Scottish Affairs Committee

Oral evidence: The Referendum on Separation for Scotland, HC 140-xxiii

Wednesday 7 May 2014

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Written evidence from witnesses:

Watch the meeting

Members present: Mr Ian Davidson (Chair); Mike Crockart; Jim McGovern; Graeme Morrice; Sir James Paice; Pamela Nash; Mr Alan Reid; Lindsay Roy

Questions 5616 - 5678

Witnesses: **Rt Hon Danny Alexander MP**, Chief Secretary, HM Treasury, and **Dave Ramsden**, Director General, Chief Economic Adviser, HM Treasury

Chair: Welcome to this meeting of the Scottish Affairs Committee. As you are aware, we are conducting a series of hearings into various aspects of the impact of separation. As I understand the position, you are here unaccompanied except by a civil servant on the basis that not only are you a member of the Government, but you are also a Scottish Member of Parliament and therefore are able to exercise both roles.

I understand that you want to make a brief statement at the beginning. Could you introduce your colleague and make your statement, and then we will get into things? I understand there is a vote due at five to 6, so we will try to get everything over by then.

Danny Alexander: I generally go round unaccompanied. I always find it safer that way. Let me introduce Dave Ramsden. Dave is the Chief Economic Adviser to the Treasury. The Chancellor is appearing at a future session, and I think he may be accompanied by the Permanent Secretary, but I thought it was important for you to potentially hear from the Chief Economic Adviser to the Treasury, too. Given the time constraints and the vote, I will not go into a lengthy opening statement. I am sure we can get to all the substance in questions.

I want to underscore a couple of points. The simple facts are that a currency union would neither be in the interests of the rest of the UK in the event of independence, nor in the interests of an independent Scotland. In the case of the rest of the UK, it is about the risks and dangers that would be involved. In the case of an independent Scotland, it would be about giving up control over your economy. It is like trying to sell someone a new car without a steering wheel attached. You would be giving up all the powers to control your own economy.

The Scottish Government still have not stated any plan B on the currency, though we have recently had hints that the Scottish Government might want to use the pound informally and may seek to peg a new Scottish currency to the pound. With still less than five months to go to the referendum, I think it should be a matter of concern that those who advocate independence still cannot confirm what their plan is in the absence of a currency union.

There is one other point, Mr Chairman. A big part of the argument as to why, on fundamental economic grounds, a currency union would not work is to do with fiscal misalignment—the difference between the fiscal position of an independent Scotland and the rest of the UK. All the independent forecasts suggest that Scotland's starting point in terms of a deficit would be much greater. Also, the Scottish Government's forecasts are more optimistic because they are based on pretty discredited figures, particularly on oil revenues. It is really important to call them out on that, and to force them to get into a position of publishing realistic forecasts for oil and gas revenues, not least because without them the frankly rather small amount of numerical analysis present in the White Paper is all wrong. It is all based on figures that have been disproved by reality. I believe that the pound only works alongside all the other structures of the United Kingdom, and does not work if we leave the United Kingdom. It really is as simple as that.

Q1 Chair: Thanks very much. We have had a series of professional economists and academic experts, and we have heard an enormous amount of economics, but ultimately this will be a political decision—informed, obviously, by the economics, but it will be a political decision. I want to start first of all with some issues relating to process and where we are at the moment.

Would you accept that the statement of the UK Government's position has been very badly handled politically? The Chancellor coming to Edinburgh on a day trip gave the impression of someone from the south of England, easily characterised as a Tory toff, coming to Scotland and telling us what we could and couldn't do. That then allowed the First Minister in particular to come out with the "bluff, bluster and bullying" phrase and therefore divert the whole debate about currency to one of process, rather than one of substance. Surely, there could have been a better way of putting forward the Government's case.

Danny Alexander: No, I absolutely do not accept that. You will remember that about a year ago we published an analysis of all the different currency options that would potentially face an independent Scotland. I think I came to speak to this Committee about it. We said then that a currency union was highly unlikely on the basis of the economic analysis. We did substantial further analysis, which we also published. That was done by Dave and his colleagues in the Treasury machine.

It is important that in this fundamental decision about whether or not to stay as part of the United Kingdom, people make decisions on the basis of all the facts. Given that the analysis and the facts are so crystal clear, it is very important that the Government state openly and straightforwardly what the position is. Frankly, it is important in that context that the Chancellor of the Exchequer makes his views known, as much as the Chief Secretary to the Treasury or the Permanent Secretary to the Treasury. If you think of the alternative, where the position was stated but the Chancellor of the Exchequer remained silent on whether he shared that view or not, it would have left a great deal of uncertainty around the position. Of course all these things are going to be contested. The SNP like to pretend that there is a chance of there being a currency union. I have to say that nobody in Scotland should vote for independence on the basis of a currency union, because it would actually be rather a bad thing for an independent Scotland, were it to happen. It would not work for the rest of the UK, and therefore the thing we have to get across—this is something that has to be communicated again and again and again—is that it is time for the nationalists to come up with an alternative, because a currency union is off the table.

Q2 Chair: I accept that on the issues about content. It was just that reservations have been reflected in Scotland and by Scottish public opinion that have allowed the First Minister to unleash what I think is an absolutely brilliant phrase. We have to admire the way in which it was done: bluff, bluster and bullying—alliteration and the rule of three. It is Peter Mandelson at his very best, in my view. It has been very well done, but it has distorted attention away from the matter of substance. Surely, it could have been dealt with better.

Danny Alexander: I think he must have been looking in the mirror when he came up with that phrase.

Q3 Chair: Possibly. I want to move on to one of the First Minister's points, which is the question of bluff, which is basically a euphemism for lying. We heard today in Scottish questions some of the nationalists shouting out that you won't take that view on 19 September. There is a view, which has been encouraged by the Scottish Government, that the UK Government's position is simply a negotiating stance and that, as soon as the referendum is lost, you will change your position. To be fair to them, and I do not wish to be unduly unkind, the Liberals have form on this in the sense of student fees. If you remember, there was a clear commitment given before the election which was then reversed. What faith can people have that what is being said now by the Government will actually be stuck to in the event of a yes vote?

Danny Alexander: I will come to the party politics in a second, if I may, Mr Chairman.

Chair: Was there any?

Danny Alexander: There was a wee bit, aye. This is the opposite of a bluff. It is putting our cards on the table. If you think of there being four political parties involved in this, three political parties have put their cards on the table. There is only one participant in that game, if you continue the analogy, who is not showing their hand—and that is the nationalists. Far from this being something that is a pretence, you have the economic credibility of the three principal finance spokespeople for the three major political parties setting out very clearly what the position is. By the way, that is a position that is not just supported by those individuals—it is a position that is reinforced by an awful lot of economic experts as well. Independent experts have come to precisely the same conclusion.

