

Scotland can have a second referendum but it must decid...

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If I was Scottish (and as far as I can tell there's not a hint that I am) I would be livid at what happened in the Brexit vote which requires that the country be dragged out of the EU against its will. Of course I would want a second referendum on independence in that case.

But, and this is a massive 'but' to which I drew much attention when I spoke to many of the Westminster contingent of SNP MPs a couple of months ago, the SNP would have to resolve the issue of Scotland's future currency before taking the risk of suggesting another referendum.

I believe that the currency issue did more than anything to deliver the late swing to No in the last referendum. The question of the choice between the pound, euro or a currency of Scotland's own was never clarified, and that was fatal to the cause of independence in 2014.

Unless the issue is resolved before another referendum I strongly suspect that this issue might again be fatal to the cause of Scottish independence.

There are only four options. They are the pound, the euro, the US dollar or Scotland's own currency.

Most will be surprised by my inclusion of the dollar. When Scotland was an oil state this might have made sense, however. But whilst it will still be an oil state I don't think Scotland wants to rank alongside Cayman in pegging itself to the dollar, so let's dismiss that option.

Then there is the pound. There are three good reasons why Scotland will not want to use the pound. The first is it is English. Enough said. The second is that it will have been devalued for reasons that do not favour Scotland after Brexit and that may not make it a desirable link. Third, it is seriously doubtful that Scotland wants to be linked to any currency, as I explain below.

The euro presents all sorts of problems. It is simply not suited for the use of small nation states. Denmark and Ireland prove that. Their fortunes have not entirely hung on

their choice of whether or not to have the euro, but there can be no doubt Denmark came off best, and that might be increasingly true over time.

So then there is the option of a Scottish currency. Whether or not this is an option for Scotland will depend on the opinion of the EU if Scotland wishes to apply for membership. At present an application for membership requires acceptance of the euro as a currency. One has to wonder how long that will be the case, but it is a massive obstacle at present, because of all the options available to Scotland easily the most attractive is its own currency.

There are three reasons for this. First, it can price itself into work. This has always been the reason for a small, peripheral state to have its own currency. It is the best reason for not embracing anyone else's currency. If full employment is the goal of government (and I suggest it has to be) then the flexibility to devalue to deliver that goal is vital to a government.

Second, as I have explained in *The Joy of Tax*, no government can be wholly in control of its macroeconomic policy, its tax system or its monetary policy without its own currency. In other words, it is not wholly independent unless it has a currency of its own.

And last, whilst the ECB continues to heed only the needs of Germany the Euro is going nowhere economically. The EU may, but the Eurozone is not.

Of course, I am simplifying arguments in a blog of this length but that does not, as it happens, change the message in this case. I think Scotland has an absolute right to a second referendum. But if its nationalists want to succeed this time they have to say what they are going to do with the currency. I doubt they can win otherwise because it's a question at the very heart of what the new nation will be and it was ducked last time in error.