

Funding the Future

Would Scotland have a debt to the rest of the UK if it ...

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I had an exchange with the eminent UK constitutional lawyer George Peretz QC last night as a result of my [claim in my response to Andrew Neil](#) that Scotland would not owe debt to the rest of the UK in the event of it becoming independent. I have, of course already detailed this suggestion, making clear in my title at that time precisely what I meant:

[Scotland won't need to repay the UK's national debt if it's independent unless the UK does as well — and there's almost no chance of that](#)

However, this issue is important and so the exchange is worth sharing:

George Peretz QC @GeorgePeretzQC · 12h

Richard - that's just not right. The Scottish Government accepted in its 2013 White Paper on independence that Scotland would inherit a proportion of U.K. public debt. The only issue was how that % would be calculated.

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To reflect the range of possible outcomes, the analysis in this guide uses two scenarios for Scotland's share of UK public sector debt and annual interest payments:

- Scotland's share of UK public sector net debt could be apportioned by reference to the historical balance of public spending and taxation since 1980/81, the earliest year for which figures are available. This provides a measure of our contribution to the UK's finances over the years. As Scotland has been in a relatively stronger position than the UK over this period, a historical share of public sector debt would be lower than a population share⁴¹

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Richard Murphy @RichardJMurphy · 11h

The rUK also admitted it was liable for all debt. So all Scotland need do is compensate rUK for a) any net repayments (none since 2001) and b) a fair share of interest at current long term rates (0.6% max). On the basis of not being able to profit from compensation, that is fair

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George Peretz QC @GeorgePeretzQC · 11h

The reality is that there has to be an agreement (Westminster has to pass the necessary legislation). The SG position seems to me to be realistic: rUK just won't accept that Scotland shouldn't assume a % share of UK debt - just as the Irish Free State took on a % of UK debt in 1921.

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Richard Murphy @RichardJMurphy · 11h

But debt in 1921 and debt now mean very different things when then there was a gold standard and now fiat currencies and QE so I really cannot see that as being a precedent, at all. It can reasonably be argued as an economist that the UK ever has had debt at all now (I did, today)

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Richard Murphy @RichardJMurphy · 11h

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For the record, this is the first document George Peretz shared:

The financial position that Scotland will inherit on independence will also reflect, in part, negotiations between the Scottish and Westminster Governments following a Yes vote. For example, the proportion of UK public sector debt which an independent Scotland will assume responsibility for will have implications for our annual debt interest payments. Negotiations will enable phasing and the financial consequences of the transition to be agreed, planned and managed by all parties.

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- Alternatively, Scotland could take responsibility for a population share of UK public sector net debt

Under either outcome, Scotland's projected debt to GDP ratio would be smaller than the UK's. Negotiations will also take into account the degree to which Scotland's share of UK public sector debt, and in turn its annual debt interest payments, could be reduced in return for forgoing rights to certain UK assets (see Part 4).

He also shared the 1921 Irish agreement that he claimed was a precedent:



George Peretz QC @GeorgePeretzQC · 11h

Replies to @GeorgePeretzQC and @RichardJMurphy

NB that that provision was waived some years later to reflect the UK's failure to deliver a border review. But there isn't (fortunately) a Scottish equivalent of that issue.



George Peretz QC @GeorgePeretzQC · 11h

Replies to @GeorgePeretzQC and @RichardJMurphy

Text of the Anglo-Irish Treaty.

5. The Irish Free State shall assume liability for the service of the Public Debt of the United Kingdom as existing at the date hereof and towards the payment of war pensions as existing at that date in such proportion as may be fair and equitable, having regard to any just claims on the part of Ireland by way of set off or counter-claim, the amount of such sums being determined in default of agreement by the arbitration of one or more independent persons being citizens of the British Empire.



So, what to say? First, that I am grateful for the engagement.

Second, of course, I appreciate that there are differing views on this issue.

Third, I do not think the UK Treasury view is binding in the face of the wish of a country to be independent and it is slightly naive to think it is.

Fourth, to presume that a gold standard era agreement is now a precedent is absurd: that would be like arguing a provision for slaves might be required because in 1776 this could have been an issue when the US became independent. Times move on, thankfully.

And fourth, to suggest game theory matters is no more than saying that everything is up for negotiation.

And that is just what I have said. But the key issue is a simple one, and was ducked, and that is the point I made in my first piece, linked above. In essence, this says this is a three-part process:

- * What is the debt? This will certainly not be based on gross debt, but only on adjusted debt net of QE allowing for where the debt might have arisen i.e. for Scotland's oil contribution;
- * When is the debt repayable?
- * What interest rate is due on it until repayment occurs?

That's it. The rest of the negotiation on this issue would be padding. So what are the answers? They are, I suggest:

- * As noted in my previous piece, any debt owing is much smaller than a proportion of gross UK debt of £2 trillion divided by head of population, which no doubt would be the Treasury view. My argument is that it is very much less than that, and not just because of QE.
- * That debt would only be repayable when the rUK repays it. That does not mean when the rUK rolls it over as part of its debt management programme: that means when it actually in net terms repays it, and until then Scotland cannot be expected to make payment towards something the rUK is not doing;
- * The interest rate on the net debt agreed in (1) would be due at current long term interest rates which on rUK debt are a maximum of 0.6% right now.

I strongly suspect I am right on 1, and that is allowed for in the document George Peretz notes.

On 2, there is no way Scotland could or ever should agree to repay what the rUK is not actually paying, and since the UK has not repaid debt since 2001 and has only repaid £37 billion whilst borrowing more than £1.8 trillion since 1946, I really do not see any

repayment being at all likely - which is the basis of my claim to Neil.

And of course interest is owing, but on the basis of this suggestion, it will be no big deal.

In other words, I am agreeing with George Peretz and am then saying next to nothing is owing. Because it is not.

So why does this matter? I suggest it's because that unless this thinking is done now, and aired now, and becomes commonplace in discussion now, then the SNP negotiators with London come post-independence negotiations will not present a case like this, and so will get a bad deal for Scotland. And that is, I think, unacceptable. So this issue has to be addressed in this way now to ensure that it is on the table when the time comes, as I hope it will be.

There is no way on earth I want Scotland paying the rUK a penny more than it has to in any currency that might be in issue at the time. And game theory or not, what I have suggested is totally fair, and that's why I make the point. I would not waste my time otherwise.