

# Funding the Future

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*When I was writing the [White Paper on Scottish Taxation](#) for [Common Weal](#) that was released yesterday, Robin McAlpine, that organisation's director, asked me a range of questions on the idea of money creation and destruction by government through the spend and taxation cycle. In response I wrote a note that ended up as an appendix to that report, but as it touches on issues rarely addressed (at least here, and not elsewhere that I can think of) I thought it worth sharing in its own right. It's important to note that the concept is not exclusive to Scotland (and nor is the vast majority of the White Paper): this idea could be used anywhere.*

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As this report argues, government spending creates new money for circulation in the economy, at literally no cost. What it also argues is that an independent Scotland with its own currency should use this ability to generate economic activity, and so jobs, until such time as there is full employment in Scotland. At that point tax has to be used to cancel all the new money created by government spending. Until that point is reached then that is not necessary: creating more employment is the higher priority because the more employment there is the more Scotland uses its most valuable non-renewable resource for creating value, which is its people's time. And by doing that Scotland will boost its income to the highest possible degree, which is good for well-being, the supply of public services, demand, and the creation of vibrant businesses that not only meet Scottish need but also create products for export markets. Indeed, there is no better way to ensure Scotland has a strong currency than by stimulating the domestic economy in ways that in turn maximise export potential.

But this will, as some will point out, mean that Scotland will need to create more money for a while by spending than it may claim back in tax. And there will those who will say that this means that Scotland will be in debt and this process will then burden future generations with a liability reflecting current overspending. I completely disagree with that logic, as an accountant and as an economist.

In both roles the spending the Scottish government will incur will either create new Scottish assets (like infrastructure) or will, when used to pay for invaluable public

services, look like what is conventionally called a deficit. Importantly, that shows the spend can, in accounting terms, be treated in two ways. But what anyone who knows anything about accountancy will also then say is that cannot be the end of the story because however the spend is accounted for there has to be another side to this story, which is how the national economy accounts for what is called the credit side of the transaction.

Only one option is usually recognised for this credit side: that credit is usually called national debt. In fact, since much of that credit balance is at present sold off as debt to insurance companies, pension funds and savers looking for a safe place for their funds that isn't wholly inappropriate as a way of describing the credit balance that is managed in this way. But what is important to note is that when this happens the country's debt then becomes private wealth in the new owners' hands. There is no mistake in saying that: government debt always represents private wealth: double entry accounting demands that this is true.

But, it should be noted, there are many forms of private wealth, and another type often favoured by those same institutions that buy what I described as government debt is 'equity capital'. In companies this is called share capital, and the same companies that issue this equity, or share, capital often also issue debt. The two can comfortably co-exist alongside each other and both are credits on the balance sheet of a company and, come to that, of country if only a country were to recognise that it too might have equity capital.

I am now suggesting that Scotland should, when it is independent have equity capital.

Unlike debt, equity capital is usually issued without a repayment date, indicates ownership of a stake in the concern, and maybe a vote, and is considered to be the foundation on which the company is built. Indeed, it's usually said that a company is run for its shareholders, who are the people who own its equity capital.

In my opinion the idea that equity capital only exists in companies but that debt can exist in both companies and countries is absurd. After all, countries do have people they are run for. And those who run countries do have people they are accountable to, who have a vote. And those people do, as a matter of fact, have a stake invested in the success of their country. Now suppose that the money a country can create costlessly if it wants to do so, as happened, for example, when the UK created £435 billion of money to fund its quantitative easing programme, or which it can create to fund its money supply by spending that necessary money into the economy (as Scotland will need to do to create enough of its own currency to keep the economy going if it becomes an independent country) was not treated as debt reduction (as happened in that case) but was instead treated as being the equity capital of country held in trust for all time for the benefit of the people of that country.

A special body, or court, elected by the people of Scotland, or alternatively drawn from

a second parliamentary chamber, could become trustees for this capital. The capital in question would not need to be repaid. Why should it? After all, it was created out of nothing. And nor would it carry interest. Again, why should it? It cost nothing to create. But it would, nonetheless, be the core funding that would keep the Scottish money supply under control, increasing over time if economic expansion demanded it, and maybe being reduced if the risk of inflation demanded that as well.

But what it would not be is debt. It would be Scottish equity capital: the money created by the nation for the people of Scotland to be held on their behalf by trustees but with the politicians of Scotland responsible to the electorate for its careful management in the interests of all. Debt be damned in that case: the balance sheet credit created by the spending Scotland would need to create the prosperity that investment and full employment would deliver would not pass into the hands of a few as private debt but would instead be held in trust for everybody in the country. This is entirely technically possible, at least if created when outside the EU (as Scotland would be bound to be for a period). And what this represents is money, economy, tax, politics and nationhood being combined into a new concept of capital that transforms opportunity for all.