At the last election, my party was in the position where both the Labour and the Conservative parties wanted to increase tuition fees. That was an issue where we were put in a very awkward position. In this case, of course, the Labour and Conservative parties agree with the Liberal Democrats that there should not be a currency union. If you want to look at our record in Government—you introduced the subject, but I know it is getting a bit off the point for this meeting—about 70% of the promises in our election manifesto have been delivered under this coalition Government, and that is with one MP in 10 in the House of Commons. People should look at this, and particularly at the economic analysis behind it, to see why that is. This is not just a run-of-the-mill political argument; it is one of the absolute economic fundamentals and the basics of what independence is, which is a divergence between economies—a pulling apart of Scotland and the rest of the United Kingdom—that makes it impossible for a currency union to be something that could ever work.

Q4 Lindsay Roy: Is that why Sir Nicholas Macpherson's advice about a common currency was released? It is not common practice for a civil servant to release advice, or to have it published by a Government official.

Danny Alexander: You are right that it is relatively unusual. It has happened in the past, but it is relatively unusual. Nick Macpherson was at the Public Administration Committee talking about this at length in recent days. He particularly wanted to release that advice precisely because it underscored the basis of what we were all saying, which is that this is the independent Treasury analysis. It is the advice that would be offered by the Treasury to any party in government after the next election, just as it has been offered to the current Government. If anything, that should underscore the fact that it is a judgment that is arrived at on the basis of a really detailed and thorough look at the evidence.

Q5 Lindsay Roy: Yesterday, Sir Bob Kerslake said there were exceptional circumstances about this. Can you tell us what the exceptional circumstances were? I understand that it was not just about the common currency, but to do with debt as well.

Danny Alexander: That is right. Maybe Dave would like to say something further about that. We issue billions of pounds of debt every year. People who buy that debt want to have certainty on some of these issues. That is one of the reasons why I set out that the UK Government would honour its debt obligations. Likewise, this is a subject that has had a lot of interest. Just last week, you will have seen the report from Moody's, the rating agency, which made it clear that entering a currency union would diminish the UK's credit rating, forgetting what it would do for Scotland. There is also a point about market reassurance. Dave, do you want to add anything on that?

Dave Ramsden: I would stress that on issues around currency there is certainly a precedent for the Treasury to publish very substantive advice. I was involved in the work that led to the assessment of the five tests for whether the UK should join the euro. We published a huge body of work there alongside our advice that it was not in the UK's interest to join that currency union. On the additional dimension in this case, I spend quite a lot of time talking to investors in UK gilts. We have £1.4 trillion of gross debt outstanding that has to be financed in global capital markets. Questions were beginning to be asked about what would be the position. In no way pre-empting a world where Scotland has gone independent, but in terms of providing certainty to the people who every day lend us very significant sums of money to finance our debt, we wanted to make it clear that they should have certainty on this point. That was the additional element.

Q6 Lindsay Roy: Are there any plans to produce further advice from the civil service on currency, or on anything in relation to the economy?

Danny Alexander: On the currency, this advice and the paper that we published, “Assessment of a sterling currency union,” which was written by Treasury officials, is definitive. I do not think there is any need to publish more advice on that point. In the next few weeks I will be publishing a further report in this series, which is the most detailed analysis there has been of the fiscal position of an independent Scotland and the fiscal benefits to Scotland of staying part of the UK. It will be looking at all the elements in terms of things like pensions, oil revenues and so on, to try to come to a single unified figure for just how much we in Scotland benefit financially in terms of taxation and public spending from being part of the United Kingdom.

Q7 Lindsay Roy: Very briefly, does it pick up on issues raised in the White Paper?

Danny Alexander: Yes, it does. I have to say that, on the economics and the numbers, the White Paper was particularly pathetic. In a 600-odd page document, there was one page of numbers. That was supposedly the financial prospectus for launching a new state into this very challenging world economic situation. One can compare that, for example, with an annual Budget for the United Kingdom—not something in perpetuity, but just one year’s Budget—where something like 100 pages of numbers are published in the Budget document. That is why I think it is important that, just as we have set out the facts on currency, we also set out the facts on how Scotland benefits fiscally from being part of the United Kingdom.

Q8 Chair: I want to move on to another point about process. We will come to issues about negotiations in general later on. Who would decide whether or not the UK wanted to share a currency with a separate Scotland? I think back to the time of the debate about joining the euro; if you remember, we were on different sides and one of us was right. In the Liberal Democrat manifesto in 2010, you said that Britain should join the euro only if that decision was supported by the people of Britain in a referendum. Is it your view that any decision by the remnants of the UK to have a currency union with a separate Scotland would have to be the subject of a referendum, or is that something you feel could simply be decided by the Government of the day if they so chose?

Danny Alexander: In the case of the euro, where my view was that we should only join if the economic conditions were right, Dave’s assessment demonstrated rather decisively that the economic conditions were not right.

Q9 Chair: Possibly, we were on the same side after all; it did not seem like that at the time.

Danny Alexander: I would hesitate to want to be described as being on the same side as you on too many issues, Mr Chairman.

Q10 Chair: Quite. That is a reassurance to both of us.

Danny Alexander: Indeed. The sequence of events there—it is the same in this case—is that the Government decide what they want to do on the basis of advice, analysis and so on and so forth. It would only be in the case of a Government deciding that they wished to recommend a currency union of any sort that the matter would go to Parliament, and then Parliament would have to decide whether it needed further confirmation. Given that the current Government have said, on the basis of the evidence, that there is no prospect of this Government recommending a currency union, were Scotland to vote for independence, and given that the Labour party—I think you may be seeing Ed Balls at some point in the next few weeks—has also made that point clear, I think the issue is moot. There is not going to be a Government recommendation to join a currency union, so no further decision-making process would be necessary.

Q11 Chair: We take the view that there will be a process of negotiation. Who knows what might emerge from negotiations? It has been argued by the SNP that they would never, under any circumstances, allow any discussion about Trident to take place at all. Who knows? They have already moved on that, for example. In the event that there was dialogue and discussion and something came out of negotiations, is it your view that any shared currency proposals would have to be the subject of a referendum?

Danny Alexander: It is my view that this is not up for negotiation. On the basis of all the advice and evidence, which is really clear that this would be far too much of a risk for the rest of the UK to take, and that it would be far too much of a sacrifice for an independent Scotland to make, this is not something that is up for negotiation and that we might change our minds about depending on what else is on the table. This is something where the position has been made absolutely clear. There is no prospect whatsoever of going back on that.

