Mini Briefing - An independent Scotland continuing to use sterling for an extended period

Warren Mosler and William Thomson, July 2026

The current proposal for an independent Scotland is to continue to use the pound sterling for a period while a “careful, managed and responsible transition” (Scottish Government, 2022: 32) takes place. During this transition, the Scottish Government will levy taxes and impose fines in pounds sterling. The Government and all its agents will pay salaries and all expenses and expenditures, including interest on any sterling-denominated debt, which it may inherit after independence, and have its principal net borrowing (government spending minus taxation) in pounds sterling.

This sees the Scottish government maintain its role as a currency user (similar to its pre-independence days) for a period. If we consider the transition to independence taking five years (the Brexit timetable), plus an ‘extended period’ of transition, this could extend the process from six to ten years after a vote for independence. It is also worth clarifying that during this period, all financial products, including pensions, loans, bank deposits and mortgages, will be denominated in pound sterling (Scottish Government, 2022). As such, the domestic non-government sector will continue to be anchored to the pound sterling over a similar timeframe (six to ten years). Without Scottish-issued tax liabilities (a Scottish-denominated currency), the private sector will continue to use pounds sterling for the vast majority of its transactions and, of course, to pay taxes. Similarly, the foreign sector will operate with the Scottish government, businesses, and households along business-as-usual lines, expecting to be paid and offering goods and services denominated in pounds sterling.

We have been explicit in detailing the function of currency in the three sectors of the economy (government sector, domestic non-government sector and the foreign sector) because there is no detailed and clear explanation of how the everyday economy would function in any of the three principal sources (Scottish Government, 2018, 2022 and 2025). In fact, Scottish Government (2022: 32) illustrates, in our opinion, a deep misunderstanding of currency and monetary operations;

> “While Scotland is still using sterling, many aspects of monetary policy would continue to be set by the Bank of England. However, an independent Scottish Central Bank would be established *with oversight of monetary and economic conditions in Scotland and with responsibility for financial stability.”* (Emphasis not in the original)

Monetary policy is controlled exclusively by a currency-issuing government through its fiscal agent, the central bank. We must therefore correct the first sentence, which should read, "*all* aspects of monetary policy would continue to be set by the Bank of England." Further, Scotland could indeed set up an entity called a 'Scottish Central Bank', but it would be a paper exercise.

The creditworthiness of any central bank—and the Government as a combined entity—depends principally on the financial security conferred by the ability to compel the payment of taxes, a privilege that Holyrood will grant to Westminster. In other words, the creditworthiness (based on the ability to raise taxes) of the Scottish Government will depend on the UK government.

Berkeley et al, (2022: 874) explain how the UK currently uses this tax privilege,

> "[The UK] Parliament is the only entity within the UK economy that can compel the payment of taxes. This privilege gives HM Government, uniquely, a guaranteed claim over domestic economic resources, making it the most creditworthy agent in the economy."

The Scottish Government will significantly dilute this privilege by continuing to require payment in pound sterling before it spends. A fiat currency requires an unconditional backstop (Tucker, 2014). In the UK, this would mean the Bank of England would be required to guarantee Scottish Government debt. This is not expressed in any Scottish Government document.

In practice, the longer the Scottish economy relies on liabilities of a foreign central bank (the BoE), the less creditworthy and operationally dependent it will be.

It will also be less prosperous. Without the privilege to create new units of account (Scottish-denominated currency), it can only obtain its net financial assets through net exports. Reducing our 'pile of stuff' and relying on other countries' demand for Scottish goods and services is hardly the foundation for a wellbeing economy.

Finally, and perhaps most importantly, we must address economic stability. The Great Financial Crisis (2007 - 2009) was a story of central bank intervention to support the financial services sector and the wider economy (Tucker, 2014). The COVID-19 pandemic has also shown that the ability of a wholly owned central bank to create its own liabilities in its own unit of account was the single most important macroeconomic factor in stabilising a national economy (Felipe et al., 2021). Without its own currency, the stability of Scotland's economy will depend entirely on the stability of the UK, as it does currently.

This stabilising effect can be considered another privilege of a currency issuer. Berkeley et al (2022: 874) explain again,

> "HM Treasury stands ready to provide financial assistance to ensure economic stability in the event of commercial bank failure. Stabilization powers include the transfer of banking entities into public ownership and the provision of deposit

> insurance… As the only entity within the economy that is in a position to extend such support, it is clear that the financial capacity of the UK Government surpasses that of the banking system, which creates the bank deposits that firms and households typically consider to be money.”

There can be no financial security or stability for Scotland while these privileges (tax and stability) lie with a foreign nation.

We must state this very clearly: the only Central Bank “*with oversight of monetary and economic conditions in Scotland and with responsibility for financial stability”* will be the currency issuer: the Bank of England. This can not be described as independence (Godley, 1992).

One could not imagine a more dangerous economic and political scenario than the current Scottish government's currency position post-independence. Scotland, for all intents and purposes, would not be monetarily independent and would be at greater risk of financial fracture than it is in its current position with the UK. This would not only jeopardise the idea of a wellbeing economy but also the success of Scotland’s economy.

References:

Berkeley, A., Ryan-Collins, J., Tye, R., Voldsgaard, A., & Wilson, N. (2025). The Self-Financing State: An Institutional Analysis of Government Expenditure, Revenue Collection and Debt Issuance Operations in the United Kingdom. *Journal of Economic Issues*.

Felipe, J. Fulwiller, S & Yusoph, A.H. (2021). The ADB COVID-19 Policy Database: A Guide to Understanding Changes in Sectoral Balances and Private Sector Financial Positions in 2020, *Asian Development Review (ADR)*.

Godley, W. (1992). Maastricht and all that. London Review of Books.

Scottish Government. (2018). Sustainable Growth Commission.

Scottish Government. (2022). A stronger economy with independence.

Scottish Government. (2025). A fresh start with independence.

Tucker, P. (2014). *The lender of last resort and modern central banking: Principles and reconstruction.* In Bank for International Settlements (Ed.), *Re-thinking the Lender of Last Resort* (BIS Papers No. 79, pp. 10-42). Bank for International Settlements.