



Scottish Affairs Committee

Oral evidence: [The Referendum on Separation for Scotland](#), HC 271

Wednesday 18 June 2014

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

Questions 5739 - 5790

Witnesses **The Rt Hon Ed Balls MP**, Shadow Chancellor of the Exchequer, and **Cathy Jamieson MP**, Shadow Financial Secretary to the Treasury, gave evidence.

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Q1 Chair: Could I welcome you both to this meeting of the Scottish Affairs Select Committee? As you are aware, we are conducting a series of hearings into various aspects of the referendum on separation. We have been particularly interested recently in looking at questions on currency. Perhaps you could start off by telling us who you are.

Ed Balls: Thank you, Mr Chairman. My name is Ed Balls. I am the shadow Chancellor of the Exchequer. I am here with Cathy Jamieson, who is the shadow Economic Secretary. I approach these discussions with both an awareness of their huge importance and also the humility you would expect of someone who does not have a vote in September, but who is also the first non-Scottish Chancellor, or shadow Chancellor, in the Labour party to hold the job for any lengthy period of time since Roy Hattersley. It is something I think hard about, but also handle with great sensitivity. Could I say something at the beginning, if that is okay?

Chair: Yes.

Ed Balls: All of us are looking forward in the next few months to a hugely important and momentous decision about whether to continue with what has been the most successful multinational state in world history, and also one of the most robust and long-lasting single currency areas across different countries in the world's history. This is a currency union that so far has been in existence longer than the dollar in the United States. It is 304 years since the arrangements were put in place for our shared pound to be used between us as part of the United Kingdom.

Over those hundreds of years there has always been a great deal of national self-determination within the Union. In particular, Scotland throughout the whole period of the Union has been in charge of its destiny across many different areas—law, education and public services—but there have also been some underpinnings to the Union: at its heart, a commitment to ongoing political union, but also to the sharing and pooling of risk, whether that is in our welfare state, our defence, or in finance and our currency, which has been hugely important to the success of the Union and of the currency.

In every generation we have to debate what more we can do to strengthen the Union but also to take forward national self-determination. There is rightly a discussion—there has been for all the time I have been in politics—about the next steps in devolution for Scotland and other constituent parts of the United Kingdom. There will always be things on which we disagree. Like very many people in my party in Scotland, I would look at many things done by the current Westminster Conservative Government and want change, whether that is around jobs for young people, the bedroom tax, the distribution of public spending or whatever. The question is what you have to do to achieve change, and whether you put at risk those hundreds of years.

My starting point is that the reason why we have had a successful currency union since 1707-1710 is that we have had a political commitment to its permanence; a commitment to the sharing and pooling of risk, in particular through an income tax system that spreads across the United Kingdom; an absolute commitment to fiscal union, and to the fact that our overall budget is something we manage together, and a fall in tax revenues collected in one part of the United Kingdom is a burden borne by all of us; and a banking union that we regulate and supervise, and also that we deal with crises in our banking sector in a common way across the United Kingdom. The point of the vote in September is that, if the yes campaign were to win, all four of those things would end: the commitment to permanence and a political union would end, as would the fiscal union, the banking union and the pooling of risk through income tax.

I argued 20 years ago that I did not think the euro as a single currency area could work, because there was insufficient political, economic and social union across the euro area. When 10 years ago we did the five-test assessment of whether the UK should join the euro, we concluded that we could not join the euro because there was insufficient convergence, flexibility and cohesion. If anything, what has happened in the last six or seven years has strengthened our view that not only was it right for the UK not to join the euro, but that to try to have a single currency without a permanent commitment to a deeper union—banking union, fiscal union and the sharing of risk through tax and transfer—it is very hard to make a single currency work, which is exactly why European countries within the euro have been moving in that direction.

In this debate, I find it very difficult to understand how people could advocate that we would take away a permanent political commitment and the fiscal tax and transfer system, remove the political commitment to a fiscal and banking union, and, having done that, think that we could conceivably carry on sharing a single currency. The conclusion I have drawn as this debate has gone on over the last four or five years is that once you take away the fundamental underpinnings of a single currency, which is what would happen if there was a yes vote in September, to attempt to continue with a single currency in those circumstances would be to make all the mistakes, and worse, that were made in the euro

area in the early years. I do not think it would be in the interests of either the Scottish economy or the rest of the United Kingdom. As I said earlier in the year, I could never recommend it. It would not happen, it should not happen, and it will not happen if there is a Labour Government, that we would be able to continue with a single currency.

When we did the euro assessment in 2003, our conclusion was that you could argue that we passed one test: it would be better for UK financial services to be in the euro. We clearly failed the convergence and flexibility tests and, on that basis, we said we would fail on investment and jobs as well. When you look at this decision and think about it in the same five-test framework—because that is the right analytic basis—my conclusion now is that it would not be four tests that failed; it would be all five. Whether you ask the question “Should the rest of the UK go into a single currency with Scotland?” or “Should Scotland choose to go into a single currency with the rest of the UK?”, my view is that if you were to repeat the five-test assessment, each of the five tests would say that it would be the wrong decision and contrary to the national interest. That is why the conclusion I have reached is that, if there is a yes vote in September, it will not be possible to carry on with a single currency, and we would not do it.

Q2 Chair: Thank you for that brief introduction. *[Laughter.]* The staff have produced for us a very excellent briefing with a number of questions, most of which you have already answered.

Ed Balls: I have been thinking about this for some time.

Q3 Chair: We are going to hold you here until we have gone through the questions we have been instructed to ask by the staff. If Scotland votes for separation, clearly there will be a whole host of things that require to be negotiated. The UK Government and the Opposition have made it clear that they do not intend to engage in pre-negotiation; they do not intend to have dialogue before the result is known. However, on the question of the currency, you have come out and said unequivocally that there will be no currency union. Why have you stated a position on the currency question in advance of the vote when you and the Government have been quite specific that there will be no negotiations on anything else before the vote?

Ed Balls: There is a difference between saying that you should have an open and honest negotiation after the vote on detail, practicalities and modalities, and the people of Scotland choosing to make a massively important decision, which we all hugely care about, on the basis of a false prospectus. The prospectus promised by the Scottish National party 10 years ago was that Scotland would join the euro—the single currency. That is not a false prospectus.

The SNP could say to the people of Scotland, “We will become independent and then have our own currency.” What the SNP cannot do is say to the people of Scotland, “If you vote yes, after that we will be able to negotiate to keep the pound sterling and all the other things which come along with it,” because, once you vote yes to independence and no to the Union, you fundamentally change the rules of the game. From that moment, you have two different sovereign states deciding whether or not to have a single currency arrangement for the future. Every lesson you learn from the last 10 years of the euro is that it is very difficult indeed, and dangerous, for separate sovereign states to sign up to a

single currency without what would be, in my view, impossibly onerous and risky conditions accepted by either side.

It is better for us to be very open and honest at this point, which is that it is absolutely Scotland's choice. Everybody knows that I want the Union to stay, as does my party, but when Alex Salmond says, "We can keep the pound—it is our pound; they're bluffing," that is nonsense. It is not a claim he can make; it is a false prospectus, because for my party, and in my personal view, in all good conscience, that is a negotiation we could not even begin. It would be a non-starter.