Q12 Sir James Paice: Chief Secretary, you are a Scottish MP. On the 19th, the day after the referendum, if there was a yes vote—which neither of us wants to see—and your loyalty understandably would be to Scotland, would you still argue that Scotland should not seek a single currency?

Danny Alexander: Yes. I come at this from the perspective of a Scottish MP and a patriotic Scot. I love my country and I want to do the right thing by it. Of course, if Scotland voted to be independent, I would want to see the most benign set of arrangements that could be achieved. My view from the perspective of Scotland is that what you would be seeking to do is to start a new state, which is an incredibly risky, uncertain and difficult journey. The new state would be heavily dependent on one very volatile source of income—the oil industry. There is a whole lot of risk and uncertainties that are attendant on that process. The idea that you would enter into that saying, “We are no longer going to have the power to set our own interest rates; we are not going to have an exchange rate that can adjust, for example, if the oil price adjusts, so we will take all of that impact in terms of jobs and wages in our economy; and we are willing to bind our hands very tightly on how much tax we could raise and how much money we could spend,” would be completely at odds with how an independent Scotland could deliver its own interests.

The best thing for Scotland is to stay part of the United Kingdom. The best way to keep the pound—in fact the only way to keep the pound—and keep all the benefits of a common currency and all those things is to stay part of the United Kingdom. If Scotland voted to be independent, I would probably feel even more strongly on the point than I do at the moment.

Q13 Graeme Morrice: I want to follow up on some of these points, Minister. You said it would be highly unlikely, but subsequently you have in effect ruled out a currency union between an independent Scotland and a residual United Kingdom. Just now you espoused some of the reasons why it would not be a good deal for Scotland. Why would it not also be a good deal for the residual United Kingdom? What would be the disadvantages and disbenefits to the residual UK in not having a currency union?

Danny Alexander: You have to think about the risks. We have seen in the eurozone some of the risks that exist within a currency union when one set of countries ends up having to take economic and financial responsibility for problems in another country. You would be looking in this case at a very unequal currency union. One part of it would be 90% of the currency union, and another part would be just 10%. Compare that with the eurozone, for example, where everyone says that Germany is dominant but actually Germany is 30% of the eurozone, so the rest of the UK would be three times more dominant in any putative sterling currency union than Germany is. The rest of the UK would be asked to take all the risks if something goes wrong in the Scottish financial system. The taxpayers in the rest of the UK would have to bail it out. In Scotland, our banking sector is 12.5 times the size of our economy, much greater as a share of our economy than the banking systems of Cyprus, Ireland or Iceland at the time of the financial crisis. And it would be at a time when the two economies were diverging.

We know the fiscal starting point for an independent Scotland from the work of organisations like the CPPR and the IFS: Scotland will have a much greater deficit than the rest of the UK on day one, and the declining oil revenues will make that gap wider. Different policies will emerge, so a currency union where the fundamental direction of travel is economic and political divergence would simply be a recipe for massive risks to be borne by the rest of the UK, which from the point of view of my party, albeit as a Scottish MP, we would not be prepared to take.

Q14 Graeme Morrice: Are you aware of any examples where there has been a successful currency union between two or more independent states?

Danny Alexander: There was an attempt to have a currency union when Czechoslovakia broke up into the Czech Republic and Slovakia. That was based on similar theories to some that are espoused by the Scottish National party. It lasted 33 days and it broke apart because it was unsustainable politically and economically. I believe there was some financial speculation involved. That is quite interesting because, if you look at both the SNP's White Paper and also at the work of the fiscal commission, both of those documents make the point that you might enter a currency union for a while, but Scotland would retain the right to change its mind at any point in the future. Just imagine if that is what Greece had said during the eurozone crisis. "We like the euro for the moment, but we might go back to the drachma in a few years' time." It would have been absolutely disastrous in terms of the invitation to financial speculators to blow the whole thing apart. The former Czechoslovakia example shows how difficult it is to maintain, but the idea that you could maintain it without a commitment in perpetuity seems to me to be completely perverse.

Q15 Chair: Can you clarify exactly how speculators might be able to blow apart a currency union between the UK and Scotland? What would they do to bring that about?

Danny Alexander: I might invite my chief economic adviser to speculate on that point.

Dave Ramsden: The way that speculators would challenge it is a really interesting question. We try to steer clear of these "What ifs."

Q16 Chair: What, of interesting questions?

Dave Ramsden: No; the "what ifs" of these kinds of scenarios. Obviously, we are not looking ahead to that outcome. Indeed, our analysis has ruled it out. To some extent countries and currency unions have similar characteristics, since currency unions share a currency. If a country's combination of institutions—the quality of its central bank, the quality of its fiscal framework, the quality of its fiscal rules and the quality of its regulation—and a country's policies equally do not match up, you might have no obvious sign that debt was going to be coming down. You might have a perception that inflation was being used, for example, to reduce the level of debt and that you were trying to inflate away your problems. You tend to see that the exchange rate comes under attack. Obviously, the cost of borrowing can come under attack as well. I was talking earlier about the importance of financing our debt. You would tend to see two characteristics, which would be the increasing price you had to pay to borrow in global financial markets and your currency depreciating. That is a not particularly attractive combination to have to deal with, either as a currency union or as a country.

Q17 Chair: I want to be clear. Would those be impacts upon the UK as a whole as a currency union? They would not just simply be impacts upon Scotland.

Dave Ramsden: No, because the currency in that hypothetical case would be the common currency for the UK. There were occasions during the euro area crisis, when people were concerned about the durability and resilience of it, when you saw the euro come under pressure. There are obviously much more striking examples for things like currency boards. This Committee has talked in the past about Argentina as an example of a currency board that did not survive.

Obviously, currency boards are different because they have an inherent doubt about their sustainability. The Hong Kong currency board has a very good track record and has been going for more than 30 years. There are characteristics of that, and there are policies and institutions that have sustained it. In a sense, what we have tried to do with our analysis is to say that, whatever the currency arrangement, it also comes back to the quality of institutions and policies. That was why, when we did the assessment advising against a sterling currency union with an independent Scotland, as well as focusing on the institutions and how they would operate, we tried to focus on the fiscal position of Scotland and the policies that an independent Scotland might follow.

Q18 Lindsay Roy: To what extent do you believe that, if there was a currency union for a separate Scotland, it would be more dependent rather than independent if it was a separate state?

Danny Alexander: There is a very strong argument that in the case of a currency union you would be sacrificing more sovereignty and you would have less influence over things that would be happening than we as Scots have at the moment.

