



## Scotland: To Secede or Not to Secede?

*Adam S. Posen assesses the dangers to Scotland, the United Kingdom, Europe, and the world economy if Scotland decides to break away from the United Kingdom in a referendum on September 18.*

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Steven Weisman: Will Scotland vote on Thursday, September 18, to secede from the United Kingdom? And if they do, what are the consequences for Scotland, for Britain, for Europe, and indeed for the world economy?

This is Steve Weisman at the Peterson Institute for International Economics with Adam Posen, president of the Peterson Institute, to answer some of those questions. Adam is also a former member of the Monetary Policy Committee of the Bank of England.

Adam, first, what are the main consequences if Scotland votes to secede next week?

Adam Posen: Scotland will basically be cutting itself adrift and turning into an island in the world economy, Steve. Generally, there are some small economies that make it OK. But in general, once you leave a union where you're already integrated with a bigger economy, you're in more trouble. You're automatically subject to more ebbs and flows in the world economy. Capital pushes in, pushes out, causes booms and busts. We saw that with Ireland just across the water from Scotland. We saw that with Iceland. We've seen that with other countries.

They also will be giving up a very deep and peaceful integration with the British economy where the vast majority of their goods go and their services go, as well as where they get things from. And they're going to be imposing a tax essentially on all their businesses because they're going to create a border in the set of transactions, in the set of uncertainties that didn't exist before for 60 to 70 percent of their commerce.

Third and probably most importantly, when you're a small open economy, you may be very good at certain things, but you can't be as diversified as you are if you were part of a big economy or are a large economy yourself. So Scotland may be very good at distilling whiskey, may be very good at global banking, may be very good at raising sheep.

But if, God forbid, a sheep disease comes along and wipes out their herds, that is not something that the rest of British agriculture will come rescue when they're on their own. If Royal Bank of Scotland or Halifax Bank of Scotland goes out and creates a huge boom and bust, that's not something that they can share with the rest of the United Kingdom when they're on their own. So it's just generally a very bad bet for any country to shrink and remove itself from integration if they've got it on good terms, which Scotland does have.

Steven Weisman: If it's such a bad idea though, why has there been a surge of support for secession even in the last few weeks?

Adam Posen: I don't pretend to be in Scottish people's heads. But in terms of the public debate and the polling data, there are three things going on.

First, the advocates for secession, the Scottish National's Party, which is the dominant party in Scotland right now, frankly are making stuff up. They're talking about things like oil. They think for some reason that Shell and BP left exploring oil off Scotland's Coast to go to nice places like Nigeria and Russia because they're just stupid. And somehow, the Scots themselves will get more oil out of the ground there, which they won't. And they've told tales about the possible benefits of Scotland independence that make no sense. So apparently, it's just falsehoods.

Secondly, more importantly, there are a bunch of people who are very angry at what they see as the rightward tilt of UK politics; that Scotland felt very harmed by [former Prime Minister] Margaret Thatcher's policies in the '80s and early '90s—that even when Labour Party was the majority party in the United Kingdom from 1997 to 2010 and had Scottish prime ministers, they still felt that they were being constrained. And now, they're very resentful about what the majority Tory Conservative Party is doing in the whole UK.

I find this understandable if you're of that political inclination. But it's basically irrational. If they think that they're going to have more space to play around with fiscal budgets in a welfare state and to run deficits as a small country without a guaranteed currency, as opposed to being part of the UK, which has successfully ridden out 300 years of public debt problems, they're out of their minds.

So even if you're a socialist, even if you're somebody who cares deeply about the poor and wants a big government, you're going to end up undercutting your goals by making Scotland independent. You're going to be nominally independent, but actually much more constrained.

Steven Weisman: What are the consequences for Europe at large and even for the world economy? Why should Americans care about this?

Adam Posen: I think Americans should care about this for three reasons. The first is that UK is arguably our greatest military foreign policy ally. And they are the ones who put boots on the ground next to the US in many of the recent military conflicts. And they have many of the same values and have advanced them in the UN Security Council, in the G7, in the G20. And this will be a major blow to the UK's ability to maintain that standing in the world. In fact, legally, there's an argument that if they lose Scotland they'll be too small to stay on the Security Council of the UN, for example.

The nuclear bases that the UK uses for their nuclear deterrent are in Scotland. And that will require an adjustment as well. So it's bad from a foreign policy point of view.

Indirect economic effects, it's bad for Europe and through Europe to the US because this is going to create a huge load of uncertainty about not just what happens in Scotland, which is small, but what happens in the UK, because there are people in United Kingdom who want to secede or not secede, but get out of the European Union in various ways.

And this is going to raise the probability or at least the perceived probability that the rest of Britain will vote to leave the EU or to bargain for a new deal from the EU. And this will create a whole problem of investment, of political turmoil within Europe.

One step further, though, and most importantly, this is a kind of factionalism that is fundamentally corrosive to the kind of global and peaceful global integration that the

United Kingdom and the European Union are meant to deliver. Because what's happening is you're saying to people, "Whatever happens. We're in a democracy. Our people are equally treated."

Scotland has the same per capita income as the rest of the UK. It's not even like it's Alabama or Greece. It's just as developed as the rest of the UK. There's no exploitation here. But because of some tribal loyalty going back 300 years, we're going to make sure all our money stays here.

And there are other places in Western Europe, Catalonia in Spain, the Basque Country in Spain and France, Corsica in France, various parts of Italy, where you could see similar separatist movements. Not to mention in Belgium where the Flemings and the Walloons hate each other, at least so it seems. And this is a breakdown of the fundamental comity and community that underlies any sort of trusting economic integration.

I'm not going to say that automatically if Scotland votes, then tomorrow all these nations fragment. But if a nation like Scotland [gives up] what has been for 300 years peace—this isn't Ireland. They've been peacefully integrated in the United Kingdom. They've had full overrepresentation in the British Parliament and as prime minister and as cabinet members. They have roughly the same economic benefits as anybody else in United Kingdom. If they choose to opt out, what happens to all these other places? And that's a spiral we don't want to go down.

Steven Weisman: Thanks for walking us through that.

Adam Posen: Thank you.