Q4 Chair: Can I raise the point that the SNP made, which is that this is bluff, bluster and bullying? In particular on bluff, the argument advanced apparently by an anonymous Minister is that the line will change as soon as there is a yes vote; this is simply the Treasury's and the Opposition's position now, and in the event of a yes vote, you will see sense and start negotiating. How do we know that what you are telling us now will be your position after the referendum?

Ed Balls: I and my party had this debate about sterling's membership of the euro over 10 years ago. There have always been two views on these big economic questions. In the end, there is one view that politics and political will always transcend and overcome economic reality. That was the kind of thing said by people who said that, if we went into the exchange rate mechanism in 1990, it would work, and by people who said that Greece might break the convergence criteria, but if the political will was there it would be an economic success.

An alternative view is that these economic forces are very powerful and important, and you dismiss them at your peril. I have always been in the second camp. We looked really hard at this issue in 2003, and we said that we must locate the decision around the national economic interest and make a proper long-term economic assessment. We concluded that we could not join the single currency, and I think everything that has happened since has vindicated that position. I can now say to you that I do not think Britain joining the single currency will happen in my political lifetime, which could be quite short, or in my adult lifetime, my non-retired lifetime, or, if I am honest, my full lifetime. We have a long track record in this matter.

The decision we are making here is of a similar economic magnitude. I think that the issues are more clear-cut for the rest of the UK and Scotland as to why joining a single currency on this basis would be flawed, a mistake and dangerous. It is on the basis of that track record of analysis, decision making and being proved right by the facts that I say to you the five tests on the euro were never about bluff or political positioning. In the end, it was about jobs, investment and stability. I do not want to do anything in my political career that would ever put those things at risk for my constituents in Morley, or for the people of England or Scotland. On that basis it is not bluff; it is just that the economic facts are against that decision.

Q5 Chair: People change their minds; if you remember, Nick Clegg famously changed his mind on tuition fees. He said one thing going into the election, and after it was over he said something completely different. How do we know that you are not going to do the same?

Ed Balls: The fact that Nick Clegg put on his leaflets in Sheffield “Vote Liberal Democrat to stop the Tory VAT bombshell” is one of those promises he will be reminded of time and time again. In the end, in our politics, people who break promises in that way pay a price in terms of reputation.

Let me answer it in a different way. I can think of people who dismissed the five-test analysis on the euro and said that for political reasons we should join the euro; they have now concluded that without a fiscal union, banking union, political commitment to a deeper union and all those things, joining a single currency is a bad idea. I think that the set of people in the opposite camp who were against joining the euro on economic grounds in 2003, but have since changed their minds the other way and now think, in retrospect, that Britain should have joined the euro because it would have been the right thing to do politically, is a rather small number. Having set out a very clear economic analysis of why this would be bad for Scotland and for the UK, I would see that as equivalent to people who have decided that, in retrospect, after all, we should have joined the euro in 2003. Those people are thin on the ground.

Q6 Chair: Will it be a Labour manifesto commitment for the next election that there will be no currency union with Scotland?

Ed Balls: I am very much hoping that the people of Scotland are going to vote no in September and that therefore the issue will not arise.

Q7 Chair: That’s fine, but in the event?

Ed Balls: On this, the Labour shadow Cabinet, as on all issues, is 100% united. I do not hear any voices taking a different view. I really hope we do not have to come to that point because I hope that it is a no, but if there is any ambiguity we should clear it up. If it requires a manifesto commitment for people to understand it totally, it will be in the manifesto—absolutely.

Q8 Chair: Would you resign as shadow Chancellor if the line changed and either a shadow Labour proposal or a Labour Government decided to have a shared currency?

Ed Balls: I could not imagine being part of the start of that negotiation, let alone the end.

Q9 Graeme Morrice: Shadow Chancellor, with your introductory comments you probably answered a few of my questions and those of other colleagues, but I will try to pick the bones of one or two. You have been very clear in your position with regard to there not being a currency union in the event of a yes vote in September and Scotland becoming independent. You pointed out the reasons for that: it would not be in the best interests of either Scotland or the rest of the UK.

I do not want to touch on sterlingisation or other currency options at present, because colleagues will pick up those points later on. If we ended up with a yes vote, an independent Scotland and no currency union—of course, we do not know what would happen because we have not had a plan B from the SNP Scottish Government—would we not have a particularly

difficult situation between the two independent countries with regard to a range of things, not least trading? What would be the additional cost of trading both to English-based and Scottish-based businesses? Could you comment on that?

Ed Balls: The question will be: over what sort of pace will change occur? When you look at the Treasury analysis, they clearly believe there will be a series of different border effects that will take effect over a period of years. Some of those things will take longer. It would of course be for the new Scottish Administration, when fully up and running, to decide to put in place border controls. I would be surprised if they wanted to do that quickly, but there would clearly be issues of goods going across the border, so there would have to be procedures for those things.

It might take some time for controls to be put in place, or for changes in the pattern of trade or mobility to take effect. You might think those things would happen over a period of years. It might be that particular problems would spark movement in one direction or another, but there would be other dimensions where things would happen very quickly indeed.

There would be an immediate change in the balance of financial services, jobs, domicile and the pattern of sales and products. First, it would be very difficult for large financial services companies located in one country to sell a vast amount of their product into a market that they knew was going to be regulated by a different regime. The currency question would absolutely feed into that. Secondly, there would be an immediate impact on the interest rates at which the Scottish Government could borrow, and therefore the expectation of interest rates more widely. I think it would be very hard from day one for a Scottish resident to buy a mortgage product from a company supplying that outside Scotland, in the rest of the United Kingdom. Those kinds of things would happen very quickly indeed. There are other difficult issues that would be discussed over a period of time, but the scale of the imbalance, and the mismatch between the location of financial services in Scotland and the UK market, would push change very quickly.

Q10 Graeme Morrice: I referred to English-based businesses, but it would also apply to Wales and Northern Ireland as the rest of the UK.

Ed Balls: Exactly.

Q11 Graeme Morrice: Do you not think that, because Scottish companies export twice as much south of the border as Scotland does to the rest of the European Union, there would be a disproportionate disbenefit to Scottish businesses if we had this difficulty?

Ed Balls: There would be uncertainty over the arrangements for trade and mobility with the rest of the UK and Europe. The fact of that uncertainty is going to lead to a disbenefit anyway. On top of that, there are also patterns of trade and business location that are contingent upon our having a union, in particular a banking and fiscal union. Once it is clear that has gone and it is going to be renegotiated—but it will always be renegotiated in a different context and to a lesser degree—in those circumstances it will be more than uncertainty; it will be clear.

For a company like Standard Life—they have said this themselves, so I do not think I am going beyond what they would say—it would be very difficult, if not impossible, to be based in one country and have the large bulk of their products sold into another sovereign state with a different regulatory regime. That would be too difficult for the business to handle, and I think the same would apply to Lloyds, Scottish Widows and other financial services companies. That is more than an uncertainty issue.

Cathy Jamieson: I know this is something in which the Committee has taken an interest. So that people are aware of the scale of what the shadow Chancellor is talking about, Scotland is the biggest hub for financial services outside London. It supports 200,000 jobs and, at the same time, 90% of the customers for those services are located elsewhere in the UK, which I think shows solely for financial services what the impact would be.