Q19 Lindsay Roy: You would have more under a devolved Administration.

Danny Alexander: Yes. As Scottish MPs, Scottish voters and Scottish businesses, Scotland is involved at the moment in setting the monetary and fiscal policy for the whole of the United Kingdom. You have the capacity for fiscal policy to adjust, for example, within the United Kingdom so that, if economic circumstances get weaker in one part of the United Kingdom, the automatic stabilisers can operate and taxpayers across the whole area help to bear the burden of meeting those costs, whether it is in terms of higher unemployment benefit payments, absorbing lower tax revenues or paying for additional things that happen.

Q20 Lindsay Roy: How would that dependency increase?

Danny Alexander: In that case, I think you would have less ability to control things like interest rates. You would have less ability to control your own fiscal policy, because the controls within any currency union would have to be tight. We are seeing in the eurozone at the moment how eurozone countries are still quite a long way from completing this process. It is a work in progress. They are working to take more and more control over one another's fiscal policy, precisely because that is where some of these big risks emerge.

In the context of the current devolution settlement, we are already seeing flexibility in the Scottish Parliament about how public spending is allocated. We are moving to devolving additional tax powers, and you have scrutinised that in this Committee. There are propositions on the table, certainly from the Labour party and the Liberal Democrat party, for greater flexibility on taxation within a devolved state of affairs, and I think the Conservative party is going to come forward soon with its own ideas on this. All those are about Scotland having more flexibility, while having the strength and larger sovereignty of being part of one United Kingdom.

Chair: Jim, will you pick up the fiscal questions?

Q21 Sir James Paice: Yes, I'd like to, because it seems to me that one of the fundamental areas of dispute between the current Scottish Government and the UK Government and the whole of the no campaign is the relative fiscal strength of an independent and separate Scotland.

Danny Alexander: Yes.

Q22 Sir James Paice: You touched on that yourself. Can you elaborate for us on how you see the balance between them? The Scottish Government keeps saying they would be in a stronger fiscal position than the rest of the UK and therefore they can afford all the promises that they have talked about without damaging their economy. Can you give us your picture?

Danny Alexander: As I said, we will be publishing our own detailed analysis of this in a few weeks' time, but there are already quite a few very useful assessments from the Institute of Fiscal Studies. The most recent one was from the CPPR—the Centre for Public Policy for Regions. They forecast that in 2016-17, which is the financial year that independence advocates say would be independence year, Scotland's deficit would be 5.5% of national income. That would compare with the latest OBR forecast for the UK as a whole of 2.4%. You would have a deficit position that was more than twice as bad as the rest of the UK. If you go on to the following financial year, the OBR would say that the UK's deficit would be 0.8%, but for Scotland it would be 4%.

If you look to the longer term, you see declining oil revenues. Just last week, for example, we had new figures from HMRC for how much money was actually collected in terms of oil and gas receipts in the last financial year. It was £4.7 billion. The SNP a few months earlier had told us that they expected Scotland's share of UK oil and gas receipts in the last financial year to be more than £7 billion. You get a sense of how wildly over-optimistic their forecasts are when they say that Scotland's share of the UK's oil revenue would be several billion pounds greater than the amount of revenue actually taken in for any given year. You can see that projected forward, so we would have less revenue from the oil and gas sector. That will obviously be particularly important under independence.

There has been a lot of analysis of the pension situation, for example, and the demographic pressures being greater in Scotland. That is widely acknowledged. The former Prime Minister made a speech about it in Scotland a couple of weeks ago. It is not just that the starting position is much worse, with a deficit of 5.5% compared with 2.4% for the UK, but the problems get worse and worse as time goes on, because those two factors cause a widening gap between what has to be spent and the amount of money that can be raised. I think their fiscal position would be pretty weak. Those deficit figures are in fact worse than the initial deficit figures of any of the smaller countries who joined the euro at the start of them joining the euro. While some of those figures were discounted subsequently, when Portugal joined the euro its deficit was 2.2%, not 5.5%. Latvia is the latest member to join the euro; it joined in 2013. Its deficit was 1.2%, not 5.5%. I can furnish the Committee with these figures if it would be helpful, Chairman. You can see how difficult the starting fiscal position would be.

Q23 Sir James Paice: I want to delve a little deeper into the difference between what the Scottish Government are saying, which I believe is a deficit of 3.2%, and the figures you have just been quoting of 5% plus. You talked about the oil revenues. One has to address a particular question. Could it be that the Scottish Government are planning a much higher tax regime on oil receipts?

Danny Alexander: The amount of tax paid in terms of tax rates on the oil and gas sector is already pretty high. That has certainly not been part of any of their public statements. It has not even been part of any of the secret memos that go round the Scottish Government and get leaked occasionally. John Swinney had a memo that went round his Cabinet colleagues which was backing up what I am saying, but probably it says something different.

The OBR's latest forecast in the Budget had, over the forecast period, cumulative revenues from oil and gas of, I think, £25 billion. The Scottish Government publish a range, from the most pessimistic to the most optimistic. Their most pessimistic was £41 billion in that period, so even their most pessimistic forecast is still £16 billion more generous than the OBR's central projection. The OBR's forecasts have been proven to be right in terms of oil and gas figures over the last financial year—the figures I just gave you—and again I do not think these SNP forecasts are worth the paper they are written on. I really would urge the Committee to join the call on the Scottish Government to publish an updated oil and gas bulletin. Right now all of their figures in their White Paper are wrong, and they are wrong because their oil and gas figures are wrong. It is about time they set out a straightforward and accurate account of the very difficult deficit position, tax position and spending position that an independent Scotland would find itself in.

Q24 Sir James Paice: You say that all their figures are wrong because the oil and gas figures are wrong. Are there any other aspects apart from oil and gas where you think their figures are wrong?

Danny Alexander: Yes, quite a few. I will not necessarily go into them all now, because it may be beyond the scope of this meeting. There was an interesting one quite recently. One of their policy ideas is to have increased childcare. There were some figures published recently that showed that their childcare policy was based on assuming that more women could go back to work in Scotland as a consequence of that policy than actually existed. That is just another example where they have not let the facts get in the way of a good story—let's put it that way.

Q25 Sir James Paice: I am trying to get to the bottom, if we can, of why the Scottish Government's projections are so completely at odds not only with the UK Government but with, as you say, most independent commentators. You think it is entirely because their basic assumptions in terms of revenues and so on are factually wrong.

