

Get the currency and the tax system right and an indepe...

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The National newspaper in Scotland has [the following article](#) from me in its pages today:

A SCOTTISH tax system after independence should look very different from that used in the rest of the UK if Scotland is to be the successful independent country it can, in my opinion be. There are, however, some pre-conditions to this success.

First, if Scotland is to be a successful modern state then its politicians must understand what tax does in a modern economy. What this means is that they have to understand that tax does not pay for public services if a country has its own currency and central bank. If a country has both those things (and without them a country is not independent for all practical purposes, as the experience of Greece has proved) then whenever a government spends it creates new money that it has effectively borrowed from its own central bank. It's that new money that the central bank creates for it that pays for government spending in such situations, and not tax.

It has to be said, straight away, that this does not mean there is no need for tax. It's a fact that all governments with their own currencies and central banks can create as much money as they need, at will, and costlessly. But they can't do this forever. If they keep injecting money, without limit, into their economy a government will eventually create inflation. This, however, need not happen because it has the perfect tool available to it to reclaim the money it has created, and effectively cancel it out of circulation, and that is tax.

I stress, this is the actual reason why in a modern economy a government must tax. Tax does not pay for services. Instead, tax stops government spending creating inflation. It is absolutely fundamental that Scottish politicians realise this. If they do the foundations of Scottish independence and prosperity will exist; without such understanding they won't. The evidence is available: it was the lack of conviction on a Scottish currency, and the absence of clear reasoning on this issue, that probably cost the Yes campaign the referendum campaign in 2014. This cannot happen again.

That, however, also requires that it must be argued that the amount of tax that must be collected is not dependent on Scotland balancing its books, which is completely unnecessary in a modern economy, but is instead dependent on running the level of government deficit (or surplus) needed to run the Scottish economy at full employment with the low levels of inflation that all economies need to function. In other words, tax in an independent Scotland must not be a tool to beat a population into submission to meet the wholly artificial accounting goal of running the national bank account in balance, but should instead be a tool to ensure that the Scottish Government's economic, social, industrial, environmental and other priorities are achieved. Tax, in other words, can be used for achieving social goals and not as a constraint on doing so. This is the route to Scotland's real liberation.

Before anyone says this is not possible because bond markets will not permit it, I stress that this is not true. We now know that a government with its own currency and central bank that only borrows in its own currency can never go bankrupt. This is for a simple reason, which is that if a government is in this situation it can always create all the money it needs to pay its debts.

Understanding this means that an independent Scotland need never be beholden to bond markets, which we now know can, in any event, be neutered by the use of quantitative easing, which is the fancy name for a government buying back its own bonds using new money it has created for the purpose. The UK Government has already cancelled a quarter of its debt in this way, although Scotland has seen almost no benefit from that process, and this fact is almost never mentioned in the media.

With the understanding I have outlined Scotland can truly be independent, and make its own choices on its economy, tax and much else, but I stress that's only true if it has its own currency and central bank. If it has neither of those things then the situation is very different. If it uses the euro look to Greece for the way Scotland could be beholden to the European Central Bank and the International Monetary Fund for permission as to what it may do in its own country: that's no route to independence. And if it uses sterling the Scottish government would continue, as it is now, to be a glorified local council working within constraints effectively laid down by the Bank of England, with whom it would have to bank, and in whose currency it would have to pay its debts at interest rates effectively set in London. If anything, this is an option worse than that which Scotland faces now.

In that case when I say that understanding the true role of tax, and its relationship to a Scottish currency, is key to the prospects of an independent Scotland I really mean it. Get the Scottish currency and the role of its tax system right and Scotland has real prospects and a bright future as an independent state.

Shackle the economy to another country's currency and the Scottish people will be in perpetual servitude to that other country's bankers. There is a choice to be made, but only one viable option to select. The challenge is to get Scotland to realise just how

important this issue is.

They add:

We'll have more from Richard Murphy on the tax system of an indy Scotland in the coming months.