

SCOTLAND AND THE EURO: INTRODUCTION

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The question of whether or not the UK should join European Monetary Union (EMU) has been a dominant topic in economic and political debate in the UK for several years: given the outcome of the Treasury's assessment of the Five Tests, this will continue to be the case for the foreseeable future. It is surprising, however, that the implications for Scotland have been relatively little discussed. There are several potential implications of the EMU for Scotland: for one thing, there are the questions of how Scotland would fare in the Euro not just under the existing constitutional settlement but under different scenarios for independence. There is also another important aspect: it is sometimes forgotten that the United Kingdom itself is a long established monetary union – so the history of Scotland's experience in the UK monetary union can potentially tell us both about monetary unions in general, and also give us clues as to how Scotland might fare in the Euro.

To discuss these issues, a group of interested parties came together some time ago. This group of papers represents the outcome of these discussions. It is important to stress that the group is not a partisan group – it embraces all strands of opinion in terms of the conventional euro debate. The views expressed in the papers are those of the individual authors alone.

The structure of the papers brought together here is as follows:-

First comes a scene-setting paper, 'Scotland and EMU: An Introduction' by Andrew Hughes Hallett and Drew Scott. This paper reviews some of the most important economic issues raised by the debate, covering both general theoretical aspects of monetary unions and specific aspects relating to EMU, like the Maastricht criteria and the Stability and Growth Pact. The paper also discusses the Treasury's Five Tests, and reviews evidence on the degree of UK convergence with the Euro zone.

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Using the framework of the Five Tests, the second paper 'Scotland Devolved and Monetary Union', by Margaret Cuthbert, looks at how Scotland might fare if the UK as a whole joined EMU, and considers what some of the most important policy responses of the Scottish Executive might be. The historical material examined also throws light on how Scotland has fared within the present UK monetary union.

The next paper, 'Scotland and European Monetary Union: Constraints on Policy Discretion in a Globalised Economy', by Andrew Hughes Hallett and Drew Scott, discusses a general theoretical issue for monetary unions, but one which is of particular relevance to Scotland. The issue discussed is to what extent there is a need for 'local' policy instruments, that is, instruments freely under the control of local-level national or regional government in a monetary union, to help maximise economic performance. The conclusion is that there is a real need for such instruments.

The remaining three papers then move on to consider various implications of changing the current constitutional status of Scotland, within the context of EMU. Sheila Dow's paper 'The Prospects facing an Independent Scotland in the Euro zone Alongside the Rest of the UK', is concerned with the scenario where both an independent Scotland, and the rest of the UK, were in EMU. The paper considers transitional issues, the implications of Maastricht, the likely effects on the Scottish economy, and the policy options open to an independent Scottish government.

David Simpson's paper, 'Competing Currencies: A User Friendly Path to the Euro', takes a radical view of the currency options which would be open to an independent Scotland as it negotiated the tricky path from membership of the sterling monetary union to the eurozone. He raises the possibility of Scotland instituting a system of competing currencies, which would give Scotland early benefits of using the Euro, before it had established the full conditions for membership of the Euro zone .

Finally, Jim Cuthbert's paper considers 'The Prospects Facing An Independent Scotland in the Euro zone While the Rest of the UK Stays Out'. From an analysis of historical currency movements, he suggests that there could well be a feasible transition path for Scotland towards this scenario. In the longer run, he suggests that the Scottish economy would be highly exposed to a succession of positive and negative exchange rate shocks under this scenario. To survive and prosper, the Scottish economy would need to display a considerable degree of flexibility and innovation. July 2003