The other issue is that perhaps in Scotland we have to an extent taken the UK for granted in terms of the fact that there is free trade and free movement. Notwithstanding the different legal systems—commercial law and so on—we have been able to manage that. However, as has already been pointed out, in a period of uncertainty and change not just about a currency union but a whole range of other things, which I know the Committee has picked up in its report in relation to the EU, there would be uncertainty around that as well, which perhaps has not been fully appreciated.

Q12 Graeme Morrice: I welcome that. Because you are not just a member of the shadow Treasury team but you represent a Scottish constituency, I was going to ask you specifically about currency union.

Can I turn to the Treasury's analysis paper on this issue, which presumably you have read in great detail? It covers the costs of an independent Scotland and the benefits of remaining part of the United Kingdom. As we know, the First Minister of Scotland has his Fiscal Commission working group. In their detailed analysis, they have apparently responded to the criticisms made in the UK Government's "Scotland analysis" paper with regard to a sterling zone. How would you respond to the comments from the Scottish Government's side of the argument on that question?

Ed Balls: I have tried to listen very hard to hear and understand the response of the Scottish Government and the SNP on the currency issue. I am not sure I have heard very much. There does not seem to be any proper public discussion of the alternative to a currency zone. Even the SNP's own adviser—the hugely respected John Kay—said this would not be negotiated. Mr Morrice, maybe you could help me a bit more. I have not heard them say anything credible or comprehensible on this issue since the Treasury paper was published, other than to try to deny it exists and hope people will not notice the fact that the pound would go.

Q13 Graeme Morrice: That is interesting, because we are in the same position; we are not hearing an awful lot about that. Maybe we could turn to the position of the Governor of the Bank of England who has come in on the debate on currency union as well. His view is that a currency union requires both banking and fiscal union. Do you agree with that, and, if so, why?

Ed Balls: I do. He made a number of points. It was not only about banking and fiscal union; there is more texture to it than that. If you think of the five-test framework, and if our countries converged, what would happen if you have events that affect those countries within a union in different ways when you have lost the ability to have different levels of interest rates? What are the consequences of that?

The first point is that the Scottish economy has two quite substantial drivers of difference from the rest of the United Kingdom. One is oil and the second is the scale of the financial services industry. At the moment, if there is a fall or a rise in the oil price, it impacts across the whole of the United Kingdom. In this new world, the hit to fiscal revenues and jobs if there is a fall in the oil price is much more concentrated in Scotland. Point one: there will be substantial differences. You might expect those differences to grow over time, as the pattern of trade changes and Scotland looks to other trading partners.

The second thing is that any time there is an individual and unusual difficult event in Scotland, like a fall in the oil price or some other piece of bad economic news, a lot of the impact is absorbed by our tax system. One of the points the Governor made in his speech was that you would normally expect those cross-border flows of taxes and transfers, which means that if Scotland gets hit badly and income tax payments go down but unemployment benefit or tax credits go up—it can happen in two different directions—there is that smoothing and an insurance policy, given the fact that the whole of the UK bears the burden. He thought that normally in a monetary union you needed to have potentially about 25% of total tax and spending being cross-border in that way. We currently have that, but it goes at independence, because we move to entirely separate income tax systems and welfare states.

On top of that, he said that the lessons from the eurozone are that, if we are going to have a financial system where if there is a banking crisis in one part of the union a central bank plays the role of lender of last resort, steps in and provides liquidity in the short term, it will only do that if it can be sure that that financial system is being run in a proper and sound way. Therefore, you have to put in place some kind of banking union to supervise and share risk, but, in the end, that risk comes back to taxpayers. Therefore, you also have to have a fiscal union to control Governments acting irresponsibly on fiscal policy, and also to know that there is fiscal underpinning to step in at a time of crisis.

What the Governor did not say in his speech, I think because he was making a more general point about the way monetary unions work, is that, in the monetary union we would be talking about between Scotland and the rest of the UK, this is unusually imbalanced, first, because you would have an unusually large financial system in Scotland, but, secondly, because the rest of the UK is so much bigger than Scotland. Ninety per cent of all taxpayers would be non-Scottish. In those circumstances, the point made by the permanent secretary at the Treasury, as well as the Governor of the Bank of England, is that it is pretty hard to see a circumstance in which there would be a shock, or a piece of economic news, so bad in England that you could imagine the Scottish taxpayer having to bail out banks in England, but you could absolutely imagine it the other way round.

We experienced that a few years ago. That asymmetry—the fact that the UK taxpayer would potentially have to stand behind a Scottish financial institution in trouble with large amounts of money—means you have to have a stronger, tighter, more onerous and probably more asymmetric banking and fiscal union in that kind of currency union than

you would in the euro area. You would have to have the UK authorities absolutely breathing down the neck of this fiscal authority called Scotland, but even in those circumstances you would be asking taxpayers in the UK potentially to take on the huge burden of bailing out taxpayers in another country who have decided to leave your Union.

The Governor of the Bank of England was diplomatic and the Treasury analysis was clear. The combination of shocks hitting Scotland, the lack of an income tax system and the asymmetry in banking mean that the fiscal union would have to be hugely controlling, and even then it is very hard to see that people would be willing to sign up to it. That is why I end up very pessimistic.

Q14 Jim McGovern: Chair, in your introductory remarks you invited both witnesses to introduce themselves. Obviously, Cathy did not have to because she needs no introduction.

Ed Balls: But I did it anyway.

Q15 Jim McGovern: Witnesses we have had here recently on this subject have included Danny Alexander and George Osborne. I might be paraphrasing rather than quoting, but George Osborne certainly said there were no ifs, buts or maybes: there would be no fiscal or currency union. Danny Alexander said pretty much the same. Just for purposes of clarification, is that your position?

Ed Balls: I think our position is—

Jim McGovern: You think?

Ed Balls: —unequivocal. Our position is unequivocal. It would be in the interests of neither the rest of the UK nor Scotland to attempt to negotiate a currency union. It could not be negotiated. It would be flawed, risky and unstable, and I would not embark on it—no ifs or buts.

Q16 Jim McGovern: Is that because it would be detrimental to what has been called RUK?

Ed Balls: It would be hugely detrimental to RUK—the rest of the United Kingdom—and to Scotland. As I said at the beginning, if you apply a five-test framework to either side, whether the rest of the UK should join in a single currency with Scotland, or whether Scotland should join in a single currency with the UK, from whatever side you come at it, five out of five tell you, “Don’t do it.”

Q17 Sir James Paice: I want to pick up Graeme’s earlier point. Ed, you quite rightly said that you had heard virtually nothing from the Scottish Government in response to the Treasury paper. I want to come back to what Alex Salmond said after all three of you made your statements on the Treasury paper. He said, “Let us recall for a second who comprises the membership of that working group: Professor Sir James Mirrlees, Professor Joseph Stiglitz; Professor Andrew Hughes-Hallett, the Irish economist Frances Ruane and chaired by the former Chief Executive of Scottish Enterprise.” He went on to say, “Their report set out in

detail why the proposed currency union differed fundamentally from the eurozone and set out how and why it would work. They also detailed a robust framework for its success.”