Danny Alexander: Yes. I think these people will say anything they can to make their case. In this case, for whatever reason, they came up with these hyper-optimistic projections in the first place, and they have been constantly shown to be wrong. By the way, in terms of the deficit numbers I was giving you, the CPPR figure is the one I quoted. Bank City Group came up with a roughly similar figure. The Institute for Fiscal Studies had a broadly similar figure. I do not know if you have had a chance to look at the report published by the credit rating agency Moody's last week, but again it is well worth the Committee digesting. They estimate that an independent Scotland will have a deficit of 7.1% of GDP in 2016-17. By the way, they also conclude that a currency union would be credit-negative for the remainder of the UK regardless of the institutional arrangements put in place. That is another independent voice explaining why a currency union would not work.

Q26 Chair: I want to clarify one point arising from that. You mentioned the size of the Scottish deficit. Were a separate Scotland to join the EU, obviously the EU have rules on deficit reduction, so would Scotland be caught by those and what impact would that be likely to have?

Danny Alexander: There are rules in terms of deficit levels for joining the euro. Once you are in the euro, there is a great deal of scrutiny and surveillance. For countries outside the euro, there is scrutiny. We put forward a report every year about the UK's fiscal position and the Commission reports on it, but that is non-binding.

Q27 Chair: The UK has negotiated a non-binding agreement. I want to clarify the position of Croatia or the eastern Europeans who are more similar, in a sense—somebody seeking to join at a later stage.

Danny Alexander: I do not know the position of Croatia.

Q28 Chair: Have the Croatians been given a deficit reduction target?

Dave Ramsden: I could not tell you that, but what I could confirm is that the presumption is that, if you join the EU, you are going to join the euro. Latvia, after joining the EU, then set about joining the euro. It is the most recent member to join the euro. The Chief Secretary was saying its deficit was well below the 3% of Maastricht. Equally, as part of tightening the rules to ensure that the euro can become more durable over time to avoid repeats of the issues around whether other countries would have to provide fiscal support and the fact that "No bail-out" did not turn out to be sustainable, there are now much tighter requirements on members of the euro. Over time, they have to work much harder to get their debt on a declining path. There is a set of issues, once you are in the EU, which applied to past members such as the UK. We negotiated various opt-outs from the euro, so some of the fiscal requirements are not binding on us. For new EU members they are binding; I am not aware that any have managed to secure opt-outs. They will eventually join the euro. Certainly, examples like Latvia did join the euro. We will have to check Croatia for you.

Q29 Chair: That would be helpful. Am I right in thinking that a separate Scotland joining the EU would have to give, we would expect, at least a commitment to join the euro, but, in the same way that Sweden has made a commitment to join the euro but is making only glacial progress towards it, they would not necessarily need a timetable for joining the euro? What they would have to do is make progress towards reducing their deficit to Maastricht criteria, which is 3%, then going down to 0.5%. Unless I am mistaken, if the Scottish figures you were giving us earlier about a 7% deficit are true, those are really quite swingeing public sector cuts, are they not?

Dave Ramsden: In a sense, you have the starting position of the deficit, which all the independent estimates and our estimates suggest will be over 5% in 2016-17, and then you have what you are talking about, Chair, which are the requirements for membership of a currency union. We were talking about that in the abstract for a UK one, but it is very real and apparent for the euro that they have tightened the rules. You are quite right to emphasise that 3% is just the entry for deficit, and after that there is a relationship between deficits and debt. I think you are right, though I would have to check; if the deficit is in excess of 0.5% there have to be special circumstances. This comes back to the point that the members of a currency union are looking for reassurance and, if you like, insurance against moral hazard, and a country just running its own deficit because it thinks it can get away with it.

Q30 Chair: I do not want to divert us for too long on the question of the EU, but it would be helpful if you could give us a note about the position of a separate Scotland if it was joining the EU either with or without—

Danny Alexander: Mr Chairman, we can do better than a note. We published one of the "Scotland analysis" papers precisely on this question—looking at what would actually be the position in relation to EU membership. No country that has joined the EU since the euro was formed has negotiated an opt-out from the euro.

Q31 Chair: I understand that. It was a question of the figure. We met David Lidington and we discussed that, and we have a report coming out shortly. What I don't think we have discussed is the scale of the cuts that would be necessary to meet the criteria, either for joining the euro or for just joining the EU. That would be very helpful to us.

Dave Ramsden: We could certainly provide the information on joining the euro, which I think is the key point here. You are right to stress, as the Chief Secretary did, that this is work in progress. They are strengthening their institutions and that means that they are tightening the fiscal institutions.

Chair: To be fair, the SNP have said that they would be able to negotiate an opt-out from the euro. That may or may not be true, but you can understand why we want both options quantified for us as much as possible.

Q32 Jim McGovern: Chief Secretary, you used to be a member of this Committee, so I hope I can call you Danny.

Danny Alexander: You can; absolutely. I have been called worse, believe me.

Q33 Jim McGovern: You mentioned pensions earlier on. Do you agree with me that it is quite abhorrent that some people who support separatism for Scotland are saying that the pensions bill would be lower because people's life expectancy is shorter in Scotland?

Danny Alexander: Not only is it abhorrent, I do not think it is factually accurate either. There are issues with life expectancy in particular parts of Scotland, but there are basic facts you have to have in mind about the costs not just of pensions, but the other costs of an ageing population such as health care, social care and all those things. There are a lot of different costs in there. Those costs ultimately come down to how many pensioners you have per head of population and how many working people you have to pay those bills. That ratio is worse for Scotland than it is for the rest of the UK. Again, the difference is forecast to widen over the next 20 years. I totally agree with your point, but from a financial perspective, it is one of the things that drives a worsening position. I think some of the decisions that I have to make are pretty difficult, but that pales into comparison when you look at how the position would be if you were Chief Secretary of an independent Scotland.

Q34 Jim McGovern: There has been some backpedalling since that statement came out. I think they realised it was an own goal to say, "We can afford the pensions because Scots live less of a life than the rest of the UK."

Danny Alexander: I am surprised that it was not mentioned by the First Minister in his *GQ* interview, given that I think he also branded Scotland as a nation of drunks at the same time.

Chair: Now, now.

Q35 Graeme Morrice: Going back to the currency options, Minister, if there is an independent Scotland, you have clearly ruled out a formal currency union between an independent Scotland and the residual United Kingdom. You have given reasons why that would be disadvantageous to both independent countries. The First Minister of Scotland has made reference to the detailed analysis contained within his fiscal commission working group that he says addressed the criticisms that have been made of the proposed sterling zone. How would you respond to that?

