

WHAT CURRENCY?



by Bill Newman and Colin Fox

THERE is a perfectly sensible debate to be had on what currency an independent Scotland should use. But, as usual, the 'No' to Independence campaign prefers to frighten people with nonsensical scare stories, such as insisting an independent Scotland would be forced to use the Euro, instead of engaging in a constructive and learned debate.

There are essentially four different possibilities; either to keep the pound Sterling, join the Euro, stay within a Sterling zone as it were made up of Scotland and the rest of the UK, and to establish our own separate currency.

The socialist option would see Scotland adopting its own currency protected against international speculation by limiting its convertibility into other currencies. However, in the market-driven capitalist world of today

such an option is not immediately realistic given our financial obligations to international bodies. So, it is sensible to look at those alternatives that would not limit Scotland's economic options.

Constraints

In theory, it should be possible to keep the pound Sterling, with all the constraints that would involve, such as the Bank of England maintaining monetary control (with by implication, the government in Westminster's involvement). This is essentially the Scottish National Party's current favoured option, i.e. keeping Scotland within a Sterling Zone.

And despite 'No' campaign assertions to the contrary, it is inconceivable that Westminster and the Bank of England would refuse to allow this to happen.

But it would mean that Scottish monetary policy would still be dependent

on their whims as its political masters. And this is precisely why such a policy should be unacceptable.

How independent would Scotland be if all our monetary policy were determined by London? There would be no independent interest rate and money supply (a key determinant of economic policy) would continue to be controlled by the Bank of England. It has been claimed that at least fiscal policy would be under the control of the Scottish Government, but budgetary decisions are severely constrained by monetary policy. To be truly independent, and to allow socialist economic decisions to be taken, a Scottish currency cannot be left under the control of London.

Capitalist device

Even though it is totally untrue that an independent Scotland would be forced to adopt the Euro, its use could certainly be an option for a Scottish Government, but given the chaos in the Euro Zone at the moment, no one seriously suggests it for now.

Indeed, there is clearly no sense in tying Greece, Cyprus, Spain and Portugal to a Euro exchange rate which leaves their currency wildly over-valued while Germany's is under-valued.

This is not just a capitalist device to reinforce a market-driven Europe, but an absurdity which caused misery to workers in southern Europe and must eventually collapse under its own contradictions.

So what currency arrangement should an independent Scotland adopt?

A free-floating Scottish currency would seem an ideal solution, but there are drawbacks. The Scottish economy would be much stronger than that of the rest of the UK (RUK) with a positive trade balance to contrast with a massive RUK deficit. Scotland's overall balance of payments would also look much better than that of the RUK. In these circumstances, Scotland's free-floating

currency, after an initial speculative period, would float upwards against both the RUK pound and the Euro, damaging both Scottish exports and tourism.

In the longer term, an appreciating Scottish currency may be both inevitable and even desirable, but the economic disruption in the short term would be alarming and damaging.

The answer then is to tie an independent Scottish pound to the English pound initially, ensuring, for example, that cross-border trade and other economic transactions continue as prior to independence.

In the meantime, a new Central Bank of Scotland could then be created, ensuring that monetary decision-making was devolved to a truly independent nation. Not all nationalists reject such a proposal and Margo McDonald, for example, has espoused a similar arrangement, as has the Green Party.

It should be emphasised that a linkage of one currency to another, albeit on a short-term basis, is by no means uncommon and breaches no international agreements.

Fairer society

It is surprising that the SNP should want to continue to be beholden to the Bank of England and the bank's Westminster masters for a large portion of its economic policy-making. If we are serious about creating a fairer society, where greed and obscene riches are curbed, then we must have total control of the levers of power. Economic independence cannot be achieved while monetary controls are applied in London.

The Scottish Socialist Party is determined to continue to tap into Scotland's honourable tradition for a fair, equitable society, and an independent currency, voluntarily linked to the English pound initially, is surely the best option in creating an environment for a better Scotland.