

The SNP has to wake up to economic reality and plan a f...

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I am struggling with an [article by Keith Brown MSP in The National](#) this morning. In it he argues:

This week's GERS figures show that Scotland's finances are robust and improving — with onshore revenues growing by £3 billion in the last year and the notional deficit assigned to Scotland falling faster than UK as a whole.

What these figures also show is that it's absolutely possible to reduce the deficit at the same time as increasing public spending, and boosting our economy.

He adds, having clearly accepted the GERS figures as a statement of fact:

Following the Growth Commission model, Scotland's starting deficit would be reduced by a further 1.5% by reducing spending on reserved matters such as defence and debt. This year, the deficit fell by 1%.

So, on that trajectory, it would take less than three years to get Scotland to the Growth Commission target of 3% — something which was predicted to happen gradually over the course of 10 years.

I am afraid that Keith Brown makes a multitude of errors here. They are worth exploring.

First, he assumes that the GERS figures are correct. [They are not.](#) They are based on accounting and methodological flaws that mean that the data is wrong.

Second, as the GERS reports clearly note, this information provides no indication as to how Scotland might perform as an independent country.

Third, almost all the data in GERS assumes that Scotland is simply a region of the UK with many costs and revenues apportioned to it on the basis of population proportion. But that is not how Scotland will be after independence.

Fourth, this logic does not apply in the case of data based upon personal income distributions and, almost certainly, the extraordinary allocation of income of the financial services sector to the south-east of England. This reallocation will be massively reduced or just not happen if Scotland is independent: this income will have to be accounted for in Scotland.

Fifth, and most important though, Keith Brown assumes there is some merit to keeping a deficit to 3%. There is, quite literally, no proven case that this. It is at best a heuristic tool. At worst, it is a very bad one.

Let's just explore that last one in more depth.

What we now know is that debt is notional: any government can cancel it using QE, as the UK has done for more than 20% of its national debt. What, then, does debt mean in that case, and why does a 3% annual limit matter?

Then there is the fact that this limit was imposed to simply constrain the ability of government to spend to achieve its social objectives on behalf of the people it governed. I am not a proponent of reckless spending. But I do know that the logic behind this limit ignores the difference between investment revenue spending, both being treated in the same way by it. Yet a responsible government would in the current situation, when real interest rates are close to zero or even negative for them (which would continue to be the case for an independent Scotland, in my opinion), be borrowing to invest for the future benefit of society, most particularly through a Green New Deal, and yet Brown is arguing otherwise. He is saying that balancing the books to appease bankers is more important than investing in the needs of the people of Scotland.

And, what modern monetary theory tells us is that in any event what is described as government borrowing is in fact no such thing. All government spending is, if a government has its own currency in its own central bank (both of which are, therefore, vital to the future prosperity of Scotland) funded by credit created on the government's behalf by the central bank, with the resulting additional money injected into the economy being cancelled either by taxation or by the re-depositing of those funds created with the government in what looks like borrowing, but which is in fact simply a chosen savings mechanism for those with private wealth.

In this case, the idea to which Brown is enslaved, which is that governments are beholden to financial markets, is entirely wrong. The exact opposite is true. In fact, financial markets are entirely dependent upon the government to provide it with a secure means of deposit on which it is dependent in times of stress, and for security, which is what the government saving facility, which supposed borrowing represents, actually is.

If that sounds technical, I apologise. Let me summarise it like this. Keith Brown is the

slave of defunct economic thinking that does not represent the way that any economy now works, or the way in which the Scottish economy should work. He wants to ensnare the future of Scotland to bankers, most of whom will be in London. The people of Scotland want an independent future where they are in charge of their own destiny, and their government works to achieve it. The SNP has to change its economic thinking to ensure that future is delivered. It really is time it woke up to the need to do so.