Radical Options for Scotland and Europe

For public ownership and democratic control

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Scotland's weakening economy slows ahead of complex international challenges

On 6 March the Ernst Young index cut its forecast for economic growth in Scotland for 2025 from 1.3 percent to 0.9 percent – mainly in light of the consequences of Reeve's Autumn budget. On the same day a leak from the OBR about the coming Spring budget indicated further cuts, up to £10 billion, particularly to welfare payments, cuts which are likely to deepen deflationary effects as unemployment rises and tax revenue falls. And these pressures do not yet reflect the impact of Starmer's demands for an increase of military expenditure to 3 percent GDP over the next five years - nor of possible US tariff increases on Scottish exports. Ed Miliband's Aberdeen centre for renewable energy is currently reported as a likely focus for cuts.

For Scotland's economy these developments underline all the warnings contained in Mariana Mazzucato's *Industrial Strategy for Scotland* published last year.

Wages for full-time workers in Scotland in 2023 were, she shows, 10 percent lower in real terms than in 2008 while the country's industrial sector has shrunk disproportionately and now produces only 10 percent of GDP (the service sector has increased by 17 percent). Scotland's level of industrial investment is now one of the lowest among all advanced industrial nations and its economy increasingly dependent on inputs from elsewhere. Even in the area of renewable energy, where Scotland generates internationally high levels of electricity, a shockingly low level of equipment is produced in Scotland itself. Almost three quarters comes from elsewhere. The one exception in terms of low R&D is Edinburgh. However, most of this is in the financial sector where, as Mazzucato points out, much of the advanced AI is used to identify profit centres overseas and to channel Scottish savings in that direction. Since 2014 Scotland's economy has grown by 8.4 percent; Britain's overall by 14.8 percent (House of Commons Research Briefing 11 October 2024).

Wood Group: net debt now $1.1 billion

One example of this external financialisaton is the Wood Group in Aberdeen. This was previously one of the few firms with Scottish investment and ownership resulting in global excellence in oil technology – and global employment of up to 20,000. Some years ago the Group was floated on the London stock market and its shares mainly bought up by investment companies. The dominant investor BlackRock appears to have used its board room influence to secure the take over of another company in which it also had investments that was heavily indebted. The result was to load the Wood Group itself with debt and minimise new investment. On 14 February this year the firm, one of the biggest employers in Aberdeen, saw its shares collapse by 54 percent as it borrowed another $200m taking its net debt to $1.1B.

Mazzucato herself highlights the consequences of such financialised external ownership. So did last year's research by Common Weal. For this reason Mazzucato argues for the state to take a 'pro-active role'. This itself highlights a further problem that needs to be urgently addressed. This is the conflict of governmental responsibilities and the failure, as repeatedly highlighted by ROSE, to restore to the Scottish parliament the powers over industrial policy effectively vested in Scotland on the basis of the Sewell convention in 1999. After exiting from the EU Johnson retained these powers in Westminster. Labour's White Paper on regionalisation issued in autumn 2024 shows little if any indication of moving to reverse such centralised financial control across Britain.

Grangemouth

One example of the consequences of this policy failure is highlighted by the Grangemouth closure. After a year of hesitation Swinney has at last offered £20m for some kind of private sector redevelopment. Starmer has now put up even more: £200m. But Starmer has made it clear this money was contingent on private investors moving in – with the cash meant to be spread among up to five companies. The first question is: is this likely in current circumstances ? The second is whether such patchwork investment is likely to develop any coherent focus for industrial agglomeration as previously represented by the Grangemouth refinery. As Mazzucato argued only a strong element of state ownership, backed up legally by strong trade union oversight, is likely to create new regional hubs for growth.

Scotland, Britain and the EU

Recent events internationally, in the context of increasing economic instability, have sparked discussion at governmental level about 'closer ties' between Britain and the EU – both economically and militarily. At the end of February the House of Commons Research Department published a detailed record of the state of current discussions and their legislative background *https://researchbriefings.files.parliament.uk/documents/CBP-10207/CBP-10207.pdf* which will be of interest to ROSE supporters. What follows provides further context.

EU Economy: weakening

Latest statistics for the Euro area indicate a weakening position. Final quarter growth 2024:

Euro area	0.4 (UK 0.1)
US	0.6
China	1.3

For the two major economies the Q4 growth was

Germany	-0.2
France	-0.1

German exports were down 2.2 percent in Q4 on Q3
French exports down 0.2 percent in Q4 on Q3
The European Central Bank cut its interest rate on 6 March by 0.25 as from 12 March

European Council statement 6 March 2025: 'Conclusions on Defence'

'Europe must become more sovereign, more responsible for its own defence and better equipped to act and deal autonomously with immediate and future challenges and threats [posed by] Russia's war of aggression. ...The European Union will accelerate the mobilisation of the necessary instruments and financing …
In doing so, the Union will reinforce its overall defence readiness, reduce its strategic dependencies, address its critical capability gaps and strengthen the European defence technological and industrial base accordingly across the Union … This will also contribute to boosting European industrial and technological competitiveness… the European Council stresses the need to continue to substantially increase expenditure on Europe's security and defence, and:
a) welcomes the intention of the Commission to recommend to the Council the activation, in a coordinated manner, of the national escape clause under the Stability and Growth Pact as an immediate measure, and calls on the Commission to explore further measures, taking into account the views of the Council, while ensuring debt sustainability, to facilitate significant defence spending at national level in all Member States;
b) calls on the Commission to propose additional funding sources for defence at EU level, including by means of additional possibilities and incentives offered to all Member States, on the basis of the principles of objectivity, non-discrimination and equal treatment of Member States …
c) takes note of the intention of the Commission to put forward a proposal for a new EU instrument to provide Member States with loans backed by the EU budget of up to EUR 150 billion,
d) welcomes the recent letter by the President of the European Investment Bank Group and the plans therein to step up its support for Europe's security and defence industry
The full text can be found at: https://www.consilium.europa.eu/en/press/press-releases/2025/03/06/european-council-conclusions-on-european-defence/

Joint Publication Bruegel Institute and Keil Institute for the World Economy 'Defending Europe without the US: first estimates of what is needed' 21 February 2025

'Europe could need 300,000 more troops and an annual defence spending hike of at least 250billion euro in the short-run to deter Russian aggression'

Europe needs to be able to defend itself against Russia, with or without the United States…From a macroeconomic perspective, the numbers are small enough for Europe to replace the US fully. Since February 2022, US military support to Ukraine has amounted to €64 billion, while Europe, including the United Kingdom, sent €62 billion. In 2024, US military support amounted to €20 billion out of a total of €42 billion. To replace the US, the EU would thus have to spend only another 0.12 percent of its GDP – a feasible amount. A more important question is whether Europe could do this without access to the US military-industrial base. **The Bruegel and Keil Institutes are the EU's two leading economic think-tanks.**