

# There is one issue to be resolved before Scotland can e...

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*A week ago I posted here on the Scottish currency issue, in the context of a stooshie (English: kerfuffle) I had created when commenting on SNBP policy. For technical reasons, although that was written as a Twitter thread I could not post it as such then. Now I have edited it and put it out on Twitter. [This is that thread](#) posted here, for the record. There have been quite a lot of edits since the original post - including eliminating the first 700 or so words and adding in a lot more technical background explanation.*

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A week ago I caused a bit of a Twitter fuss when writing about SNP policy. I wrote a blog in response. This is the Twitter thread version....and is all about whether the SNP's leadership is serious about independence, or not, and what will make that possible.

Wanting to be independent requires a credible plan to deliver an independent country. And this is what the SNP lacks. It has no apparent route to achieving this aim at present, politically, as internal disputes show.

Worse though, it has no coherent plan as to what to do if independence was achieved. The closest we get to that plan is still the Sustainable Growth Commission report by Andrew Wilson, formerly an MSP. As far as we can tell this is still leadership policy.

I say 'as far as we can tell' because a key component in this plan, that Scotland should use sterling after independence, was overthrown by the membership of the SNP in conference resolution in 2019, but the party leadership has ignored that and is still fighting back against it.

And this is where the issue really is. It's my suggestion that the SNP leadership is pursuing a policy that would destroy the aspirations of the SNP's membership and leave Scotland a poor and even ruined country if independence were to happen, and all

because it fears markets.

That SNP leadership plan is to use sterling – without England's consent – after independence. This plan is called 'sterlingisation.'

It seems that the leadership are pursuing this idea because they believe that the money markets might not lend to Scotland if it asked to borrow in Scottish pounds after independence.

They do however believe that those markets would lend to an independent Scotland if it borrowed in sterling, albeit at a higher interest rate than they would charge to the rest of the UK.

To put it simply then, what the SNP leadership seem to think is that the money markets will not trust Scotland's promise to pay in its own currency but that those same markets will trust Scotland's ability to repay if Scotland borrows in another country's currency.

This makes no sense at all. At the most basic level, either the money markets will think Scotland can repay, or can't repay. If the SNP leadership think the markets will lend to Scotland in sterling then they are at least saying they think Scotland is credit worthy.

But then what the SNP leadership are implying is that they share the belief that they think that the money markets will have that Scotland is not capable of having, or running, its own currency, and that it must remain dependent on England after all.

This is the real issue that I am discussing. The key question to be answered when discussing the Scottish currency issue is a simple one: it is about whether Scotland can successfully run its own currency, or not. On that one issue does the whole future of the country hang.

By committing itself to sterlingisation the SNP's leadership is sending out the clearest possible message on this issue. It does not believe it can run a Scottish currency. There is no point beating about the bush, that is what it is saying.

Politically that is disastrous. It indicates a lack of faith in Scotland. Why else is the SNP suggesting this when the evidence is that lots of new small(ish) countries have launched new currencies without problem and that almost all countries actually do create their own money?

I am baffled as to why the SNP leadership believe that Scotland cannot do what so many others have done without the help and assistance of England. It seems to be that the excuse is that this is what Ireland did in 1922. And I can summarise how that went: it was a disaster.

Ireland suffered decades of poverty as a result of using the pound. None of the benefits of independence were delivered until this policy was finally abandoned. Scotland has to avoid that fate.

But to understand this, let me explain why sterlingisation will deliver that disaster. There are quite a lot of reasons. I won't apologise for addressing them.

First, Scotland would have to borrow in sterling, which then means Scottish debt would have to be repaid in English pounds.

And all those English pounds would have to be earned by selling Scottish made goods and services to England to get sterling, which no Scottish bank could create, but which every bank in England can. Scotland would be immediately in hock to English banks.

But worse, Scotland would then be desperate to make exports so that it could service its loan repayments. The efforts of Scottish people would not be used to improve life in Scotland. They would be used to repay the owners of Scottish debt in England.

And you can be sure that the interest rate paid would be higher than is paid on UK government debt now. So the amount of work the people of Scotland would have to do to service this debt owing in English pounds would increase.