Danny Alexander: I do not think it addresses those criticisms at all. Those criticisms are about the risks and the exposure to risk of the rest of the UK. Our paper shows how considerable those risks would be. Just as an example, if you look at the scale of the financial sector in Scotland, it provides an awful lot of employment in Scotland; there is lots of employment in the financial services sector. It is one of the benefits we have in Scotland of being part of a wider United Kingdom, with the pockets to support that. When you are in a currency union and one country has a financial sector that is 12.5 times the size of its economy, what you are doing is putting on taxpayers in the larger part of that currency union a lot of the risk of bailing out those costs. I would also say—I notice that even some members of the SNP have been making the same argument—that in a currency union, it seems strange that you argue for independence only to give up your control over some of the most important economic levers that any country has in terms of interest rates, exchange rate, taxation and spending. It is not really independence at all in that sense.

Q36 Graeme Morrice: I do not think the irony is lost on the rest of us. We are aware that a number of people in the yes campaign take that view as well, and would argue for a separate currency. Obviously, we have the formal position of the SNP/Scottish Government of plan A, which is the formal currency union that this side of the border is clearly ruling out, as well as many people north of the border of course. What are the currency options for an independent Scotland, if indeed we do vote yes?

Danny Alexander: There are a few. They are all worse than the current situation, but there are a few options. There is the option of so-called sterlingisation. It is what happens in Panama, for example, where you do not have a central bank but just someone else's currency circulating in your territory. That is a possibility, but it has a lot of disadvantages, not least that you do not have your own central bank and you do not have a lender of last resort. It would be incredibly difficult for the financial sector, for a lot of businesses and so on.

Obviously, there is joining the euro, which was discussed earlier. Given the Maastricht criteria and how far away Scotland's deficit would be, that would take some time. It would imply setting up a separate Scottish currency—something that has been advocated by quite a few people who support the idea of independence. That at least would enable control over some of the levers that I was talking about, albeit at considerable cost in terms of the disruption and dislocation to business within the UK.

There is a version of setting up your own currency where you peg it to someone else's in a currency board arrangement. Dave talked about the Hong Kong dollar, for example, being in a currency board. There are quite a number of different arrangements, but none of them has the advantages to Scotland of being part of a common currency within a fiscal union and a political union in the United Kingdom. That is the optimum arrangement, because you have the capacity for completely free trade without barriers within the UK. You have the ability to make fiscal transfers to help the economy adjust, and a political decision-making mechanism that goes along with it.

Q37 Graeme Morrice: I want to stay on the issue of Scotland having a separate currency. You mentioned some of the downsides. Could we explore that and look at some of the other downsides. You touched on trade, and we all recognise that many Scottish businesses are very concerned about the whole issue of a separate currency. Could you discuss some of the disadvantages of that option?

Danny Alexander: Yes, certainly. Having a new separate currency would introduce not just transaction costs but an exchange rate risk between Scotland and the rest of the UK. After all, 70% of Scotland's trade is with the rest of the UK, albeit that only 10% of the rest of the UK's trade is with Scotland. The higher volatility would have an impact not just on trade with the rest of the UK, but with other trading partners, too. There would be a massive practical process of redenomination of currencies, domestic contracts and so on. That would be difficult and time-consuming, and would create uncertainty. It would not be impossible to achieve but it would be difficult.

You have to remember that this is alongside some of the other economic effects of independence. In terms of national wealth, households in Scotland are £2,000 a year better off because we do not have an international border on our island. The economic effect of putting in place a border is in itself depressing to trade, business and so on. If you add to that all the risks that you get from the kind of currency arrangement you are talking about, you will make the situation even worse. It would make us all poorer.

Q38 Pamela Nash: Chief Secretary, you have covered quite a lot of the points I was going to ask you about.

Danny Alexander: Sorry about that.

Pamela Nash: No, it makes my job easier. I want to touch on the speech that the Governor of the Bank of England made earlier this year. I am paraphrasing him a bit, but he indicated that a currency union would not work without both a banking union and a fiscal union.

Danny Alexander: Yes.

Q39 Pamela Nash: We have touched on the example of the eurozone and how that worked. I want to check that the Government agree with Mark Carney in this analysis. He used the eurozone to illustrate the problem.

Danny Alexander: Yes. In fact, it was against those sorts of issues that we then carried out the assessment that we published. We looked at other things, too, but the points made by the Governor of the Bank of England were some of the measures that we assessed in our own analysis. Dave might want to add something, but banking union is an interesting one. We are seeing this issue emerging in the eurozone, where some of the issues that have arisen mean that they are now looking at putting in place common supervisory standards across the eurozone. You obviously have, through the European Central Bank, access to lender of last resort facilities. You can have some sort of common mechanism for resolution—in other words, for sorting out banks that go wrong. In a proper banking union you will have a deposit guarantee scheme that is common across the whole thing. Particularly on those last two, in terms of how you go about guaranteeing deposits and making sure there is a system for sorting out banks that get into trouble, the Government or the fiscal authority has in some way to stand behind those things.

One of the issues about the asymmetry of a sterling currency union is that, in practice, those risks would fall very largely on taxpayers in the rest of the UK, even though quite a lot of the problems might emerge in the financial system in Scotland. It is one of the issues that they are wrestling with in the eurozone. The clear direction of travel is to try to find a way to have a banking union, but frankly I am not sure they have cracked it yet. They are still working on it. Dave might want to add something about that. In the end, in terms of an assessment of it, for both Scotland and the rest of the UK, it falls back to what the fiscal arrangements are and what is the capacity to fund bail-outs and repay those deposits.

Q40 Chair: In terms of a banking union, what is to stop Scotland's banks moving their nameplates and therefore their liabilities to London but continuing to operate in Scotland and simply saying, "If anything goes wrong, we'll let the UK bail us out."?

Danny Alexander: It is interesting that some financial institutions have already indicated that they may consider moving their headquarters, or that they are putting in place contingency plans to do that. One of the benefits of the UK in a situation where you are a financial institution in Scotland is that 80% or 90% of your customers are south of the border. The downside of it is that you end up not just moving the nameplate; you move activity. You move real activity and real jobs.

Q41 Chair: I want to be clear about that. There is a difference between a headquarters and a nameplate. I have been in Cayman.

Danny Alexander: Sorry to hear it.

Chair: And very enjoyable it was, too, our holiday.

I have seen the lists of company names that are obviously based there for tax purposes and other reasons. What I am not clear about is whether or not, in the event of a separate

Scotland, the banks in Scotland could just simply move their nameplates, as distinct from their headquarters and headquarters' functions, to London and then be covered by any UK guarantee.

Danny Alexander: What you are saying is that you would basically be moving your domicile in order to be regulated by the rest of the UK.

Chair: Yes.

