



Crumbling empires and dreams

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Scotland and what is now the Republic of Panamá are once again drawn together 314 years after ties were severed in a calamitous fashion. The passage of time would lead to each country sharing the currency of another, with one gaining independence by revolution and the other failing to reclaim it following a referendum. There are other parallels.

A crippled, debilitated and drained Britain, similar to Scotland's plight in the eighteenth century, had no choice but to succumb to the United States of America's determination to replace sterling with its dollar as the world's master currency at the end of the Second World War. In last month's column (*The passing parade*) I wrote how the First World War ended Britain's primacy; the Second World War dealt the final, mortal blow to the remains of its empire.

The structure of international relations within Europe at the beginning of the twentieth century was fragile and lit the fuse that set off the conflagration that was the First World War. The Austrian satirist Karl Kraus in 1909 wrote: "How is the world ruled and how do wars start? Diplomats tell lies to journalists and then believe what they read". The First World War saw national pressures and cultural differences presage the destruction of four empires: Ottoman Turkey, Tsarist Russia, Habsburg Austria-Hungary and Wilhelmine Germany.

In 1919 at Versailles' Hall of (smoke and) Mirrors diplomats negotiated the new order, with this being the last epoch when western Europe believed itself to be the centre of the world. The US president, Woodrow Wilson, however, knew where the future lay. Described as confident, headstrong and priggish, he arrived in Paris and was the personification of a view expressed many years later by Henry Kissinger: "America had an obligation not to the balance of power but to spread its principles throughout the world".

Two world wars in 31 years resulted in Britain not having enough gold or dollars to settle its international debts. Not unlike Scotland in 1707, the country was at the end of its tether, and had to accede to the inevitable. The US wished for the transfer of financial and commercial supremacy from London to Washington whilst British economist John Maynard Keynes had argued that America used the Second World War "as an opportunity for picking the eyes out of the British Empire".

Keynes, Britain's lead economic negotiator in 1945, had fallen out with his American counterpart, Harry Dexter

White, over the future role of the US dollar, just as Scotland's First Minister, Alex Salmond, was to do in 2014 over the role sterling might play in an independent Scotland. The clash of cultures was palpable. White, a brilliant economist, the son of a Lithuanian Jewish emigrant, was regarded as being hard-nosed, insecure and short-tempered who now faced an urbane English intellectual, educated at King's College, Cambridge, and was also the world's first celebrity economist.

Negotiations over extending the multibillion-dollar US aid programme that had kept Britain afloat during the war meant that Keynes also had to deal with both William Clayton, a cotton manufacturer from Texas who was the US Assistant Secretary of State for Economic Affairs, and Fred Vinson, the US Treasury Secretary, both a lawyer and former professional basketball player. The outcome was that a 50-year loan of USD3.75 billion at 2% interest was agreed and which was not fully repaid until 2006 when Tony Blair was British prime minister.

Within months of the Second World War ending the once-mighty Royal Navy began to fall apart, starting with 840 warships being struck off the Navy List and 727 more, still under construction, being cancelled. The US had already started to dominate the seas, accelerated by access to two oceans through the Panamá Canal in 1914 and began using, as Britain before it, its naval strength as a tool of national foreign policy. As long ago as 1898 during the Spanish-American war Rear Admiral George Dewey in the Philippines utterly destroyed the Spanish ships in Manila Bay whilst the navy blockaded Spanish forces in Cuba as American troops were transported ashore. Spanish naval power in the western Atlantic was wiped out and with it Spain's last grip on the New World.

The Darien venture was the calamity mentioned in the opening paragraph and was devised by the Scottish financial adventurer, William Patterson, one of the founding directors of the Bank of England (the central bank Alex Salmond wanted to depend upon by retaining sterling) who saw an opportunity for Scotland, hamstrung by decades of warfare, seven years of famine and an ailing economy, to settle a colony in Central America which would become a linchpin for trade, transporting goods overland between the Pacific and Atlantic oceans to be loaded onto ships. Scotland envisioned a trade bonanza whereas America in the twentieth century wanted to have supremacy of the seas and Panamá played a key role.

The Company of Scotland Trading to Africa and the Indies was established in 1695 but English investors had to withdraw after their parliament threatened the company with impeachment after lobbying by England's East India Company which feared the loss of its monopoly. Eager Scots, however, invested some GBP400,000 British pounds and five ships with 1,200 settlers set sail in 1698; 75 years later, to the day, the US declared and achieved what Scotland had and yearned to keep: independence. Oblivious to the fate of the first expedition, in 1699 a second one comprising three ships and 1302 settlers embarked.

Just the captain commanding the first small fleet in 1698 and Patterson knew of their destination which was detailed in sealed packages to be opened only when the ships were on the open sea. Those opposing independence in 2014 could have perhaps argued that, like those first settlers, many voting for it were similarly ill-informed. Patterson had built his vision on a wafer-thin premise: Lionel Wafer, in fact, a buccaneer and surgeon who crossed the Isthmus of Panamá in 1680 and in 1699 wrote a book entitled "New Voyage and Description of the Isthmus of Panamá". He told Patterson, who appointed him as an adviser for his venture, that there was an idyllic paradise called Darien, with a sheltered bay and friendly Indians. He did not, apparently, make clear that the Spanish (despite his own encounters with them) regarded the territory as their own. Perhaps Patterson was persuaded by the prospect of fat commissions that the directors of the Company would earn.

Due to space, I can only add that the settlers were not able to survive the harshness of the environment, the rampant disease nor the continual threat of attack from the Spanish who eventually forced the surrender of their Fort St. Andrew settlement in early 1700. Only one ship, the Caledonia, with 300 survivors returned to Scotland. The colony they called New Caledonia and the town the

settlers established, New Edinburgh, are, like the dream, no more. Today, the district of Caledonia, however, can be found in the old quarter of Panamá City.

Patterson's Company's losses were almost GBP250,000 and Scotland itself was thrown a lifeline when its debt of GBP398,000 was paid off by England as part of the agreement to union. The institution established to administer the debt eventually became the Royal Bank of Scotland, the very same bank that warned of possible relocation to England if the referendum vote had been for independence.

An independent Scotland's determination to still use sterling after 2014, like Panamá uses the US dollar, resulted in such captions ahead of the referendum as "The Panamá Option", "The Panamá Principle" and "The Panamá Plan". British Labour party politician, Alistair Darling, a Scot opposing independence, scathingly remarked, "I don't want to be like Panamá for six minutes". Sam Bowman, the research director of the Adam Smith Institute, nonetheless commented that Panamá and other dollarised Latin American economies had shown how countries sharing a currency "can thrive". The absence of a lender of last resort makes bankers cautious and mindful of liquidity, which in turn dictates prudence. It therefore sharpens the focus of the banking regulator, and whose diligence in Panamá I can attest to as my firm falls under his supervision.

But please allow me to briefly raise the subject of perception and its frequent distortions which Karl Kraus would have appreciated. It won't take six minutes. The 2014 World Economic Forum report section dealing with the soundness of banks revealed some interesting data. Canada came top and, predictably, Greece (148) came bottom, with the US (58) and Britain (105) – hardly stellar performers; Panamá took the number seven slot.

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