I do not know any of these individuals; I do not know whether you do, or perhaps Cathy does, but why do you think they would have come to a different set of conclusions, which are clearly at odds not just with yours, but with those of the present Government, the Liberal Democrats and virtually everybody else, or do you think they were persuaded to put that in their report? I do not know whether you know these individuals, but I presume they are eminent people. It seems surprising that they should have come up with a different viewpoint.

Ed Balls: The list of eminent people—academics and people from the wider banking and financial communities—who have commented on this matter is very long. Almost all of them, including John Kay, who served on those commissions, have come out with the opposite conclusion, which is that it would be the wrong thing for the UK or Scotland to pursue. I cannot answer for what happened within that committee.

Cathy Jamieson: A point has been made about Professor John Kay’s comments. As I understand it, he basically said that, if he represented the Scottish Government in the extensive negotiations that would be required, he would try to secure a monetary union but he would expect to fail, and therefore Scotland might be driven towards the option of an independent Scottish currency.

The issue is that we have not actually heard from the Scottish Government detailed proposals as to their plan B and what they would do. About 50 experts from various quarters have commented on the SNP’s proposals. Notwithstanding that, the SNP still seem to want to have their cake and eat it; they want to be able to say that somehow they would keep all the best bits of belonging to the wider UK. They want to keep the currency; they want to ensure they have monetary union; they expect the banking system to be underpinned by the UK, but somehow they do not think they ought to take any of the risks or bear any of the responsibilities that go with that. That is the theme that runs through what all of those 50 expert commentators said.

Ed Balls: On that particular commission report and the SNP commentary, one thing that you absolutely learn about monetary unions is that people have to believe you really want to be there and you are in for the long haul. You cannot say, “We’ll suck it and see; we’ll try it out.” In 1999, if Greece had gone in and said, “We’ll give it five years and if we don’t like it we’re out,” they would have been out within half an hour.

The problem with the SNP position is that their starting point is that this is not permanent. The starting point is, “It will be for the people of Scotland to decide in due course what long-term arrangement they want, and in the meantime let’s have a currency union,” when every decision they are taking more widely is taking us away from what you need to make a successful currency union work. You do not dismantle your banking union and then try to see whether you can reassemble it in a half-hearted way and hope it will persuade anybody.

If you decide to make a virtue of having your own fiscal policy, based as it happens on more borrowing and a larger deficit, that is not really conducive to persuading people you are going to be for a disciplined fiscal union. If you want the kind of risk-sharing that you

need in a currency union, you do not start by ditching your common tax system. They are dismantling every element of what makes a single currency work, telling people that it is impermanent but then trying to persuade them that they will give it a go. I do not think that is coherent or credible. How could we in those circumstances possibly engage on those terms?

Q18 Chair: You said that if Greece had said, “We’re joining the euro and for five years we’ll give it a go,” they would have been out in half an hour. Can you clarify the mechanism by which that would have occurred? Why would they have been out in half an hour?

Ed Balls: One of the lessons we have learned in the euro area is that a single currency, which started off looking as though it was possible for sovereign states to exist on an unwritten and unspecified collective fiscal guarantee, unravelled after the financial crisis. Suddenly, interest rates shot up very substantially, and essentially market access for Greece was suspended. It was only injections of finance from other member states, the International Monetary Fund and then the European Central Bank, through the lender of last resort facility, that managed to start to restabilise relations within the euro area for some of those most vulnerable countries.

For Greece, it is still very difficult; it is still hugely challenging for countries like Spain and Portugal, who have market access. That was during a period when it was the absolutely clear commitment of the Greek Government to stay in. If they had been saying in those circumstances, “Look, we’ll see,” investors would have said, “We’re leaving entirely.” In those circumstances, it is hard to see how the IMF, the ECB or other European states could possibly have been willing to put in place that degree of fiscal support.

UK taxpayers together—English, Welsh and Scottish—all put our tax into a pot on the basis that, if for a period of time I can put less in, I am still going to get support for my pension in 20 years’ time. There is a mutual commitment to our common endeavour that stretches across generations, years and nations. Once that has broken down and people say, “We’re not sure whether we really want to make our contribution to our collective pot for the long term,” in those circumstances it is quite risky for people to assume that taxpayers would be willing to step in and bail out a bank in trouble or a Government in difficulty.

Q19 Graeme Morrice: When Jim McGovern suggested that your position on currency union was not dissimilar to that of the Chancellor and the Chief Secretary to the Treasury, I was thinking what good company you were in—perhaps bad company, some would suggest—but you are also in some very interesting company. The former leader of the Scottish National party, Gordon Wilson, the former deputy leader of the Scottish National party, Jim Sillars, the chairman of the yes campaign, Dennis Canavan, and the Scottish Greens and the Scottish Socialist party also have concerns with regard to currency union. Their position is to support a separate currency in an independent Scotland. Do you not find it quite remarkable that some of these most notable SNP and other yes supporters have a position that is not too dissimilar from your own?

Ed Balls: The position that I take is also not so dissimilar from the position Alex Salmond would have taken a few years ago before he realised that there was not really public support in Scotland for breaking away from the central pillars that underpin the stability and prosperity of the Scottish economy, such as our banking union and the use of our currency. As an outsider to this debate and a non-Scot, it is odd to see the current SNP leadership making the argument that, if you vote for independence, all the central institutions of the Union will carry on and nothing will change.

To be fair to the list of people you set out, maybe they are trying to be honest with people that the decision to go for independence is a massive one, politically and economically, which not only overturns hundreds of years of history but cannot then be put back together again after three or six months because of the issue of permanence, impermanence and political cohesion. The reality is that, whatever political party you are from, if you sit, or have sat, in the Treasury in Westminster believing in the Union, you reach the same view, and people from the nationalist side who are being true to their convictions and following through the logic have probably reached the same conclusion. It does not seem to me to be honest to say to people, “If you vote yes, nothing will change,” because it changes massively.

Q20 Graeme Morrice: You would agree that you cannot have fiscal union without political union, and if you have political union it is not independence.

Ed Balls: Once you dismantle the political union, which you do at independence, you then have to attempt to persuade people that you really are still in the fiscal union, despite the lack of political union, and you have to sign up to very onerous fiscal strictures, as other euro countries are seeing. You would end up in a situation where in this currency union, if it ever happened, which I don’t think it will—in fact, it won’t—the Scottish Government would have to accept considerably greater controls over borrowing, taxation and public spending than now. In that sense it is a move away from devolution rather than a move towards it. I do not really understand why people would want to do that, because it would not work anyway.

Q21 Graeme Morrice: Cathy, what do you think about people like Gordon Wilson, Jim Sillars and Dennis Canavan, very experienced politicians from different backgrounds supporting the yes side, all saying the same thing and having concerns about a currency union and supporting an independent currency for Scotland?

Cathy Jamieson: The important thing for the majority of people I meet in Scotland, and probably people around the table here as well, is that they want answers to questions; they want to know what it is they are going to be voting for. As the shadow Chancellor said, the notion is that people would somehow be voting without having all that information and knowing what the plan was for the currency. The yes side—within the Yes Scotland board— seem to have different views and opinions on whether the argument would be for a currency union, for a currency union as a stepping stone to something else at some point in the future, or for a separate currency.