Put simply, Scottish effort would be directed towards making the owners of its debt denominated in English pounds richer. And Scotland would be poorer as a result. Using sterling would be like having a new English tax on Scotland from which Scotland got no benefit, at all.

But it's worse than that. If the interest rate due on Scottish government debt was higher than in England so would other interest rates in Scotland be higher. And so the cost of living of those who have to borrow in Scotland would go up.

And, of course, anyone repaying their personal loans would also be repaying in English pounds – meaning that they too would be helping the flood of wealth out of Scotland and into England.

I will ask a straightforward question. Is that what independence is for? The SNP leadership say it is. I say it is not.

It gets worse still though. As the Scottish interest rate would not be set in Scotland – it would simply be the English interest rate plus a bit – the Scottish government would be unable to use interest rate changes to manage the Scottish economy. It would be rudderless.

And worse, again, if Scotland does not have its own currency it could not do what the UK government has done during the Covid crisis and create new money to tackle the crisis using quantitative easing – which is literally central bank money creation.

The UK government has done more than £400 billion of quantitative easing over the last 18 months or so – and as a result none (I mean none) of the cost of that crisis need fall on taxpayers. But if Scotland had been independent and using sterling it could not have done QE.

If Scotland could not have used QE then the whole cost of the Covid crisis would have fallen on Scottish taxpayers. They would have had to repay debt due in sterling when no repayment of the new money created in the UK is ever going to be required.

Not being able to use QE would have been calamitous for Scotland if it had been independent and using sterling as its currency during the Covid crisis. It would have been brought to its knees by the collapse in its economy as a result of having to borrow in sterling.

And I stress, very strongly, if Scotland had its own currency after independence it could use quantitative easing, which is now the most powerful economic management tool available to any country, but only if it has its own currency.

(And before you ask, eurozone countries do use QE, they just do it collectively, so that is not a counter-argument).

There is another problem in sterlingisation. This results from the suggestion the Scottish Growth Commission makes that it would be necessary to build foreign exchange reserves whilst using sterling as the currency before Scotland could ever consider having its own currency.

Andrew Wilson said that whilst using sterling Scotland would not have to just repay foreign debt to England – which he said would be owing on independence, about which I do not agree, at all – but it would also have to build up foreign currency reserves as well.

In other words, not only would Wilson have Scotland earn currency to repay old debt to England it does not owe, and to repay new debt it need not borrow from England – but he also says Scotland must also run a surplus on its foreign trade to earn yet more foreign currency.

So, he and the SNP leadership would have the Scottish people working hard to earn foreign currency even though they would see no gain from it just so that a very large pile of foreign cash could be built up in the Scottish central bank.

Let's be clear what the consequence is. Standards of living in Scotland would fall. And Scottish government services would have to be cut to reduce borrowing to the greatest degree possible, because that is what would be necessary to build those foreign exchange reserves.

And that double whammy on the wellbeing of people in Scotland would be all about

creating reserves so that one day Scotland could move away from sterling to have its own currency. But the key point is that even then Wilson and the SNP leadership will not believe in that currency.

We know that because what they'd want to do is 'peg' its value against another currency. In effect they'd say it had a fixed exchange rate with sterling or the euro. To maintain that peg would require lots of foreign reserves – because that is the price of a fixed exchange rate.

To keep an exchange rate fixed foreign reserves have to be owned so that Scottish currency can be bought in foreign exchange money markets to keep its value up if it fell, or was subject to attack from foreign exchange traders.

In other words, all that the long post-independence austerity that the SNP leadership seem to want would be about is building up the foreign exchange reserves required to create a fund that could be attacked by bankers for their profit.

This is how foreign exchange traders in banks work. If they see a country trying to keep a fixed exchange rate and they know that it has the foreign exchange reserves to buy their own currency back in the money markets what they do is attack that currency.

They attack by selling that currency – knowing that they are forcing the country in question to spend its reserves to keep the value of the currency up despite the attack it is suffering, which is seeking to force its price down.

And the bankers keep attacking, using all the resources available to them, until eventually the country runs out of reserves to defend its currency. Then the country stops, and the value of the currency falls. The traders have gambled on this happening. They win as a result.

