019).

This pluralisation of economic interdependencies beyond the United Kingdom is vital for the autonomy sought by the Scottish SNP government. Thus, autonomy is

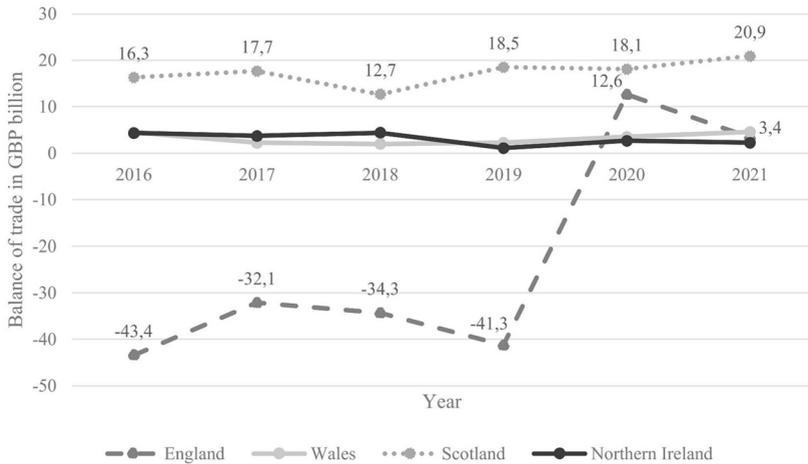
1 See the “Road to the Scottish Currency” of the Scottish Reserve Bank (<https://www.reservebank.scot/>).

currently largely limited to the United Kingdom. The Scottish independence movement seeks new dependencies beyond the United Kingdom through international trade.

Since the second half of the 18th century at the latest, Scotland has benefited massively economically and in other respects from the Act of Union concluded with in 1707, as David Hume noted at the time: “Is it not strange that, at a time when we have lost our Princes, our Parliaments, our independent Government [...] that, in these Circumstances, we shou’d really be the People most distinguish’d for Literature in Europe?” (Hume 1932[1757])

The factors responsible for this, such as Scotland’s geographically favourable location for sea routes to the New World; urbanisation and migration, first within Scotland and then globally with the expansion of education; the migration of the landed gentry and their repatriation of the profits made in the Empire (Devine 2008: 104f.) etc. are too numerous to go into here.

Figure 17: The international balance of trade in £bn of goods and services of the four UK nations with trading partners outside the UK, 2016–2021



The social structure of the Scottish economy is significant for what follows. Although this was initially highly specialised, similar to a colony, from the 18th century, the Scottish economy was the embodiment of the British economy:

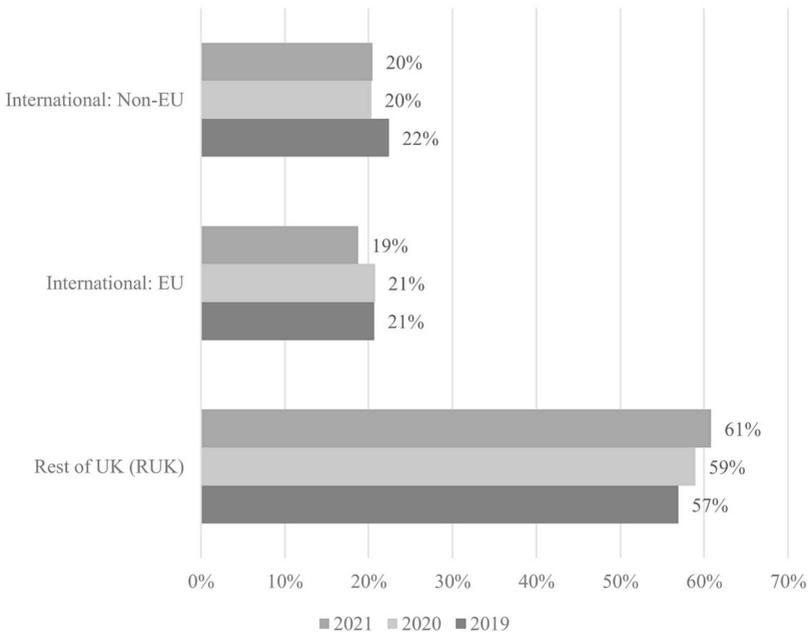
“Scotland became an industrial capitalist society within the context of a *laissez-faire* British state. [...] Scotland was so well adapted to imperial opportunities in

the nineteenth century that the collapse of the economy after the First World War was catastrophic for Scotland.” (McCrone 2017: 201)