What the Scottish Government and the yes campaign are putting forward is that on so-called independence day in 2016 everything would change, and there would either be a

socialist utopia or a wonderful tax haven, or a combination of both if you read the White Paper, but that actually nothing would change and the fundamental institutions of the UK would somehow still underpin it. I do not think that is a tenable or honest position to put to the Scottish people. They have to understand what it is they would essentially be voting for. To lay out those arguments in the way the shadow Chancellor has done very clearly this afternoon is not to scaremonger; it is not somehow to be negative. It is simply to lay out the arguments and put the choice before the Scottish people as to what they do when they cast their vote in September.

Q22 Graeme Morrice: The SNP believe that an independent Scotland and an independent residual UK could have a successful currency union. Are there any examples of a successful currency union across the world between two or more independent states?

Ed Balls: As I said, if we were to vote yes, we would be breaking up the most successful single currency across two states that work together in a political union. As to currency unions that have worked successfully as a proper currency union between sovereign states, the euro was the first significant example of that, and it has been very difficult. I am not sure I can think of any other examples. There are examples of countries trying to piggyback on somebody else's currency, but that is a completely different thing from actually having a collaborative union like this.

Q23 Graeme Morrice: You are right that there are examples of dollarisation. We will discuss the whole question of sterlingisation. I do not think we have come across any examples. I think there was one when Czechoslovakia broke up and became two independent states.

Ed Balls: That was for about 30 days.

Graeme Morrice: It was 33 days. I was going to touch on the issue of the eurozone as well, but we covered that in previous discourse. On that happy note, I will end and pass it to somebody else.

Q24 Chair: I think it is particularly useful to compare it with the eurozone. Earlier, you mentioned Roy Hattersley, an historical figure of whom the younger members of the audience, or people watching this, might not have heard. Similarly, the question of the tests for joining the euro, with one out of five for joining the euro and nil out of five for having a sterling zone, is quite striking, although again I fear that many of the younger people in the audience might not remember the five tests. One out of five as compared with nil out of five is quite a striking figure.

Ed Balls: To explain, the one out of five in the euro assessment in 2003 was whether it would be good for the UK financial services industry to go into the single currency. That was the one where, on balance, we thought maybe it would be, although that was pre-crisis and some of the things that have had to happen around the banking union since. Any move away from the Union is very bad for the Scottish financial services industry. I think it would be bad to go it alone and to attempt to be in a single currency with the UK; either of them is nil points. It is a fail for the UK financial services industry as well; it would end up

with our regulator needing to put in place stronger controls than otherwise to try to find a way in which there could be some commonality between the rest of the UK and Scotland. I think people would look at that and say that is also quite destabilising, so for UK financial services outside Scotland it would be bad as well. I am sure that on convergence, flexibility, investment and jobs it fails.

The danger with this debate is that we become too technical. The reality is that, if you really believe in independence for a set of issues about wanting to break away and political destiny, that is a justifiable argument you can make, but, as I look at it, Scotland would lose jobs, mortgage rates would be higher, taxes would go up and public spending would be cut. That does not sound very attractive in the short term, unless you believe there is some other benefit. It will not be in the bread and butter of jobs, taxes and public spending because those will all go in the wrong direction.

Chair: Presumably, the argument is that we might be poor but we would be free.

Q25 Mike Crockart: In your speech earlier this year you concluded by saying, “Alex Salmond must now come clean and explain to the Scottish people what currency an independent Scotland would have.” With everything that has been said over the months since you said that, would you agree that sterlingisation now seems to be plan B?

Ed Balls: I think it is by default, because it seems to be the only thing talked about, but I do not think it has any serious economic or political logic. I do not think it is a serious proposition. At the moment I think there is no plan B. One option for Scotland would be to join the euro. It is not easy, but it is definitely an option. It used to be the Alex Salmond position, as I understand it. If Scotland were to join the European Union, that would be the expectation.

The other option would be to go for a new free-floating new exchange rate, which I think would be very difficult for a country of Scotland’s size and its openness to trade. It would be too destabilising in terms of instability of trade and fluctuations in exchange rate. Scotland would end up trying to find—with a new currency—some kind of as-hard-as-possible exchange rate relationship with either the euro or sterling. It could be a currency board, as Hong Kong has with the dollar, or it could be an unequivocal commitment to a fixed exchange rate peg, as Denmark has with the euro.

If Scotland were to go down the route of sterlingisation, which is attempting to use the UK pound in Scotland, it would be very short-lived and would quickly end up with Scotland defaulting to its own currency. It is the kind of thing you can do if you are a very small country with no sophisticated financial system, where people are bringing in a lot of investment income from abroad, like Monaco, but if you are a country that has factories, jobs, banks and real things, in those circumstances any attempt to run an economic policy without having a lender of last resort facility in your central bank, having no central bank and no control over your interest rates and being able to use currency only as long as you have a big enough balance of payments surplus to ship it in, would last no time; it would be impossible. In those circumstances, what would end up happening is that Scotland de facto would have to start creating its own currency. It would happen in a time of stress and difficulty, and then you are into a whole new world.

Q26 Mike Crockart: You have wandered around sterlingisation and into other areas. If I can, I will bring you back to sterlingisation, because that does seem to be plan B of the Scottish Government, from what they have said over the last little while. The case they are making is very much anti what you just said, because you described it as the UK pound. There is a lot of talk in Scotland that it is not the UK pound and that the pound is an asset. Therefore, that asset would be up for negotiation in independence negotiations. If that is the case, what would Scotland be entitled to in a fair distribution of assets? Is the Bank of England an asset as well? What would your position be in any negotiations about what constitutes assets?

Ed Balls: A currency is not simply a unit of exchange; it is not simply bank notes. It also has to be something that people believe will be able to hold its value through time, something that people can trust and continue to use and that can allow them to borrow and lend through time. It has to have stability through time as a store of value as well as a means of exchange. That has to be underpinned by a set of institutions. It has to be underpinned by a central bank which is responsible for maintaining that store of value through time, and making sure that the flow of that currency is sufficient to make the wider financial system work so that people can borrow and lend. It is a set of institutions which have to be believed in and trusted. Therefore, the banks have to be regulated.

The central bank has to have a clear mandate, and people have to trust and believe in that. We have that in the UK at the moment. It is a whole set of institutional relationships established in law, which have existed for many years and have reputation and standing. If Scotland leaves the United Kingdom, it leaves that whole institutional set-up, because it is a UK set-up, and becomes a separate sovereign state. You cannot have independence but say, “We’re going to stay part of UK law, banking or regulation, or the Bank of England,” because those are all UK institutions that operate within a legal framework set here in Westminster. If you leave that, you’ve left it.

People who hold pounds can still use them and exchange them. If you go on holiday to Germany and come back with some euros, you can still exchange them and use them, but that is not the same as having a currency. The fact that we hold some euros does not mean that we are part of the institutional structure called the euro area. We are very much outside that. It is the UK’s pound—it is underpinned by UK law and institutions—and leaving the UK means leaving that whole structure. You can’t do it by halves.

Q27 Mike Crockart: You talked about it being underpinned, but isn’t the important part that what is ultimately underpinning it is the UK taxpayer?

