Radical Options for Scotland and Europe

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Background to the Scottish Budget statement 4 December

The forthcoming Scottish Budget statement will be largely based on apportioning the revenues accruing to Scotland as a result of Rachel Reeve's British budget in October. The British Budget was portrayed as providing additional money for services and development as a result of new, looser borrowing constraints formulated by the Westminster government. It now looks unlikely that it will resolve the serious financial problems facing Holyrood.

It appears that the 'consequentials' for Scotland (that is, its agreed proportion of the tax revenue raised across Britain as a whole) will amount to around £1 billion as a result of Reeves's budget. Against this has to be set existing pay deals for teachers and for care workers which will require around £470m. Deals for the NHS staff and the Police are likely to cost a further £315m. Additionally, there are the costs to the Scottish public sector as an employer of the increase in employer National Insurance contributions: £590m. Most of this will again be covered by consequentials – but not, it seems, all. The Scottish public sector is bigger (22 percent as against 17 percent) and wages a little higher. There could therefore be a shortfall of up to £100m from NI – leaving little if anything of the promised increase.

Even with the increased allocations many local authorities in England are now reporting deficits for the coming year near to bankruptcy level. Some Scottish local authorities may also be nearing this point – especially as the increase in Westminster funding progressively reduces across Britain as a whole over coming years.

This situation therefore underlines the need to enhance the fund-raising powers of local authorities themselves through a reform of council tax that gears payments more firmly to property values – which Holyrood has powers to do – as well as, at Scottish level, to secure a more progressive income tax. It also underlines the need for closer detailed links between communities and trade unions in resisting cuts and demanding powers that will bring democracy, and funding to support it, back to local level.

Growth and productivity in Scotland's economy

Scottish overseas exports are falling and so, relatively, is Scotland's productivity and investment in research, development and training. A briefing from Scottish Parliament's research service SPICE published on 10 September 2024 noted that the Scottish government's 2019, 'A Trading Nation', had set a target of increasing exports from 20 percent of GDP to 25 by 2028. However, 'due to events', SPICE reported, exports had instead fallen below 20 percent.

These 'events' appear to lower international competitivity as result of lack of business research and development (R&D), low levels of workplace training and low levels of capital expenditure. The decline was probably also linked to the relative smallness of Scotland's remaining industrial sectors. Spending per head on R&D was £918 in 2021 compared with £1,406 in the East and South East of England. In 2021 the Scottish government received its commissioned report from a research group headed by Dr Rincon-Azner. Its conclusions were that compared to most English regions Scotland's R&D performance was average to good (though massively lower than the SE), but that these regions themselves provided a very poor comparator as they were at the bottom of the league across ***all*** advanced industrial nations. Between 2009 and 2017 Scotland was 'stagnating in international ratings',

Scotland had, it noted, been successful in attracting international firm investment but this had 'not been translated' into growth in productivity. As indicated by the Common Weal research by Craig Dalzell (2024), many large firms in located in Scotland were dominated by investment companies and tended to have very low levels of investment: profits went to corporate shareholders not back into the company. Earlier research by the Royal Society (2021) noted that Scotland's R&D was disproportionately based on the university sector (almost double the UK average) and this in turn depended largely, and vulnerably, on the fees paid by overseas

students. The Rincorn-Azner report stressed that a crucial weakness was investment in effective apprenticeship and mid-level workplace skills.

These findings underline the economic folly of relying on the private sector. The findings are not new. The trend was clear a generation ago. But the consequences are now intensifying.

Developments in the European Union

At a time when big business lobbyists (and some Labour politicians) are calling for renewed alignment with the EU, the EU's political structures appear immobilised and its economy stagnant – leading in turn to a significant rise of the ultra-right.

France, previously a lead economy along with Germany, is entering economically dangerous territory. Government borrowing has moved beyond 110 percent (the statutory legal limit is 60 percent) and the cost of government borrowing has reached 2.7 percent (Greece's is 2.5 percent). Although Germany's borrowing is only marginally over the statutory limit (62 percent), its economy is stagnant and has been since Covid. The loss of cheap power from Russia (US sabotage of Nord Stream 3), has crippled steel and chemicals and consequently motor manufacturing and machine tools, its key exports. So also has the impact of Biden's Inflation Reduction Act in pulling US plants out of Europe. In Q2 2024 the German economy contracted by 0.3 percent. In Q3 its growth was only 0.1. For the EU as a whole industrial production contracted by 2 percent in September and exports were down 0.4 percent.

The head of the European Central Bank, Christine Lagarde, in an interview with the *Financial Times* on 28 November, addressed the question of the EU 'lagging behind'. She called for a 'banking union' that would consolidate banks, effectively result in one stock exchange and bring EU investment potential to a level that would meet the challenge of US investment banks in buying up EU corporate assets – a proposal made several times over the last three decades but now seen to have increased urgency given the scale of US banking intervention. The proposal has previously foundered in face of fears that this move would further consolidate German-French dominance. Ms Lagarde also addressed the potential threat posed by the Trump presidency of penal tariffs on EU goods and steps, in addition to Biden's Inflation Reduction Act, to persuade US firms to relocate production to the US (particularly IT). She argued for negotiation with Trump to seek a 'deal'.

The EU's principal independent think tank, the Brueghel Institute, addressed the divergent economic paths of France and Germany in a discussion statement issued in June 2024, It has since produced discussion papers calling for single consolidated EU production of arms (hitherto largely national issues) funded by EU level expenditure of at least 500 billion euro over the next five years – expenditure that would benefit the main existing producers, France and Germany. It has also conducted a recent poll among policy experts which indicated continuing support for neo-liberal policies and, in general, opposing national or EU level support for industrial champions. Earlier it had produced an 'expert' response that questioned the EU court ruling (September 2024) for the allocation of 13 billion euro to Ireland for lost tax income from IT multinationals stationed there with the object of benefitting from Ireland's very low corporation tax. It should, it argued, be allocated across the EU to where production actually took place. If adopted, this would have severe consequences for Ireland's economy.

A reset in UK-EU relations

A conference between the EU and the UK is scheduled for the first half of 2025 to discuss the development of closer economic and trading relations between the UK and the EU and to revisit the EU Trade and Cooperation Act with the aim of providing a new 'dynamic' to UK and EU relations. Areas are likely to including closer trading strategies, cooperation on veterinary issues (important for French trade), mobility for students and young workers.

The EU Minimum Wage Directive

This seeks to enhance collective bargaining across the EU and to set minimum wages at 60 percent of the median wage and 50 percent of the average wage. It sets 80 percent as a target for collective bargaining. Passed as a Directive in 2022 it comes into force at the end of this year – though with legal appeals from Denmark and Sweden to be heard in January 2025. It has been hailed as a return to the perspectives of Jacques Delors and the victory of social democracy against neo-liberalism. It is being opposed by TU federations in Denmark and Sweden on the grounds it could undermine existing structures. It could also result in some countries in corporate dominance. The Irish employers conference IBEC heard proposals that, given the low level of unionisation (40 percent), and the efficiency of corporate HR departments they could conduct negotiations themselves direct with workers within the spirit of directive (*Irish Times* 24 October 2024).