The Scottish currency issue has mercilessly exposed the contradictions between the SNP's twin postures of liberation and compromise

By The Author

The Scottish National Party had long advocated a policy of European integration combined with independence from the UK, however the financial and Eurozone crises have seen the SNP become stuck between the competing poles of liberation and compromise. ***James Stafford*** *argues that the the financial crisis has transformed the debate over Scottish independence – to the disadvantage of the SNP.*

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Scottish campaigners for independence have been dogged by a question that refuses to go away: what currency would an independent Scotland use? As Alex Salmond found to his discomfort in the recent debate with Alistair Darling, defence of the pound is one of Better Together's most effective rallying points. So far, argument has centred on the question of whether the currency is an asset, part-'owned' by the Scottish people, or an institution that adheres to the British state (ironically, Scottish monetary theorists have traditionally preferred the second option). But the back-and-forth about the pound addresses the symptoms, rather than the root causes, of the SNP's curious decision to advocate a sterling union over euro membership for an independent Scotland. This was a monumental volte-face, overturning decades of nationalist economic analysis. The explanation for this turnaround, which has crippled the Yes campaign, lies in an unsuccessful attempt to reconcile Scottish nationalists' demands for social democracy with their vision of Scotland as a 'post-sovereign' state in a confederal Europe.

Campaigners for Scottish independence frequently alternate rhetorical assertions of Scottish popular sovereignty with a philosophical claim that ours is the age of the 'post-sovereign' state, embedded and constrained by an international system of economic relations and political institutions. This was an environment in which smaller, 'smarter' states were set to flourish; the 'arc of prosperity' formed by Iceland, Ireland and the Nordic states showed Scotland the way. Perhaps the best exposition of this mature nationalist position was to be found in the elegant legal and political philosophy of the late jurist and SNP MEP Neil MacCormick. Here, a careful theorisation of the European Union's pluralistic legal order was allied to the attractive claim that the United Kingdom, conceived as it was in an era of 'Westphalian' or 'Hobbesian' absolute sovereignty, had outlived its usefulness as a vessel for Scottish aspirations. By removing the threat of empire and war from the 'European commonwealth', the legal order of the EU could permit the UK safely to disaggregate, in accordance with the properly democratic principle of subsidiarity and the inherent ethical value of the historic nation.

The obvious attraction of 'independence in Europe' was that it lowered the risks and transition costs associated with the break-up of the United Kingdom. A looser form of Union in Europe, particularly if it involved membership of a successful single currency, could preserve economic security while diversifying Scotland's connections with its neighbours and strengthening national governing institutions. Conversely, the Euro crisis has severely undermined the sophisticated political economy that once underpinned the SNP's prospectus. It revealed that, through the device of monetary union, the EU's pluralistic legal order has stripped effective economic sovereignty from individual states without transferring it to institutions that are legally or democratically authorised to write off debt, bail out banks, or engineer fiscal transfers on behalf of Europe's citizens.

The collection of states, treaties and indirectly authorised bodies that regulate monetary union are no match for the tightly woven web of hierarchies, oligarchies and incentives that organise and protect the interests of the banks ultimately responsible for its crisis. The euro's strategy for survival serves the interests of the latter by default, offering free ECB credits to the continent's banks and imposing permanent austerity on its poorest citizens. At least within the eurozone, the formal equality of Europe's member states under the legal order described by MacCormick is rendered practically meaningless by the haphazard and arbitrary power of the Troika.

In Scotland, the practical upshot of the euro crisis has been a substantial reduction in public enthusiasm for the European project. But while the euro crisis has transformed the electoral calculus of the SNP, it has found it irretrievably wedded to the ideal of 'post-sovereignty' in the economic realm. In a bid to minimise the fears attendant on a transition to Scottish statehood during a period of global financial crisis, the SNP has rashly promised to seek a formal currency union with the rest of the UK. Westminster opposition to this prospect has come under heavy attack from independence campaigners, but it is extremely well-founded.