Danny Alexander: But being regulated is not just a nameplate issue; it is a hugely complicated and detailed issue that involves a lot of scrutiny, and a lot of staff dealing with the regulator. There are an awful lot of jobs associated with that. I am sure if you asked the financial regulator for their view on this, they would look strongly askance at the idea that you could benefit from UK regulation just by moving your nameplate. There are a lot of activities that depend on that, too.

Q42 Pamela Nash: Are there any clear criteria though? This is something that has come up within the Committee and there has been general debate in Scotland about it. Is anything set in stone to say what is required if you want to be governed by—at the moment—the UK's rules and regulations?

Dave Ramsden: This does get very complex very quickly. We have spent a lot of time on it. A lot of advice and analysis has been produced by the Bank of England, by international authorities such as the Financial Stability Board that Mark Carney chairs and by the UK Government, looking at how you can make a large financial system safe. You have these different layers of regulation and regulatory institutions that we have now developed in the UK. We have the Financial Conduct Authority at the very micro level. We have the Prudential Regulation Authority, and then for these big macro issues, we have the Financial Policy Committee. In a sense, what the euro area is trying to do, and what you would have to do in the hypothetical world of a sterling currency union, is reproduce those for the much more complicated circumstances of a currency union between a continuing UK that was nine times bigger than Scotland and a Scotland with a banking sector that was 12.5 times GDP. I realise it was another Committee, but Mark Carney went into quite a lot of the detailed considerations with the Treasury Select Committee about how you would recreate a set of regulatory institutions, rules and policies that would then give confidence to the single central bank overseeing all of that. It is much more than a brass plate issue.

Q43 Chair: This is complex and we have 15 minutes.

Danny Alexander: I suggest that you perhaps have a look at what Mark Carney said to the Treasury Select Committee.

Chair: Yes, that is the best way to pick it up. I am conscious that we only have 15 minutes left.

Q44 Pamela Nash: I imagine there must be some precedent. This is not a unique situation. Scotland would be a foreign country at that point. Is there precedent for other foreign countries where financial institutions or banks have the majority of their staff and their operations in one country and—

> ***Danny Alexander***: Perhaps I could write to you about this. You are interested in what the rules are for being regulated in the United Kingdom.

Q45 Pamela Nash: Would it be possible for Royal Bank of Scotland—

Chair: Is there a way round it?

> ***Danny Alexander***: You mean is there a way round for a Scottish financial institution, in an independent Scotland with or without a currency union, to keep all of its jobs and all of its work in Scotland but move its nameplate to London and therefore get away scot free, as it were?

Pamela Nash: Exactly.

Chair: That has pretty much summed it up.

> ***Danny Alexander***: No. But I will write to you about it.

Q46 Pamela Nash: That would be fantastic. We were just talking about the level of fiscal union that might be required to make a currency union successful. I understand that the UK Government have already ruled that out, but we are exploring why the Scottish Government should be ruling it out at this point as well. Could you tell us—as an example, policy on corporation tax—what impact there would be on an independent Scottish Government's ability to change corporation tax to be different from the remainder of the UK?

> ***Danny Alexander***: It is a very difficult question to answer because we are not considering putting in place such fiscal arrangements. We simply think that they could not be made to work under any set of circumstances. If you look at what is going on in the eurozone, where countries collectively, and the European Commission on behalf of everybody, are taking a much closer interest in what the fiscal policies are, what the tax policies are, what the spending policies are and what sorts of deficits are being run in eurozone member states, their fiscal compact requires deficits in normal circumstances to be plus or minus 0.5%—in other words, budgets broadly in balance—and measures that led you to have a larger deficit on that kind of speculative basis in the eurozone arrangements would be looked at very sceptically. Within the eurozone, there is a lot of discussion about tax competition being something that undermines common interests.
>
> It might be worth you having a look at what is going on in the eurozone. I do not have all the information to hand on how those arrangements are working there, but given that for a whole lot of reasons there is no way that a currency union could be made to work in the United Kingdom, it is not something that we have spent a lot of time considering the "what ifs" of.

Q47 Pamela Nash: I completely understand that. As I said, my view would be that we should persuade the Scottish Government as well that this is a bad idea. To reiterate the point you made earlier about Germany only making up 30% of the power in the eurozone but being completely dominant, in this scenario the remainder of the UK would have a much higher percentage dominance.

Danny Alexander: You make a really important point. It is one of the things that, in terms of the currency union, repays more careful study. The asymmetry—the fact that the rest of the UK would be 90% of the currency union and an independent Scotland would only be 10%—means it would have a dominance three times greater than Germany's dominance within the eurozone, which is much discussed there. From the perspective of the rest of the UK, that creates the risk of having to stand behind banks and take the fiscal risk if things go wrong in an independent Scotland. Just because of the sheer size there is no real opportunity for that to operate back the other way. Of course, from Scotland's perspective the idea that you can control what happens across monetary union when the asymmetry is so great is very hard to imagine.

Q48 Chair: I want to clarify the question of what a fiscal union would actually mean. We have a quote from John Swinney: "A shared currency will mean an independent Scotland having control of tax policy." I have also had a lot of people saying to me that a separate Scotland would be able to get away from Tory austerity and so on and so forth. Unless I am mistaken, you are saying that a currency union which involved a fiscal union would actually mean that the rules for fiscal policy would be set by Westminster and that there would be quite a tight restriction on spending in a separate Scotland. Is that correct?

Danny Alexander: Again, we have not gone into designing what a fiscal union might look like in a sterling currency union because the basic economic fundamentals mean it could not be made to work. The basic point is accurate. The idea that, frankly, in any set of economic circumstances, on the one hand, you can have spending going up on everything—the land of milk and honey that the SNP like to present—but, on the other hand, you can have lower taxes when your starting point is a large deficit, and you have obligations in the context of a currency union to other members of that currency union, is just completely for the birds.

Q49 Chair: The land of milk and honey stuff about spending and not balancing is a separate issue.

Danny Alexander: No, it is not; it is absolutely the same issue.

Q50 Chair: I wanted to be clear about the rules of a fiscal union. If the rules of a fiscal union are that being part of that fiscal union meant that it had to be agreed between the two Governments what the spending and income were, obviously that would stop the land of milk and honey and lots of spending with minimal taxes, irrespective of the financial collapse that might result if those policies were indulged in without a fiscal union. That is what I am seeking to clarify. Would a UK Government in a fiscal union demand the right to determine Scottish public expenditure levels?

