

Covid 19 would not have sunk an independent Scotland

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The following is a guest post from Dr Tim Rideout, who many will know for his work on Scottish currency issues:

There is a Fact Check article in [The National](#) newspaper in Scotland today about some silly statements from the Lib Dems who are claiming that Scottish independence would have been a disaster by now because the currency would have collapsed and we would now be finished off by the pandemic and our inability to cope with its economic impact. It is a good rebuttal effort, but could be improved a little in some areas. I offer this in addition:

First, any country — big or small — that has its own currency can always do exactly what the UK (and almost everywhere else) has done. That is, to create whatever money is needed to deal with the Covid 19 epidemic. In the UK the Bank of England has bought a further £200 billion of gilts (in fact faster than Rishi is selling them) and provided the Chancellor with a £20 billion of 0% interest overdraft on the Ways & Means account. There is nothing magic about this. It simply reflects the fact that the state is the issuer and source of all our money and as such it is impossible for it to run out. There is no such thing as ‘taxpayers money’ — any taxpayer creating their own money would be done for forgery!

Second, there would have been no ‘self-inflicted crisis from Indy’ as the Lib Dem claims. All that would have happened is that Scotland would have followed SNP policy, which is to prepare to introduce our own currency as soon as possible after a vote for Indy and to then introduce that currency asap after Independence Day (Amendment D from SNP Conf 2019). The Scottish Pound would be entirely voluntary i.e. nobody would be forced to buy any so anyone could keep all their money in sterling (or anything else) if they so wished. However, if they wanted it then they would have to buy it with their existing sterling. That means that on Day 1 of its existence the Scottish pound (£) would have 100% foreign reserves backing in the form of the sterling we used to buy it. Compare with sterling which has 2% foreign reserves (the US\$ 55 billion of net reserves of the UK government — strictly speaking the BoE has zero reserves as they belong to the Treasury and not the bank). As many folk would be canny and keep quite a lot of

sterling while they saw what happened then there is a guaranteed future demand for the S£ since those folk will convert that gradually over the next year or two. Sterling would soon become a foreign currency in Scotland (probably after a few months) and then become subject to foreign exchange fees, etc. Plus its value would change and would no longer be one-to-one after the temporary peg ends.

Third, why is a S£ with 100% foreign reserves and a guaranteed market of buyers over the first couple of years going to fall against sterling? It won't! If anything it will go up.

Fourth, yes Scotland has 'sophisticated financial infrastructure', but you do not really need that. A basic Central Bank needs about £15,000 of IT, a bank accounting software package, a connection to the inter-bank payment system, a couple of people to run it and a one room office. That is according to Prof Warren Mosler, a US economist and adviser to Greece and Italy about what to do if they got ejected from the Euro. All a Central Bank needs to do is to be able to debit and credit the bank accounts of the Treasury and the reserve accounts of the commercial banks. Everything else is bells and whistles. I would tend to say you should not put the current crop of commercial bankers and financiers in charge as they would just replicate the neo-liberal austerity type stuff they know and benefit from.

Fifth, ScotGov will and should run a deficit of up to 10% p.a. for the first few years of Indy. A state deficit is a good thing — it is the source of our money which is actually just IOUs from the state. It can do that for at least a decade before it reaches the average debt level of an EU member. This is also necessary in order to provide the additional S£ for all those folk that hung onto their sterling. Otherwise there will be shortage of S£ that will push it up in price in the FX market.

Sixth, the state controls the interest rate on its debt and not 'the market'. That is because it can borrow directly (or indirectly via QE) from the central bank if it does not like a rate demanded by investors. The current QE has driven the rate to near zero whatever the investors might or might not want.

Seventh, Estonia, for example, became independent on 20th August 1991 and introduced the currency 9 months later. They had no warning the Soviet Union was about to collapse. Slovakia set up a currency in two months after the planned shared currency with Czechia collapsed almost immediately (which is what would happen to any plan to share sterling!). Timing is not a problem then.

Eighth, we do not need any share of rUK assets and therefore would not take any share of UK liabilities. The UK already declared that it wanted to be 'the Continuing State' in International Law back in 2014. That is because if there was no continuing state then the seat on the UN Security Council would become vacant and go to somebody else. The Continuing State takes ALL the assets and ALL the liabilities EXCEPT what is located within the new states. Thus if it is in Scotland it is ours. The National Debt is really the National Savings and it belongs to rUK. For example £70 billion of the National Debt is

the pound notes in circulation. Indy Scotland automatically gets +/- £40 billion of Foreign Reserves from the sale of the S£ (assuming folk only convert 40% of their sterling at the outset). We have no need of 8% of the UK reserves of \$55 billion or a couple of rooms in an embassy. It is trivial by comparison. Also as soon as you start asking for assets you will get lumbered with the liabilities. No state that left the empire ever took a share of the UK debts (for the clever ones - that includes Ireland — the money it did pay the UK was down to a Liberal policy pre WWI which provided loans to Irish tenant farmers to buy out the landlord. The Free State government continued to collect the farmers' repayments and pay them to London until 1938 when the remaining debt was written off).

Ninth, issuing S£ but backing it with 100% sterling is not sterlingisation which is a misunderstanding in the Fact Check article. What the author is suggesting is having your own currency but pegging it to sterling. Sterlingisation is not having a currency at all and simply using sterling informally as we do now. That sort of sterlingisation (the Growth Commission plan) would be a disaster given Covid as practically everything the Lib Dem person says would be true. With sterlingisation ScotGov could not create its own funds, it can't control the interest rates, it would have to borrow sterling on the international market at whatever interest rate it could get, etc. Sterlingisation would be very bad! Our own Scottish currency but pegged to sterling is a lot better, but really that is because you should end that peg asap. It is not sensible to peg to sterling or indeed anything else.

We can now do the Currency / Economics of Indy talks again via zoom, so just email us at info@reservebank.scot, and find out more at www.reservebank.scot

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