Ed Balls: Exactly, which is why the lender of last resort is the central bank, and it only acts because the Bank of England is guaranteed by the Government balance sheet, which is the taxpayer. Financial regulation and the operation of the Bank of England only happen because they have a taxpayer guarantee. That is exactly right. That was what I meant by saying that in the end it is underpinned by our legal and institutional framework.

Q28 Mike Crockart: For a country like Scotland, which would have a massive financial services sector, what would sterlingisation mean?

Ed Balls: For the financial services sector, sterlingisation would mean that if there was any loss of trust, or concern about a particular institution, which meant that people were not sure whether they wanted to keep their money in that institution—if you had a run on a bank—there would be nobody to stand behind that institution. There would be no central bank.

As far as the economy more generally was concerned, the only way in which you would have currency to pay people, to spend in the shops and to be able to trade would be if Scotland was able to bring in enough pounds from abroad—from the UK—to have a surplus and use those pounds in Scotland. You would have to have a balance of payments surplus the whole time. Scotland currently has a non-oil deficit. To maintain a balance of payments surplus on that scale through time is a very difficult thing to do, but the important thing is that if all decisions about the availability of currency were being made in the Bank of England, not in Scotland, you would lose total control over your interest rates.

Q29 Mike Crockart: The point of my question was more to do with the direct impact on the financial services sector itself without a lender of last resort.

Ed Balls: I apologise. It would be impossible for a non-sophisticated, let alone sophisticated, financial services institution to operate in a country which did not have a central bank and a currency that would underpin and guarantee that financial institution, with the taxpayers behind it, so Scottish financial institutions would not be able to continue to exist in Scotland.

Q30 Mike Crockart: We have already seen evidence of that in some of the statements that have accompanied annual reports as they have come out over the last few months. Planning has already been put in place about what independence, or certainly sterlingisation, would mean in terms of the headquartering of businesses. Would you expect there to be a wholesale movement of banking and financial services headquarters?

Ed Balls: That is undoubtedly what would happen. There are two different points about Scottish financial services. One is that the Scottish financial services sector is very large and sells a lot of its products in the rest of the UK. Even if Scotland had its own currency, or even if there was a currency area, it would be very hard for it to be regulated and guaranteed in one country when most of your market was in another country. Even if there was no sterlingisation, that move will happen anyway, but for any financial institution operating in a country that does not have its own central bank, and taxpayers able to provide finance as needed, it would be too risky a thing. Capital structures would make it impossible, and people would move.

Very quickly the Scottish Government would realise that its financial system was going to grind to a halt unless they stepped in, so they would start printing new bank notes and create a new monetary base. It might be called the Scottish pound, and very quickly people would be saying, “Well, the Scottish pound is not directly equated with the UK pound one to one.” You end up with an exchange rate, and very fast you have a new currency in operation. That is why sterlingisation would not last very long. The needs of the financial system in Scotland would require the sovereign Government essentially to

create a currency. They might spend a bit of time pretending that was not what they were doing, but it would happen very fast.

In those circumstances, the problem is that, if you are a Scottish resident who thinks you have UK pounds under the bed or in a bank account, you might very quickly find out that those UK pounds had become a different currency that might be worth half the amount of money you thought they were. If you thought that was about to happen, you would quickly get in your car and try to get your money out of Scotland. That is your bank run; that is your catastrophe. In those circumstances, once there is a doubt that the currency may not hold, it very quickly goes.

Q31 Chair: Can I be clear on this question of money under beds? Presumably, if you had sterling under your bed and there was the development of a new currency in Scotland, that sterling would still be sterling; you would be in exactly the same position if you had dollars or euros under the bed. It might be a very lumpy bed, but you would have that store of value which would still be translatable. Surely, the difficulty would come in only when the new currency started emerging, and then there might be a loss of value. Does that seem reasonable?

Ed Balls: As of today, every Scottish bank note is guaranteed by the Bank of England as part of our UK currency, with exactly the same value, but we also know that, if you had money in a bank account, a new sovereign state could quickly take a view on whether or not you would be allowed to take it out, at what exchange rate or in what volume. Most people would think to themselves, “Do I want that money in a bank account? Can I really afford to keep those notes under the bed? Maybe the risk-averse thing to do is to try to pre-empt the problem.” That is when your run starts.

We have had examples where countries have tried to maintain a peg for a currency through a currency board, guaranteed to the dollar, but the trouble is that there are only so many dollars available to the sovereign. Quite quickly they run out, and in those circumstances people conclude that they are not worth what they thought they were. Those are normally the circumstances in which things run completely out of control and you have to start again with a new currency. Without wanting to scaremonger too much, these things can move very quickly.

Q32 Chair: Leaving aside the question of money under the bed, would money in Scottish bank accounts of banks domiciled in England be guaranteed by the Bank of England because they were branches of UK-based banks? Would that not, therefore, provide a guarantee for individuals?

Ed Balls: I was talking in the context of attempting to make sterlingisation work and how that might evolve.

Chair: I understand that.

Ed Balls: In a stable situation where Scotland was moving post-independence to a new currency, one of the things you would negotiate is the way you would manage the transition to the new currency. Clearly, people would want to be able to transfer that

purchasing power to the new currency at a sensible and fair rate. That is probably something the Government would have to guarantee to begin with. We have experience as a world of managing some of those transitions, although they often happen in difficult situations. It is something you would have to try to manage carefully. The question is whether people would believe that, as a store of value, the money was going to continue to hold its value through time. That comes back to what the view is going to be about Scottish fiscal policy, the interest rates to be set and the value of the currency. You would definitely need to manage a transition at that point.

Q33 Chair: People have suggested to me that they are risk-averse. In those circumstances would it be wise for them to move their money into a branch of a bank in England? Clearly, that would be the safest, but would it be equally safe to have it in a branch of an English bank situated in Scotland?

Ed Balls: The thing that worries me is that if you have a potential new sovereign state sending sensible balanced signals out to the wider financial world and your citizens that they would be able to rely upon its currency as a store of value, and that it would honour its debts and these kinds of things, maybe people could be confident that their money would be okay, but in the case of Mr Salmond I think he has already announced that he is going to be defaulting left, right and centre and increasing the size of the budget deficit. In those circumstances, you can understand why people would get quite nervous that Governments could start to do more unpredictable things. You can see why people might be worried.

A separate point is that if you were a Scottish citizen you would be unwise to have your mortgage with a bank located outside Scotland, and if you were a non-Scottish financial institution you would be pretty reluctant to extend mortgage credit to citizens living in another country outside your regulatory purview, because in those circumstances the potential for the exchange rate to move and, therefore, for people suddenly to get into big financial distress could be quite severe.

Q34 Chair: Following on from Mike's point, one of the things said frequently by the nationalists is, "Look, it's our pound too and therefore things must continue." A lot of what you have said seems to run contrary to that, but it is still quite a widespread view. People do not understand why they simply cannot carry on as they are in the event of separation.

Ed Balls: In 1707, after 100 years in which Scotland had been shadowing the English pound, a decision was made, as part of the Union, to have a common pound. That was negotiated over three years and put into place 304 years ago as a UK institution called the UK pound. A yes vote means leaving that entire institutional arrangement; it means leaving the UK pound and going it alone.

It is perfectly open to an independent Scotland to attempt to fix a new currency to the existing pound. They could try to have a negotiation to form a new set of institutional arrangements called the UK and Scotland pound, but the one thing that ends at that point is Scotland being part of the UK pound. It has gone; it finishes at that point.

