

Scottish Independence

Whether **Scotland** gains its independence will not only be a question of logic and rationality but of nationalism and emotion as well. Why do the Scots want independence? Why not? Some 300 years ago **Scotland** was an independent country. Lately, every 18 years, the Scots have brought up the issue of independence.

Scotland wants to decide what's best for Scotland. It clearly believes that the decisions in Westminster have not been optimal for Scotland. This is the single most compelling argument for independence. It believes that the revenues from North Sea Oil have been squandered or misdirected and that an independent Scotland could follow in the footsteps of Norway with the creation of an oil financed Sovereign Wealth Fund. It feels that Westminster has neglected Scotland generally, but particularly in investment and infrastructure. Be that as it may, the calculus around North Sea Oil is equivocal. At current production, reserves are expected to last 30 years. Independence is expected to last longer than that.

Lately, indications are that the pro independents will win the referendum. There are issues to be addressed in the event of a separation.

The currency is an important consideration. An independent **Scotland** will need a currency. It currently uses the sterling pound. Scottish bank notes are not in fact legal tender anywhere, not even in **Scotland**, and are therefore legally a form of promissory note. Scotland will have to establish a currency and decide on the basis of that currency, whether it will continue to use sterling as part of a currency union, use sterling without a currency union, join the Euro or have an independent currency and central bank. Options 1 and 3 require the concurrence of the BoE and ECB respectively. Either will impose conditions which will likely severely limit monetary policy independence.

In any divorce, the balance sheet needs to be divided. This includes assets and liabilities. Each side wants the assets but not the liabilities. The Scots will understandably claim the **North Sea** oil reserves as their assets. How exactly the national debt will be distributed will be interesting to see. The question goes beyond the proportion of the national debt that gets allocated to an independent **Scotland** but to defining the new conditions of default for English and Scottish

debt.