

Can Scotland afford to be independent? The answer, of c...

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The London based [Institute for Government](#) has opined on Scotland's currency options in the event of independence. The result is, unfortunately, very London-centric.

To give credit where it is due, they have noted that:

[T]hree currency options – a formal currency union with the rest of the UK, joining the euro, and 'pegging' a new Scottish currency to the value of another – are not initially viable.

In other words, the only possible option for Scotland is independent is its own, free floating, currency, which is exactly as modern monetary theory would suggest appropriate. Debate on any other option is, to be candid, meaningless.

It's also unnecessary. Given that exchange rates are largely set by relative productivity rates after hot money flows are taken out of account then Scotland should have little difficulty in establishing a stable currency settling just a little lower than the pound (which will assist Scottish exports) after independence. This is a rate differential simply reflecting the absence of the hot money that the City of London generates.

Thereafter the report goes downhill. Its assumption are fourfold, although it is not explicit on them all:

- a) Scotland will run a deficit of 8%;
- b) Scotland will be dependent on international money markets;
- c) Scotland will not be able to use QE;
- d) Scotland will not be able to fund its own deficit from Scottish sources.

These assumptions are wrong. First, that deficit is based on data within the Union and is rigged to suggest that Scotland has higher deficits than it actually has. Do we need to keep revisiting this debate when even GERS makes it clear it is no indicator on this

issue?

Second, it would seem that the Institute for Government has not noticed that the Covid pandemic has proved that countries do not need to borrow to fund deficits. It's simply staggering that they have not.

That, of course, is linked to their overlooking QE, which Scotland could do if it had its own currency and central bank, which is the only option the Institute for Government suggest possible. It is a very basic error on their part to ignore this.

And last, there is the rather odd assumption that the Scottish people would not be willing to lend their own government money after independence. As in the rest of the UK there are substantial savings owned by Scottish people. My research has shown that maybe 80% of UK savings are tax driven as to their location. This is likely to be true in Scotland, therefore. If the Scottish government decided that it wished to change tax incentives in ISAs, pensions and its own range of savings accounts to encourage people to save with it then that would very likely be successful in raising significant funds for it. The dependence on foreign money markets could be eliminated.

Better still, my solution puts Scottish savings to work, when at present few of those savings will actually fulfil any useful function within the economy. Much will be lying dormant in bank accounts earning almost nothing. And by Saving for Scotland what people will also do is provide the capital for the solid foundation of their new state - and in the process help build it for the generations to come. As a move towards national solidarity little could work better.

The Institute for Government looked for a problem and found it.

I looked for a solution and also found it.

Which of us is right? Might I suggest it's the one who thought a little harder and worked out how to answer the question?