Q35 Jim McGovern: My colleague Graeme Morrice mentioned Dennis Canavan. Last Friday, I was in a debate with Dennis in Dundee on the subject of the referendum. I am sure you are aware that Dennis was an MP here for a number of years. He has now retired from representative politics. We found ourselves disagreeing on the issue of separation, but agreeing on almost everything else.

I put to Dennis that probably for most Scottish people the three main factors in how they vote will be the head, the heart and the pocket—the head being people thinking it through long and hard, the heart being, unfortunately, that some people may think that an Australian actor playing the part of William Wallace is somehow a factor in Scotland's future, and the pocket obviously being, “How is it going to affect me if Scotland separates from the UK in terms of taxation and so on?” To go back to what you were saying, Ed—maybe Cathy will come in on this as well—Alex Salmond is saying that, if there is not a fiscal union with the UK, Scotland will not pay their national debts. I think that would make Scotland almost a pariah in the world economy. Is that a possibility?

Ed Balls: It is always open to any country to announce to the world an intention to default upon its debts and not pay its way in the world. It is a decision to cut yourself off from the world financial system and become for a period of time a pariah. Normally, it does not last, because people see that it is a disastrous signal to send and then try to make amends. Let's be clear. I was thinking about this, this morning: if you put the currency issue aside, will interest rates for Government, and therefore for citizens—for their mortgages—be higher in an independent Scotland than today?

There is a series of reasons why you would expect interest rates to be higher. First, they would be higher anyway because the new Government will have to establish from scratch their credibility to borrow in the international markets and pay their way. There is a new-country effect; it starts with people thinking, “Until we've worked this out, we're going to want a bit more compensation.” The second small-country effect is the fact that Scotland will be more dependent on oil and banking, and more open to trade, and therefore will be more vulnerable to things going wrong in some of those areas than now. That means people will think, “Would they have to print money to get out of a difficult situation?” There is a bit of a risk of that.

The third reason there is a risk is that Alex Salmond has put on the table that Scotland might default on its debts. Whether or not Scotland defaults on its debts, interest rates would be higher in a newly independent Scotland for a period of years until people finally decided that he did not really mean it, but if he does it they will definitely be higher. I understand from the institution that the Treasury quotes that it would be 500 basis points—a five percentage point rise in interest rates—if you actually had a default. Even if he does not default, the fact that he has talked about it means they are higher.

The fourth thing is that there is a whole series of ways in which you would expect Scottish fiscal policy to be under more pressure, some of them outside the control of the new Administration. We know that Scotland has more of a challenge around ageing and demographics, and therefore pension costs, and issues around the birth rate. There is more of a public spending squeeze, added to which you have Mr Swinney making commitments left, right and centre to more public spending and less tax, which means that, from the outset, you have a budget deficit twice the level of the UK's. That will definitely mean there is a greater fiscal risk in the market. Then you have uncertainty around what is going

to happen with the currency and, whatever arrangement you start out with, a belief that in the end it might not last.

Those are five reasons why, if you leave the United Kingdom, interest rates will be higher in Scotland. You can attempt to solve one of them, but you definitely cannot solve three of them. On the fourth and fifth, Mr Swinney and Mr Salmond seem to be trying to make things worse rather than better. Interest rates will be higher, mortgages will cost more and investment will be lower. That is the bread and butter real world.

Chair: I am told there is a vote at 4.10, so maybe we could draw things to a conclusion by then, if that is possible.

Q36 Mr Reid: We were talking earlier about the banks. The banks that we use in Scotland at the moment are parts of larger banks that operate throughout the United Kingdom. In the event of Scotland becoming a separate country, what happens to those banks on separation day?

Ed Balls: From the moment of the vote there will be an expectation that the current banking union and all the guarantees that go with it, from the Bank of England to the deposit insurance scheme and the role of the UK regulator, will end. Once that ends, Scotland will have to put in its place its own deposit insurance scheme, regulator and central bank. During that transition those financial institutions will have to work out whether they will be able to keep their current structure of balance sheet and keep where they choose to be regulated and jobs and activity the same, or whether it will need to change. The one thing you can absolutely guarantee is that it is going to change, because the current set of decisions is made on the basis of the UK carrying on.

It does not mean that banks will just leave entirely, but they will undoubtedly have to split their operations into the Scottish-regulated part and the UK-regulated part. If your customer base was 90% in the rest of the UK part, your capital structure would need to reflect that; your headquarters and where you raise your capital would have to follow the market. It would be very hard to think that the Scottish central bank and regulator will have a deposit insurance scheme that will step in and bail out the 90% of your customer base that is in a different country. That is not how it works. Essentially, everything would be split apart, and clearly a substantial part of that would move out of Scotland.

Q37 Mr Reid: Would the banks themselves have to split into separate companies?

Ed Balls: Sure, following where their regulation would be, and that would follow where their ultimate liabilities were and where their customer base was.

Q38 Mr Reid: Say a customer in Scotland voted no, but they did not have particular confidence in the SNP. Would they still be able to have their deposits in a bank registered in the rest of the United Kingdom and benefit from the UK's guarantee scheme?

Ed Balls: It is open to any UK citizen now to hold an account in euros with a bank in France or Germany. It will cost you more, because there will be a whole series of regulatory hurdles to overcome, but I do not think we would expect the eurozone to step in

to bail out customers who lose here, just as we found it rather hard to get the Icelandic authorities to step in and bail out people who lost money held in Icelandic banks in the UK. You are undoubtedly opening yourself up to a lot of risk in that situation.

Q39 Mr Reid: Say a customer living in Scotland has their money in RBS—to pick one at random—which is a bank currently registered in the United Kingdom. If they take no action after a yes vote, because they have an address in Scotland, is their deposit going to be automatically transferred to a bank registered in Scotland?

Ed Balls: I imagine that would be the way RBS would proceed; they would split things into their Scottish operation and their rest of the UK operation.

Q40 Mr Reid: If you were Chancellor, you would actually own it.

Ed Balls: That's true.

Q41 Mr Reid: But you would expect that to be the way they would proceed.

Cathy Jamieson: It goes back to the point that I think Mike was getting at earlier, which is that all of the banks, and other financial services, are doing that risk assessment at the moment; they are having to look at what they would be required to do on day one of independence to secure things for their customers, but also to continue to do business. Those are some of the unanswered questions.

Ed Balls: In a period of transition while Scotland is still using sterling, it may not have an immediate impact on things as they seem to an individual customer, but that customer would know that it is going to come to an end and they would have to start planning for that eventuality. If Scotland chooses to leave the UK and form its own currency, it will end up with its own currency.

Q42 Mr Reid: If people had deposited pounds sterling in that bank account, it would automatically be transferred to the account of a bank registered in Scotland. Scotland then sets up its own currency. Does that deposit made in pounds sterling automatically get transferred to a certain number of Scottish pounds?

Ed Balls: You would expect there to be a moment when that transfer would happen, and people would know in advance. If they believed that the new currency was going to be as good as the pound sterling, that would be fine. If they worry about it, they—

Q43 Mr Reid: They will take it out of Scotland and put it into a UK bank.

