What Economists Don't Understand About Scots

Everyone from Paul Krugman to Joseph Stiglitz is weighing in on Scotland's risky bet. But they don't get the feeling of yes.

BY DANIEL ALTMAN

Should Scotland vote to leave the United Kingdom and become an independent nation? Economists think they know the answer. But why should anyone in Scotland listen to them?

The Scots must be blushing from all the attention they're getting from the world's great economists. Policy bigwigs and Nobel laureates alike have diverted their focus from topics like epochal change in American labor markets, the European Central Bank's stance on inflation, the interaction of Japanese fiscal and monetary policy, Chinese financial markets, and the fight against global poverty -- all to weigh in on the future of a fairly well-off country of just 5 million people.

Nobel laureate Paul Krugman wants the Scots to know that keeping the pound without having any control over it is a bad idea. Barry Eichengreen of the University of California, Berkeley thinks there's too much uncertainty about Scotland's natural resources. Nobelist Joseph Stiglitz says that an independent Scotland will have more incentive to invest in its people, and that the European Union will save Scotland from the diseconomies of scale suffered by small countries. But Adam Posen, a former member of the Bank of England's Monetary Policy Committee who is now president of the Peterson Institute for International Economics, says the European Union is no substitute for the United Kingdom.
Even the panel of top economists at the University of Chicago's Initiative on Global Markets has had its say, with the majority agreeing that an independent Scotland would face "greater macroeconomic instability for many years." Yet Jeffrey Sachs of Columbia University thinks a quick embrace of an independent Scotland by the European Union and NATO would put many of these worries to rest.

These are all very smart economists, though none of them -- with the exception of Angus Deaton from the Chicago panel -- is Scottish. That they have put aside concerns closer to their hearts in order to advise Scotland free of charge is either a huge act of benevolence toward the country that produced Adam Smith or just another opportunity to flex their intellectual muscles. Either way, Scotland may not listen.

A glance around the world offers plenty of reasons why not.

Many countries have rejected sound economic logic in choosing policies that affect their economies, sometimes even acknowledging that they are sailing against the wind. And all of them have had very good reasons.

For example, Japan maintains enormous tariffs on imported rice, up to 778 percent of the rice's value. For a country that depended on trade for much of its growth in the 20th century -- and eats a lot of rice -- this may seem anathema. But Japan chooses to protect its rice farmers as part of the nation's
physical and social fabric. Though the tastes of Japanese consumers may be shifting towards bread, the elected government continues to defend the tariffs as sacred.

Another example is France's labor market. Woe to the employer who tries to fire someone in France! Jobs there are often jobs for life, with the side effect of higher unemployment and a minority stuck relying on social support. But as a whole, French voters have refused any opportunity to change the status quo, even when it appeared they were ready to do so. After all, most of them have great job security -- something they see as a fundamental right.

A final and especially pertinent example comes from Korea. The South is one of the world's most thriving economies, while the North, according to most accounts not supplied by visiting celebrities, is a basket case that lives perennially on the edge of famine. For South Korea, the cost of reunification with the North would be enormous: up to 7 percent of its gross domestic product for a decade, according to its own finance ministry. Yet the majority of South Koreans still want unity on their peninsula for reasons of culture, family, history, and security.

As Stiglitz -- apparently alone -- recognizes, the referendum in Scotland is also about issues that go beyond economics. He writes that "the Scottish vision and values are different from those dominant south of the Border," and that the main question for Scots is whether that vision can be better achieved through independence. Posen, meanwhile, attributes Scotland's ambitions in the face of the economic arguments to sinful pride and "tribal machismo," while calling Stiglitz's apparent empathy for the Scots "hippydom."
Yet this is unusual territory for economists. They’re not sociologists or experts in Scottish cultural studies. Economics has given them a podium, and they’re using it to talk about ethereal topics like shared vision and sin. Why should their opinions on these matters have more weight than those of any man or woman on the street?

They needn’t. Scotland may vote for independence because it wants to be a republic, because it wants to be more closely integrated with Europe, because its culture is fundamentally distinct, or because its overwhelmingly left-of-center politics have fallen out of step with the rest of the United Kingdom. None of these reasons is wholly economic, and any of them could trump a purely economic argument.

If the Scots decide to ignore the economists, it won’t be because they haven’t heard them.

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