In economics, as in democracy, individual preferences are supposedly accorded equal status. Numbers consequently matter. The demand that Scotland be recognised as a state is a demand that attaches to a single, abstract, legal personality. While 'Scotland' might reasonably demand equality of status with 'rUK' as states under European and international law, the material well-being of 5 million Scottish human beings cannot fairly be granted equality of status with that of some 58 million English, Welsh and Northern Irish in the formation of shared economic policies affecting the population of these islands.

It is evident that any durable currency union would entail the creation of exactly this sort of exorbitant national privilege for Scotland's population, although the terms of such of a union would simultaneously prevent Scotland's voters from doing anything worthwhile with it. The demands of technocrats and financial markets – who would gain further unaccountable power under this system – are crystal clear. Under a formal sterling union that international finance, spooked by the euro crisis, would find 'credible', Scotland would have to be permitted an effective veto over the fiscal policy of the rest of the UK through a system of mutually binding treaties restricting deficits and debt to suitably low levels; a British Fiskalpakt.

If this were not the case, and only one party (most likely Scotland) had to submit to fiscal rules, then the arrangement would come to resemble what was once called 'empire': a situation where one political community can 'give laws' to another external to it. The latter outcome would be a very poor exchange for a parliamentary union in which Scotland's interest in economic policy is abundantly, if far from perfectly, represented.

The central irony of the SNP's insistence on this implausible arrangement is that, far from allowing Scotland to escape from Tory cuts, it would entrench them as a permanent article of a new British economic constitution. As Keynesian critics of George Osborne's fiscal policy have frequently pointed out, the British state has the ultimate ability to print money to honour its debts, since it is the sovereign possessor of a unique currency. The mere existence of this facility grants policy-makers valuable room for manoeuvre, since investors' money is unlikely ever to be in existential danger. The break-up of the UK and the institution of a sterling union would significantly complicate and limit the possibilities for this sort of co-ordination of fiscal and monetary policy, calling ambitious SNP spending commitments into question.

These constraints would be further reinforced by the imposition of 'hard' limits on deficits and debts under the terms of the international treaties that would govern the currency area. In combination with the decisive supranational role granted to the Bank of England, and Salmond's programme of competitive corporate and high-income tax cuts, the SNP's vision of Scottish independence looks disturbingly like an attempt to force the nations of the U.K. into the Republic of Ireland's twilight zone of technocratic 'governance' and permanent austerity.

No wonder, then, that non-SNP voices in the Yes campaign have argued that an independent Scotland would be better off with its own currency. But the requirements attendant on the establishment of a new currency in international markets, combined with the objective likelihood that Scotland's fiscal position would be still more parlous than that of the UK today, would produce harsher austerity than that currently foreseen by Osborne. Escaping the iron cage of international political economy through a Chaviste economic strategy of nationalisation, investment and redistribution would necessitate capital and exchange controls, as well as the swift abandonment of EU membership. This is a recipe unlikely to meet with either success or popularity in a small, open, wealthy and European economy like Scotland's; even less so during the brief initial period when the framing conditions for Scottish independence would be decided. Unsurprisingly, the SNP – the only electorally competitive vehicle for independence – shies away from such arguments.

The clear alternative to these tortured speculations about currency would be to assert Scottish self-determination as an absolute value, and speak to the long-term benefits of a maximal level of Scottish control of economic policy – even at the expense of living standards and public services in the short term. The political conditions do not exist, however, for such an argument to gain much traction; nor could its merits ever be conclusively proved. Having accepted long ago that the current situation of Scotland is not one of material and violent oppression likely to produce determined revolt, the dominant force in the Yes campaign has instead sought to render Scottish independence a painless outgrowth of benign political and economic trends, the European movement towards 'post-sovereignty' foremost among them. The currency issue has mercilessly exposed the contradictions between the SNP's twin postures of liberation and compromise.

In the relatively benign age of the 'Great Moderation', and where U.K. membership of the Euro seemed a real likelihood, Europe's progress seemed to offer a way out of the dilemmas of the SNPs 'civic' nationalism. In 2014, as the 'crises of democratic capitalism' take hold, the SNP's programme seems like an optimistic relic of a bygone historical era.

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