This over-adaptation to the British Empire, which at times spanned the globe, went hand in hand with the strengthening of the first Scottish autonomy movement, which at that time was still striving for autonomy within the United Kingdom (Hanham 1969; Marr 2013). Scotland’s over-adaptation led to social problems, the traces of which can still be found today in the so-called city belt from Glasgow to Dundee (central belt) (Walsh et al. 2016; McCartney et al. 2012).

With the decline of the British Empire, the demand for heavy industry originating from Scotland also collapsed. While Glasgow was once called the “Second City of Empire” and Scotland was dubbed the “Workshop of Empire” in the 19th century (Hutchison, 2005), the end of the 19th century saw an emigration movement of broadly highly skilled workers and their families that lasted until the 1980s (see Chapter 3 above and Anderson 2016).

Figure 18: Exports of goods & services from Scotland (excluding oil & gas), 2019–2021



This century of emigration of a broadly skilled labour force provides Scottish politics and business with points of reference for tourism, immigration (Ruther-

ford 2009; Scottish Government 2010) and international trade (Scottish Government 2019).

Unlike the UK as a whole and its three other constituent nations, Scotland has long had a significant international trade surplus of £20.9bn, exporting more goods and services to the world (outside the UK) than it imports, as the following statistics show (Office for National Statistics 2023).

Although imports to Scotland already have a solid international linkage, exports are different. Exports of goods and services from Scotland to the rest of the UK are around 60% (£48.8bn in 2021), three times higher than exports to the EU (£15bn) (Scottish Government 2023).

9.3 Autonomy by pluralisation of dependencies

However, what should you pay with if you do not have your own currency or at least a currency backed by reserves as a state? This question remains for the time being.

Intensifying international trade relations outside the United Kingdom and thus creating new dependencies between the trading partners involved is a so-called 'para-diplomatic' strategy to increase Scotland's political autonomy (Fabiani 2014). As James Foley writes, this focus on the opportunities to participate in international trade was already a decisive factor in the union between Scotland and England in 1707 (see chapter 4 in Foley 2024). As Andrew Fletcher notes, it was preferred to be able to participate in economic trade in Scotland too, even if this meant sacrificing the pride of the independent nation. " (Fletcher 1732[1698]: 99) With the strengthening of Scottish independence aspirations in the second half of the 20th-century, the interpretation of the European Community also shifted, as Foley rightly emphasises (Foley 2024: 135). The EU is important to Scottish nationalism as an economic trading partner, among other things, which could also offer the possibility of a monetary union.

Comparable considerations can already be found in the Scottish Enlightenment. According to this, the will to live together is neither natural nor does a social contract give it. Coexistence is only developed through repeated interaction between the parties and can create a new shared identity in this process (see Plassart 2015; for a comparable transaction-based social theory Wimmer 2011).

Adam Smith (1896[1763]: 254) illustrates this primacy of interaction in his lecture: "Wherever dealings are frequent, a man does not expect to gain so much by any one contract, as by probity and punctuality in the whole". Only the elementarisation, frequency and contingency of the interaction socialises the contractual partners into reliability. This reliability among unknowns becomes the starting point for ever new transactions with other unknowns. Instead of a few significant interactions such as world exhibitions, a global banking crisis like 2008, the Tour de France or '91', the

focus is on many small interactions. Common convictions emerge between the parties. Due to the small-scale nature of constantly new interactions, there is minimal sympathy between the participants (see 'impartial spectator' Lamb 1974; different are the major events that punctualise the entire world Stichweh 2006a). The mutual exchange of small and medium dependencies socialises mutual consideration as individuals.