Ed Balls: Even taking on all the wider risks which come from that. At the time Spain gave up its currency and moved into the euro, there was a period when people could choose to save their money in another currency if they wanted, but in the end the transfer tends to happen automatically.

Q44 Mr Reid: It would be up to each individual to decide which was the best option.

Ed Balls: If you are a Spanish citizen in Madrid and you are not sure about the euro and decide to put your savings into a dollar account in an American bank in Madrid, I do not think we are expecting the US taxpayer to step in and bail you out if that bank goes bust. In a sense, once you leave the UK, you leave that whole legal framework. There is not an ongoing guarantee to Scottish savers if they are holding their savings in a rest of the UK bank, because, once you leave, you step outside the deposit insurance scheme.

Q45 Chair: But if we move it into the branch of a bank in London, surely an account held by a Scot in London is covered by the UK insurance scheme.

Ed Balls: I do not think that would be the case, would it?

Q46 Chair: We will have to follow that up.

Ed Balls: In that situation the question to ask is: should the UK taxpayer guarantee the deposits of non-nationals—of foreigners?

Q47 Mr Reid: Part of our inquiry has been on citizenship. All the experts have told us that the UK does not remove citizenship for people and allows dual citizenship. From what the experts tell us, somebody who is currently a UK citizen but resident in Scotland could retain UK citizenship.

Ed Balls: Of course.

Q48 Mr Reid: If they retained UK citizenship and they had invested in a bank in London, even though they were ordinarily resident in Scotland, would the UK's guarantee still apply?

Ed Balls: This is taking us into questions of constitutional law which are probably beyond my expertise, but to go back to a previous discussion, if Alex Salmond is saying to the people of Scotland, "You can vote yes, but that's okay because you'll still be UK citizens," I am not sure that is how it is going to work.

Q49 Chair: Could I pick up a couple of small points? You mentioned financial institutions. One of the issues is the National Savings Bank. It has an operation in Scotland, and 90% of its work is for customers in the rest of the UK. What would be the future of the National Savings Bank in Glasgow?

Ed Balls: First, that is probably the kind of issue that would need to be negotiated after a yes vote. Secondly, you would have to have two savings banks, a Scottish one and a rest of the UK one. I would be very surprised if the rest of the UK savings bank operated within a completely different legal, regulatory and tax framework from the Scottish savings bank. It would be very surprising if it chose to keep its location in Scotland.

The rest of the UK operation might choose to outsource some jobs, as it might to other countries round the world, but we all know that outsourcing employment relations are not stable. Increasingly, people have looked to bring some of those outsourced employment relationships back to the home domicile. What would happen to jobs over a 10-year period would be uncertain, but clearly the institution would be split. If 90% of the accounts are non-Scottish, you would expect those to be managed and regulated outside Scotland.

Q50 Chair: When we spoke privately before we started, I said that we would give you the opportunity at the end to say anything you thought we had missed. Cathy, do you have any observations about what you believe would be the most appropriate currency for a separate Scotland? As a Scot, obviously you would have an interest in this. Ed, to some extent you are not quite a disinterested observer, but you do not have the same direct involvement. Cathy, is there an observation you would make?

Cathy Jamieson: Thank you very much for throwing me that question towards the end of the proceedings. As you know, I have served in the Scottish Parliament and I am a passionate, proud Scot and very pro-devolution. Notwithstanding all of that, I still think that the most appropriate currency would be for Scotland to remain within the United Kingdom. I suspect you are trying to take me along the lines of whether it would be the goat, the baubee or something else. I shall resist that temptation.

This is a hugely serious issue for all of us in Scotland, and the Scottish people deserve to have as much information as possible on which to base their decision. This afternoon the shadow Chancellor has been able to lay out some of the dangers of leaving the UK. There is a whole range of other things that we have perhaps not had the opportunity to go into in detail this afternoon around Scottish Government proposals where the sums do not add up: for example, the child care pledges, which seem to be predicated on there being more mothers returning to work than there are mothers out of work in Scotland; the consequences of not having factored in the transitional costs, versus the growth expected from halving, and then dispensing completely with, air passenger duty at some point in a future Scottish budget; never mind the implications of the commitment to renationalise Royal Mail. There is a whole range of things we could have looked at this afternoon.

From my perspective, the people of Scotland need information on which to base their decision. They also need to understand that this is being done on the basis of evidence and experience. It is not about scaremongering or trying to say to people in some sense, “Do this or else”; it is simply that there are consequences. As Jim outlined, some people will vote with their heart; they have always had a commitment to independence. That is up to them. There will be some people who will vote about what it means for them and their families, and we have heard today about the risks and how they may be worse off. There will be some who will vote with their heads on the basis of looking at all the evidence. We have tried today to ensure that they have the evidence for that.

Q51 Chair: Are there any final points you want to make, Ed?

Ed Balls: As I probably said earlier, my answer to that question is that sterlingisation is a red herring. It is a blind alley; it is impossible to see, and it is meaningless as far as Scotland is concerned. A currency union with the rest of the UK is a non-starter.

Therefore, the choice will be: joining the euro, which is clearly something Mr Salmond has considered before, or—because floating is also a disaster—trying to have some kind of ERM-style peg to another currency, sterling or the euro. That is a very difficult thing to manage. You lose a lot of flexibility, and as a country it is very hard to maintain market confidence for those kinds of fixed exchange rates, but I think that would end up being where Scotland went.

Without wanting to repeat what I said at the beginning, I will just say two things. First, I haven't got a vote but I really hope Scotland votes that we stay together. I think there are lots of things we can do differently together, but we are definitely better together. Secondly, on the particular thing we have talked about today, we know that the only way to make a currency union work is for countries to be moving closer together, with a permanent commitment to stay together, trying to share each other's burdens by sharing risk and through deep and integrated banking and fiscal unions.

A yes vote this autumn would be to reject the most successful banking and fiscal union and sharing of risks we have seen in the world in the last 300 years, and it would make a statement that the political union, which we believed was permanent, has now gone. In those circumstances, if you dismantle all the fundamental underpinnings of a single currency, you do not then say, "Let's set up a single currency," because that would be perverse.

Q52 Chair: Would it be fair for me, the Committee and people watching this to take the view that (a) you are opposed to a shared currency, and (b) you have left yourself absolutely no wriggle room on this matter at all, and the decision is absolute, clear and unequivocal? We are going to be producing a report to give information to people in Scotland. We just want to be absolutely clear that there is no room for movement at all. Nodding does not get recorded by *Hansard*; you have to say something.

Ed Balls: If Scotland leaves the rest of the UK, Scotland will have fewer jobs, higher interest rates, less investment and less money for public services, and the rest of the UK will lose in terms of jobs and investment too. If, Scotland having left, we then attempted to build back a single currency, it would mean even bigger economic costs for Scotland and the rest of the UK. The UK taxpayer would be in a more vulnerable position; all our standing with international markets would be less secure; and Scotland would pay a bigger price in terms of uncertainty, lost flexibility, more instability and more jobs lost.

I do not want Scotland to leave the Union, but I am absolutely not going to say that if they did we would then do anything that made it worse. Attempting to have a single currency between a newly independent sovereign state called Scotland and the rest of the UK would make things worse, and we won't do it.

Chair: That has the merit of clarity. There is now a vote. Order.