Open letter to Mr Alex Salmond, Scotland's First Minister and leader of the Scottish National Party

9th March 2014

Dear Mr Salmond,

I am writing to urge you to reconsider your strategy of binding the campaign for an independent Scotland to sterling's mast. I do this in my twin capacity as a supporter of the Scottish people's aspiration for statehood and a Greek economist with bitter experiences of an ill-conceived currency union.

The vast majority of the English establishment that oppose Scotland's bid for independence have also opposed Britain's membership of the Eurozone on the basis of a simple argument: that there is no nation-state to back the euro up (correct) and that no European institutions can/should develop to play that role (incorrect). What England's governing Euro-sceptics seem to miss is that, if no currency can serve the interests of a multi-national state, then either Scotland ought to issue its own currency forthwith or the Scots do not qualify as a *bona fide* nation.

The SNP's decision to demand Scotland's continued membership of the Sterling Zone is a missed opportunity to turn against Mr Cameron his own Burkean argument. To say to him: "If you are right about the Eurozone, then we have a moral duty to make Scotland independent of London and immediately to issue a Scottish currency. Unless, of course, Mr Cameron you do not think that the Scots are a 'legit' nation. Which of the two is it Prime Minister?" By petitioning, instead, for the 'right' to stay in the Sterling Zone, you are sacrificing a splendid opportunity to unveil the English establishment's contempt for Scottish nationhood and to fire up independently minded Scots prior to the referendum.

Besides this powerful political argument for proposing a new Scottish currency, there are equally potent economic reasons for abandoning sterling. Suppose that London acquiesces to your demands and decides to share with Scotland the Bank of England. Scottish members of the shared bank's board must, as representative democracy commands, be in a minority. The 'shared' central bank of the Sterling Zone will, thus, *always* favour monetary policies:

- attuned to the needs of southern England and the City of London
- operating as a perpetual drag on Scottish growth
- posing a permanent threat to the solvency of the Scottish government.

Undoubtedly, these asymmetries afflict not only Scotland (within a Sterling Zone) but also Greece and other European nations (within the Eurozone). So, why should Scotland leave its monetary union but countries like Greece shouldn't volunteer to exit the Eurozone? There are two reasons.

The first reason is that the Eurozone asymmetries are not built indelibly into its demographics. While it is true that, presently, Greece and other peripheral European countries resemble occupied nations, it is important to recall that this state of affairs is not cast in iron and would disappear in a puff of smoke if Italy, Spain, Greece, Portugal etc. were to form an alliance to demand different policies. In sharp contrast, Scotland will *always* be dominated by England within the Sterling Zone, courtesy of a permanently demographically lopsided two-member union.

The second reason is that, unlike Greece *et al*, Scotland already has its own banknotes! This may well be an historical curiosity but, nonetheless, it could prove hugely beneficial for an independent Scotland.[1] Upon independence, your government can commit to maintaining (say, for two years) the current rules except that the control of the three banks' note issues be transferred to a Scottish Central Bank which commits to maintaining a currency board that allows for a seamless transition to a free-floating Scottish pound. Unlike in the case of a Greek abandonment of the euro,[2] in Scotland there need be *no bank closures* (as the Scottish notes are already in circulation), *no ATM disruption*, *no re-writing of short&medium term contracts* and *no fear of bank runs*. Indeed, the currency in people's wallets will be exactly the same as now but will begin, eventually, to exchange for ratios other than 1:1 with England's pound.

Turning to the issue of public debt, another difference with Greece (which will default *de facto* the moment it leaves the Eurozone) is that Scotland does not have a public debt. Or, to be precise, it will have whatever debt it inherits from the United Kingdom as a result of your post-referendum negotiated settlement with London. Your commitment, Mr Salmond, to staying within the Sterling Zone is forcing you to use up the debt issue as a bargaining chip for securing the continuation of a lopsided currency union, rather than issuing a new currency in order to minimise the amount of UK debt shouldered by an independent Scotland.

Dear Mr Salmond,

Scotland is not Greece. It is contending neither with a humanitarian crisis nor with an upsurge of Nazism. The case of ending your monetary union with your more powerful partner is, in this sense, less pressing than Greece's need to re-negotiate its far more toxic monetary marriage with Berlin and Frankfurt. So, why am I urging you to take Scotland out of its monetary union with London while, at the same time, arguing that Greece should stay put?

First, because by exiting the sterling zone, Scotland stands to gain real sovereignty without suffering any of the catastrophic economic costs that Greece would sustain following a unilateral exit from the Eurozone. Greece can reclaim its sovereignty *within the Eurozone* by finding the courage to challenge the faulty logic of its loan agreement with Brussels, Berlin and Frankfurt. Scotland, in contradistinction, can never secure sovereignty within the Sterling Zone because a shared central bank will *always* force Edinburgh to dance to the tunes of the City and of England's South East. As Mrs Thatcher famously said in her final appearance as Prime Minster in the House of Commons: "It's all politics. Who controls interest rates is political!" In the Sterling Zone, unlike in the Eurozone, the controller of interest rates is pre-determined and unchangeable: London!

Turning once more to my own country's entanglement with an odious monetary union, a sensible Greek demand for re-thinking the euro's unsustainable architecture is more likely to act as the catalyst Europe needs to hold the rational debate that it has steadfastly refused to have. In this debate, an independent Scotland, with its own currency guaranteeing its autonomy from Euro-sceptic England, can help an emerging alliance of peripheral European countries establish a new Eurozone architecture; perhaps even one that Edinburgh may want to join some time in the not too distant future.

With sincere wishes that your referendum will herald an independent Scotland (as well as doubts that it will, if you continue to campaign in favour of keeping an independent Scotland in the Sterling Zone),

Yanis Varoufakis

University of Athens and University of Texas at Austin

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[1] Presently, three Scottish banks issue Scottish pounds under an agreement with the Bank of England which limits the quantity of printed money. The Bank of England presently issues £1 million notes (Giants) and £100 million notes (Titans) which are held somewhere on its Threadneedle Street premises

[2] Which would necessitate a weeklong bank holiday during which euros would be stamped with indelible ink to signify that they are not euros anymore, but New Drachmas – triggering an exodus of unstamped euros abroad, as Greeks with hoarded cash struggle to avoid having their notes stamped.