The country has lost face: in the battle with the bankers it has lost. And what is more it has lost its reserves – which would be created through austerity imposed on the people of Scotland in its case – in the process.

But, if the country had its own currency from day one and said it was not going to intervene in money markets to defend its value the bankers would have no one to trade against from whom they could profit.

Simply letting the value of the Scottish pound float would stop the traders from attacking. And there would be no need for reserves to defend the currency. And so there would be no need for the austerity to create them.

The only reason for accumulating the reserves the Growth Commission is fixated on was to defend the Scottish currency from attack. It was a policy written by those in financial markets about the games bankers play from which Scotland could never win.

There is an alternative. If the Commission had sufficient confidence in the Scottish pound to say it could float and would get its value not from the amount of reserves Scotland had available but simply from the strength of the Scottish economy none of this would be needed.

So, let me begin to draw a conclusion. It is this. Because the SNP leadership believe that they cannot run a currency, and that the money markets are the actual people they will have to keep happy rather than the people of Scotland, they will not let Scotland have that currency.

And because they will not let Scotland have its own currency because they are so frightened of money markets they would rather impose austerity on Scotland and cut its standard of living and increase its interest rates and effectively impose a tax to repay foreign currency loans.

Incidentally, not having its own currency would also prevent Scotland from joining the EU, as it is pre-condition of membership that it has, but let's leave that aside.

So, I see nothing in the SNP leadership's plans that is compatible with a plan for independence that can deliver for the people of Scotland. Instead I see a plan that is going to harm Scotland, and frankly take it on the same path as Ireland had after it became independent.

The reality is that none of this is necessary. If the SNP leadership believed in itself, in Scotland and the role of government then as many (me included) have argued, Scotland could have its own currency within weeks of independence.

That currency should float on foreign exchanges, which is exactly what the pound does now, of course. There is no problem with it, and in that case no significant foreign exchange reserves are needed. That is one problem solved.

What is more, if only the Scottish government believed it could stand up to money markets – which is the key issue – it could set its own interest rates, use QE, run deficits and fund them with borrowing in Scottish currency – and so deliver wellbeing for Scotland as a result.

And what is more, Scotland could then deliver all those policies that the SNP members want. But – and I cannot stress this enough – the policies of the SNP leadership will never permit those policies to happen as it stands, in my opinion.

This is why I said that the SNP leadership was neoliberal – which is what started the reaction on Twitter that I referred to at the start of this thread.

Neoliberalism is most identified by the belief that no one – including governments – can buck the rule of markets – and especially the money markets – who neoliberals say can hold governments to account and break them for not doing as they wish.

QE has proved that this is utterly untrue – and is based on economic theory I had known of for a long time. And so what QE also proves is that it is essential that Scotland has its own free-floating currency on independence. This is vital.

But right now the SNP leadership is in denial of this. It is still promoting a policy for Scotland that will subject its people to austerity for the sake of its fear of those markets.

If only the SNP leadership would instead learn modern monetary theory, take note of the lessons of QE, and free itself from the fear of markets it could deliver for Scotland and the SNP membership what the latter know Scotland needs.

But they won't do that. And so, as I am told very often when talking to people in Scotland, people still do not know what to believe about independence and so still have reservations.

I have more than reservations: I think what the SNP leadership is proposing is deeply dangerous for Scotland and its people. And because I think this really matters I have had the courage to say so.

Please feel free to disagree with me. Argue the facts, theory or implications. I have set out my reasoning. The SNP leadership should set out theirs. If they think they can deliver for Scotland using the currency of another country they need to say why. I see no way that they can.

Worse, I think that it is neoliberalism – a failed political dogma – and its associated austerity that drives their thinking. And that is very far from the left-wing view of most SNP members.

This means that this is an issue for the SNP to resolve now, because unless it does I cannot see how independence will happen. The currency question killed independence in 2014. Surely the SNP leadership aren't going to let it kill it again?

The current SNP leadership policies suggest that they will. If the SNP membership really want independence they have to get those policies changed, or they're not just wasting their time, but are going to make life in Scotland very much worse.

As I said previously, everything hangs on the currency question and I can only see one answer to that question. Scotland has to have a free-floating currency on independence or it will never be independent. I really do think it is that simple.