

John Kay is wrong: currency is very definitely tied to ...

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It takes some ability to write what I suspect will prove to be the fatuous economics comment of the year as early as May, but I suspect John Kay has achieved it.

Writing [in the FT](#) on Scottish independence he seeks to dismiss the currency issue, saying:

This time, the currency question is sensibly dealt with by noting that there is no need for an independent Scotland to do anything at all. The world has moved on from the days when money was distinguished by the head of the sovereign – or perhaps has gone back to the days when gold was a medium of exchange that knew no boundaries. Currency is no longer tied to nationality.

I confess I reeled a little when reading that. John Kay has written some decent things: I have bought books by him. I don't always agree with them, but by and large his opinion is informed.

This comment is not informed. It is just wrong. I would love to know which currency Kay thinks is not linked to a sovereign state. He could try Bitcoin, but most would laugh at that, as they would at gold. And please don't suggest the Euro: Germany might laugh if you did.

And this is no laughing matter. What Kay is effectively saying is that a financial commodity can exist independent of the underlying quality that gives it value. I would remind you of the last time that happened. Markets thought sub-prime debt had value independent of the quality of the mortgages that underpinned them. They were wrong. We paid an enormous price for that mistake.

So too is Kay wrong on currency. There is no currency that exists independently of the fact that a sovereign state will accept it in settlement of tax owing. The looser the connection, the weaker the currency, by and large. It is literally this fact that gives money its value in use: nothing else does because nothing else requires that it be used in exchange in a location.

This is why gold and bitcoin will always be commodities now, and not money.

And this is why Scotland needs its own currency. No state can have control of its macroeconomy, monetary policy, taxes and so fiscal policy without its own currency. This is the European nightmare. This is the nightmare Scotland has to avoid.

And Kay is an impediment to achieving this. Kay is a member of the first minister's standing council on Scotland and Europe. That's worrying. Not least when he concludes, saying:

The report falls short of presenting an economic case for independence. But it demonstrates that if other arguments led to a second, successful independence referendum, economic issues would not prevent a "yes" vote, and describes a possible more prosperous route ahead.

He's wrong again: the currency issue would most definitely do that.

The Scottish First Minister needs some new advisers, I suggest.