

Funding the Future

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I was asked on this blog yesterday whether Scotland could afford to have its own currency, and whether the process of introducing one would be economically ruinous. Neither claim is true, and this is a subject which I have studied a lot and which I have written about extensively. A Scottish currency would be both economically plausible and politically necessary if independence is to mean anything at all. Let me explain.

First, and quite critically, a country that does not issue its own currency is not truly independent. It becomes a user of someone else's money and is, therefore, subject to someone else's fiscal rules. A government that depends on another's central bank for liquidity or borrowing is not sovereign in a meaningful sense. If Scotland were to remain tied to sterling, it would find itself trapped in the same austerity framework that has blighted the UK economy since 2010.

Second, the creation of a currency is not an economic miracle; it is just an act of legislation. The fundamentals are political and institutional, not mystical. A Scottish government could, through a single piece of legislation, create a Scottish Reserve Bank with the authority to issue a Scottish pound. That currency would be declared legal tender, and then the government would spend that currency into the economy, after which all taxes would be required to be paid in this currency, meaning that it is very likely that wages and public payments would be denominated in it. That process is, of course, the same as that used in every modern state with its own currency.

Third, Scotland already meets all the practical conditions for running its own monetary system. It has a functioning, diverse economy, a highly educated population, strong export sectors, and a reliable, well-enforced tax infrastructure. Its banking system is technologically sophisticated, and electronic payments could be converted into a Scottish pound without any significant disruption (if at all), whilst generating foreign currency reserves for Scotland in the process. In other words, the plumbing is already in place. As I have often noted, Scotland's economy is comparable in scale to Denmark's, and like it is a mid-sized European country. If Denmark can run a successful currency, so can Scotland.

Fourth, the transition to a new currency would need to be managed, but it need not be traumatic. A new Scottish government of a newly independent Scotland should

introduce a Scottish currency on its first day in power, but then permit both sterling and the Scottish pound to circulate for a period if people wished to use either, while ensuring that taxes must be paid in the new currency, making it the legal tender. That simple rule — what economists call tax-driven money — would immediately create demand for it. Over time (and most likely, a remarkably short period of time), salaries, pensions, and contracts would all be converted, and the Scottish pound would naturally become the medium of exchange.

Fifth, claims that Scotland would need vast reserves of foreign currency to defend its new money are misplaced. The Scottish currency would, of course, float in value. That removes the need for most of these reserves. And what matters, in any case, is confidence in the institutions of government—its ability to collect taxes, manage spending and regulate its banks. And the Scottish Reserve Bank could operate a managed float, adjusting interest rates and liquidity to maintain stability, just as the Bank of England does now. There is no economic law that requires Scotland to peg its currency to sterling, or anything else, such as the euro.

Sixth, the question of government debt is often raised as if it were a matter of solvency. It is not. A government that issues its own currency cannot run out of that currency. Its so-called deficit is the financial surplus of its private sector. What matters is whether Scotland would be using its real resources, such as labour, skills and natural assets, effectively and sustainably. In that sense, the only true constraint on public spending is ecological and productive capacity, not the number of pounds in the Treasury's account, but as noted above, the simple translation of existing sterling balances into the new Scottish currency will create considerable foreign currency reserves in itself.

Seventh, Scotland would not be liable for the national debt of the remaining UK. In international law, the debt is the responsibility of the so-called continuing state in the case of a split such as this, and the UK would want to take on that role, and all the agreements and entitlements that go with it, including membership of all the international organisations, such as NATO, of which it is a member, and the UN, where it will not want to give up its seat on the Security Council to Scotland. So, the only way Scotland could be liable for the debt would be by agreement, and unless the UK actually repays the debt (and it almost never has), then there is no reason at all for Scotland to accept any obligation to repay any part of it either. In other words, this is not an issue.

Finally, the real barrier to a Scottish currency is not economic feasibility but political courage. Too many politicians still repeat the myths of fiscal responsibility as defined by Westminster orthodoxy. In reality, monetary sovereignty is the foundation of all other forms of sovereignty. Without it, an independent Scotland would have to beg permission to spend, to invest, and to care.

The alternative of a Scottish pound would give Scotland the tool required to pursue full employment, to invest in a green transition, and to build an economy based on well-being rather than deference to markets. It would not solve every problem

overnight, but it would make solutions possible.

The truth is simple: Scotland already has the capacity to run its own currency. The real question is whether it has the confidence to do so.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

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