Danny Alexander: The UK Government are not going to enter into a fiscal union, so the question does not arise. I am not going to enter into speculation about how such a thing might work when it is not going to happen. I do not think that would help anybody in this debate. What we see in other fiscal unions is precisely that; of course, one country has to take control and have a say over the tax and spending policies of the other countries. I think the Governor of the Bank of England talked about this to the Treasury Select Committee in terms of questions on how, in theory, fiscal unions work. In practice, because you have fundamental divergences taking place between Scotland and the rest of the UK under independence, we have not sat there scratching our heads saying, "How could we design a fiscal union?" As I said, it is not going to happen.

Q51 Lindsay Roy: You said that one of your missions is to debunk a number of myths. I looked up "myth" in Wikipedia and it says: "A story without basis of fact or natural explanation concerned with deities or demigods especially." Are there any more myths you want to debunk in the short time you have left here?

Chair: While you're here.

Danny Alexander: Probably quite a lot. I cannot think of any deities or demigods that are involved in this debate, though there may be some. I have been doing quite a lot of public meetings in my own constituency and in other parts of the highlands on this issue. Quite a lot of these things come from people who have heard claims made by nationalists. One of the claims that they make concerns the argument that Pamela was making about bailing out banks and how you fund the cost of doing that. They say, "Don't worry about this. The truth is that the UK taxpayer never bailed out the Scottish banks; 80% of the money came from Americans and from middle eastern investors, so really this idea that the Scottish taxpayer would have to bail out banks if they went wrong is not true. We can always rely on the Americans." That is simply without foundation. As Mervyn King said, banks may be international in life, but they are national in death. In the end, it comes back to the country where they are based. That is one of the myths that is constantly being peddled by nationalist organisations like Business for Scotland in this debate.

You have the myth around the oil numbers that is peddled by the SNP. We have talked about the currency union at length; that is the purpose of this Committee hearing. I am sure there are plenty more, but that is two for you, to start with.

Q52 Lindsay Roy: How long would it take to set up a separate currency and a central bank in Scotland? Have you any idea, based on other examples?

Dave Ramsden: We looked at this in the study we published last spring. We devoted a whole chapter to the issue of an independent currency. It is clear that it would take some time.

Q53 Lindsay Roy: Could it be done realistically within 18 months?

Chair: What does "some time" mean?

Dave Ramsden: With the euro, they had been planning it for years, but through to the introduction of notes and coins from when the membership was set, it took, from memory, just over three years. That was for the euro so it was a bigger area, but most of the issues are the same in relation to creating your own currency. Some of the issues we have been talking about—for example, the complexity of financial regulation given the scale of the Scottish banking sector and how important that would be—were probably not as well understood at the time when the euro was set up as they are now. I would not like to say whether it could be done in 18 months, but for a country the size of Scotland, with the example of the euro area in terms of the practicalities, which do read across, even if it is on a different scale, and the institutions, it would take some time—years.

Q54 Lindsay Roy: Are you saying that with no common currency agreement there is no possibility of a separate currency within 18 months, and that sterlingisation is the only option?

Dave Ramsden: No, I wasn't saying that. We have not looked at how long it would take.

Danny Alexander: You beg an important question. This goes back to the point I made right at the beginning. It is for the advocates of independence now to give a more realistic assessment of what currency plan they have.

Q55 Lindsay Roy: And they don't have one.

Danny Alexander: They do not have any plan. The other day, I heard an assertion that the First Minister was hinting at a currency board. Others have hinted at sterlingisation as being the best option, although the fiscal commission dismisses that. All of these matters are hugely complicated, expensive and time-consuming to put into practice. That is why there is a huge responsibility now on those who want independence to explain what the real plan is, given that the current plan is one that just is not going to happen.

Q56 Jim McGovern: Am I correct in my understanding that, following the referendum, in the unlikely event that Scotland separates from the UK and they have to start their own currency, they would not be allowed to join the eurozone? There is a qualifying period to prove that their currency stands up to scrutiny.

Danny Alexander: I think you have to have your own currency as a staging post to joining the euro in the first place. Basically, there are various options. They are joining the euro, having your own currency or a currency board. They all start from the point of view of setting up your own currency. As Lindsay was saying, sterlingisation does not involve setting up a new currency. There is a whole process for joining the euro. There are the Maastricht criteria and all the other things that have been mentioned. That takes quite a number of years. Certainly, when you are starting from a 5.5% deficit or worse—

Q57 Jim McGovern: Sterlingisation would not meet the criteria.

Danny Alexander: I do not think it would, no. You would not have a currency or a central bank. You would not be able to join the European system of central banks without one.

Q58 Mike Crockart: Under the title of debunking myths, it came up again in Scottish questions today that, if an independent Scotland were not allowed to use the pound, they would refuse to take the debt and that would be a plus. Could you very briefly debunk that myth? What would be the impact of that?

Danny Alexander: I think it is a threat that would not be carried through. It sits in the category of cutting off your nose to spite your face.

Q59 Lindsay Roy: Is it bluff and bluster?

Danny Alexander: That is another way of putting it. The serious point is that one of the biggest challenges for any new state being established is to have a financial track record that means it can borrow at anything like reasonable rates. With a deficit of 5.5% of GDP to finance in your first year—

Q60 Mike Crockart: The important part is that it would have to borrow from day one.

Danny Alexander: That is right. The idea that your first move would be to default on paying your fair share of the national debt would set the thing back a very long way. The investment bank Jefferies is the only one that has produced any sort of assessment of this. They thought that, in the event of that sort of default, interest rates in an independent Scotland could be anything up to 5% higher than in the rest of the UK. It would put a premium on mortgages in Scotland of about £5,000 on the average mortgage every year. You are looking at quite serious fiscal implications of that sort of irresponsibility.

Q61 Chair: I want to be clear. You are saying that repudiation of the debt will result in mortgage rates in Scotland being about 5% higher.

Danny Alexander: I am saying that the only assessment that has been made of this is not a Government assessment; it was made by an investment bank called Jefferies. They said that they thought the premium that would be payable would be about 5% or 500 basis points in those circumstances. Even under normal circumstances, the national institute has made an estimate of between 0.7% and 1.7%, or thereabouts. Even if an independent Scotland did take its share of debt, there would still be a premium to be paid because of the lack of a track record.

Q62 Chair: Which you say would impact directly on mortgages.

Danny Alexander: Yes.

Dave Ramsden: And because their market for debt is much less liquid than the UK's market for debt. Liquidity is a key determinant of these things. Obviously, wider issues of credibility, if they have repudiated their debt—

Chair: Given that you are losing the attention of your audience, I think it would be helpful if you dropped us a note about the impact on mortgages of repudiating debt. Thank you very much for coming along. What fun this has been.