

Funding the Future

Why the SNP leadership needs to work for an independenc...

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It seemed that I caused a bit of a stooshie in Scotland yesterday by suggesting that the SNP leadership were Tories who did not like the Union [in a tweet that said](#):



Richard Murphy @RichardJMurphy · 20h

We face a political crisis in the UK. At the next election the choice is corrupt Tories, Tory-lite Labour, Tories who don't like Brexit (the LibDems) and under Sturgeon, Tories who don't like the Union in Scotland. That leaves the Greens, PC and maybe Alba in Scotland. Not good.

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Many have demanded an explanation, so I began to write a Twitter thread for those who want to know. However, it just grew and grew, and so I offer it here instead:

First, let's be clear that the Tweet I posted was very obviously about party leaderships, and not party memberships. Most Labour members are not Torylite for example, even if the leadership is. Nor are SNP members Tory. I know that.

But, party leaderships matter. And just as Labour have shown an extraordinary ability – except in the Corbyn years – to ignore its membership, so too does the current SNP leadership do that. It's important to appreciate I was saying that.

It's also important to appreciate that I am not a party politician. I am a political commentator, thinker and activist who describes the world I see and the changes I would like in it. But I am not a politician, or party loyal.

Some might call that a weakness, but I am not good at the loyalty that party membership seems to demand in current politics. My inclination is to adopt principled positions and argue for them. If that overlaps with others in parties great. But it does not mean I support parties.

If there are those who thought my principled support for Scottish independence meant I was pro-SNP I am sorry to say that is wrong. I have friends in the party. I am delighted to speak to it and have done, often. But as with other pro-independence parties I am a critical friend.

I happen to think the role of critical friend – willing to stand up and say ‘yes, but’ is vital in politics. It is all too easy for parties to get carried away with their own agendas and miss the big picture that may be going wrong. This is what I think SNP supporters are doing.

The SNP is the most effective political party in the UK as a whole right now, and obviously so in Scotland. It is getting a lot of things right. It has achievements it can rightly be proud of within the limited role Holyrood is permitted. Nicola Sturgeon is a massive asset.

But – and there has to be a but – I did, of course, have reason for saying what I did. And that reason is that the SNP leadership is as shackled by the fear of appearing left of centre as Labour, or the LibDems.

Like those party leaderships the SNP leaders seem to think its credibility is dependent on saying one thing and then delivering policy that will keep financial markets happy. This is no new thing; it has been going on for some time.

What the SNP under Alex Salmond wanted to prove was that it was competent. The aim was to win trust so that it might govern. And, unfortunately, one of the tools for doing that was to say that it could balance the books.

This was why the Tory created Government Expenditure and Revenue Scotland statement survived under the SNP. For a long time GERS delivered for the SNP. It showed that the books could be balanced. If that was what being managerially competent meant, GERS delivered.

Until it didn’t of course, which was in 2014, when questions about a future without oil left the plan for independence look vulnerable. Since then GERS has been a liability. Not only is it technically flawed, but the fact that it continues in use despite that is also a sign of misplaced faith.

GERS should be killed. It is sending out a message that there remains a belief in balanced budgets but that it is not being delivered and despite that nothing is being done to address the issue. That’s really not good.

But the problem really does go deeper, because the question as to why this obvious mismanagement is still happening has to be asked. And the answer goes to the heart of the independence debate – and where the SNP is on it.

I take it as read that those who support rather than just vote for the SNP, want an

independent Scotland. As someone who believes Scotland has a right to be a nation, as much as I think Ireland and Wales do too, I understand that. I read this as being what the SNP is all about.

And that's my problem, which motivated my comment. 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, politically, as internal disputes show.

Worse though, it has no coherent plan as to what to do if it was achieved. The closest we get to that is still the Sustainable Growth Commission report by Andrew Wilson MP. 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 fights back against it.

And this is where the issue really is. 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 plan is to use sterling – without England's consent – after independence. That is because they believe that the money markets would not value a Scottish currency and so lend to an independent Scotland if a new currency was to be launched.

They do however believe that those markets would lend to an independent Scotland, albeit at a higher rate than they would lend to England at, if it borrowed in sterling.

So, the first thing that the SNP leadership think they would do if they won independence would be to say that Scotland is not capable of having, or running, its own currency, and that it must remain dependent on England after all.

Politically that is disastrous. It indicates a lack of faith in Scotland. Why is the SNP doing that 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.

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. But that means Scottish debt would have to be repaid in English pounds. And those pounds would have to be earned by selling to England to get the currency, which no Scottish bank could create, but which every bank in England can.

Scotland would be immediately in hock to English banks. And Scotland would be desperate for exports to make 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 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 would go up.

And, of course, anyone borrowing would also be repaying in English pounds – meaning that they too would be helping the flood of wealth out of Scotland and into England. Is that what independence is for? The SNP leadership say it is.

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 that 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.

This would have been calamitous for Scotland. But then there is another final problem from using sterling. This is the requirement that the Scottish Growth Commission says is necessary to build foreign exchange reserves before Scotland could ever consider have 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.

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.

In other words – Scottish people would on this occasion be working hard to earn foreign money but would see no gain from it – and nor would Scottish government services – all to build up a pile of foreign cash 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 is 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 from sterling to have its own currency. But the key point is that even then Wilson and the SNP leadership do not believe in that currency.

Instead what they 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 to buy the Scottish currency in foreign exchange money markets to keep its value up if it fell. That will be what all the Scottish austerity would have been about. Nothing else. It would just be about money market game playing.

So, perhaps, at last you might say, I can 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. That is what the pound does now. There is no problem with it. Then 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 here – it could set its own interest rates, use QE, run deficits and fund them with borrowing in Scottish currency – and deliver wellbeing for Scotland as a result.

And what is more, Scotland could then deliver all those policies that the SNP members who got annoyed with me want. But – and I cannot stress this enough – the policies of the SNP leadership will never permit those to happen. And that is why I said it was neoliberal.

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 – as based on economic theory I had known for a long time. And so QE also proves 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 was told very forcibly in the last week, people do not know what to believe about independence is all about 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 disagree with me by all means. Argue the facts and theory. Argue the implications. But 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 left-wing – and justified the comment I made.