# Radical Options for Scotland and Europe

For public ownership and democratic control

**ROSE website https://rose-scotland.org/**

**For Briefings, video explainers and the new ROSE magazine**

# Briefing 79: June-July 2025

## Reeves's Spending Review:
## Scotland's 'fair share' is not very much - and will likely decrease

Immediate responses, primarily from Fraser of Allander, were that Scotland benefited proportionately and that these benefits tended to be front-loaded to 2026 [possibly with the 2026 Scottish elections in mind]. For Britain as a whole the Resolution Foundation's analysis found that the Review had indeed skewed benefits to the poorest 20 percent of households but also that these benefits were limited. There was no relaxation of the two child benefit limit despite some expansion in eligibility for winter fuel payments and limited extensions of school meals and nursery places. In terms of spending budgets any large increases were focused on Defence, within pre-existing projections, and the NHS, with sustained 'above inflation' settlements to 2028 (although largely in line with long-term projections and the growing requirements of an ageing population). There was also some uplift for housing – but largely dependent on private sector take-up. Most other budget headings suffered real term cuts over the three years including education, aspects of social care, environment and policing. In terms of capital spend there were some specific benefits for Scotland: a supercomputer for Edinburgh University; support for the Acorn carbon capture project in Aberdeen (but with a long-term horizon and dependent on private sector support), a recovery package for Grangemouth (again dependent on private sector buy-in), and with Scottish shipbuilding getting a larger than average share of naval defence orders.

Since 12 June global economic and political outlook has significantly worsened with a sharp increase in energy prices (already moving over 5 percent from early June figures), UK inflation, at 3.4 percent one of the highest rates in Europe and borrowing costs rising in light of prospects of wider war. The coming report from the Office of Budget Responsibility is therefore likely to find the Review too optimistic in its assessment of government income (especially in terms of borrowing costs) and the Autumn Budget Statement most likely to rein in some of the (quite limited) spending increases.

## Continuing threats to major 'Scottish' Firms

The threats to what remains of Scotland's industrial base continue – although as usual the threatened firms are those already primarily owned externally. The most emblematic has been the proposal by the new (since 2019) Canadian owners of the bus building firm Alexander Dennis to close the Falkirk and Larbert plants and shift to Yorkshire. Up to 400 jobs would go in an area of existing high unemployment. Another flagship firm, the Wood Group, Scotland's biggest oil engineering company, remains on the cusp of take-over by an Abu Dabi oil consortium – although Wood Group is already controlled by a range of overseas investment companies that over the past decade have loaded it with debt. Wood's global workforce exceeds 35,000 with 4,500 in Scotland, the great bulk in Aberdeen. A shift of HQ would significantly reduce this.

### EU-British discussions on closer relations

The Lancaster House 19 May EU-British Summit confirmed the EU-UK Security and Defence Partnership. The participants, Starmer, von der Leyen and EU VP Kaja Kallas, confirmed the terms of the EU-UK defence partnership as agreed at the 2025 European Council with twice yearly dialogues and participation by UK firms in the sourcing of EU defence orders (though not of their funding). Also in May a discussion paper issued by the semi-official Brueghel Institute once more raised the creation, as part of on-going redevelopment of formal relations, of a joint UK-EU clearing house for financial derivatives currently handled by the London Clearing House – on the grounds that stability requires joint oversight. There has, however, been no progress at official level despite the sharply weakening position of London as a centre for corporate funding and IPOs (Initial Public Offerings: the launch of new companies on the stock exchange)

## The crisis in EU economic development, the switch to 'military Keynesianism' – a bucket with a hole

After two years of virtually zero growth the EU Council is considering ways of raising the 60 per cent GDP borrowing limits within the EU, as argued by von der Leyen in March, first for military spending and possibly for strategic infrastructure. Discussions continue within the EU Council on how this might be done – at the same time as seeking to reduce debts in major EU powers such as France and Italy that currently well exceed 100 percent GDP. In this context the new German Chancellor Merz agreed in March to lift Germany's own internal constitutional debt brake, exempting military spending (which will rise by up to, or even beyond, 3.5 percent GDP) together with an additional 500 billion for infrastructure. Concerns, however, have been expressed at how far this will tend to concentrate EU arms production capacities still further within Germany – when other national arms budgets such as France and Italy remain constrained.

It has, however, been defended as an example of 'military Keynesianism' whereby state expenditure is used to overcome long-term economic stagnation – as has been the case in Germany, and the EU more generally, since Europe's loss of cheap Russian gas and the impact of US trade policies (first Biden's Industrial Recovery Act and more recently Trump's tariffs). The immediate consequence of the new announcements has been a virtual doubling of the capital value of Rheinmetall (the biggest German armaments company) and a parallel jump in Siemens – as well as lesser increases for other EU arms producers (Financial Times 6 June).

The question remains, however, how far such 'Keynesianism' can deliver growth.

There would seem to be three problems. First, Keynesian policies were intended to put unused labour capacity to work. Yet Germany (like Britain) has relatively high employment. Second, like Keynes's own proposals, and particularly in conditions of relatively full employment, they are likely to be inflationary and *redistribute* income to those who control prices, that is those with monopoly power. Third, and most fatally, they ignore the immediate realities of defence procurement. This is that most arms for Europe are imported from the US. For the EU as a whole 52 percent of arms procurement costs between 2015 and 2019 were for US weaponry. This figure rose to 62 percent between 2020 and 2024. This figure reflects in turn the very low level of European R&D spending on arms – only 0.02 percent of GDP on armaments compared with 0.3 percent in US (SIPRI).

The same goes for Britain. Although the value of arms for export by Britain, mainly to the Middle East, are easily available in government statistics, those for arms imports are well hidden. Figures from the Swedish based SIPRI put the cost of Britain's arms imports for 2022 at £9.7 billion rising to £14.3 in 2023. This would seem to represent, as elsewhere in Europe, well over half of total weapons expenditure, a reflection of Britain's more general loss of manufacturing capacity over the past three decades.

The figures would need to be confirmed for 2024 and 2025 – but similar import levels would not be surprising. For Trident some of the most sophisticated equipment, such as the missiles, comes from the US and the steel is imported from France. In terms of the Naval orders for frigates the steel is imported from a range of countries in Europe and Asia. For fighter bombers Britain relies on importing US F35s.

In these circumstances it makes very little sense to argue for 'military Keynesianism'. Money for weapons will not generate economic growth. We are being asked to pour cash into a bucket with a hole in it.

In terms of the wider debate in the trade union movement, the figures on arms imports strengthen still further the arguments against more defence expenditure. It is not just that defence jobs 'cost' up to half as much again as non-defence jobs and do so directly at the expense of socially useful jobs in health, teaching and social care. It is that, as in the EU, ***most*** of the 'new' defence jobs are not located in Britain at all. Which is perhaps why Trump is so insistent on increased arms expenditure.

## And for the rest of the world ? As Europe and the US rearm, and the Middle East burns, more of the world's poorest starve

Writing in the Financial Times on 2 June Nobel prize winner Joseph Stiglitz raised the deepening crisis of debt across the global south. Using figures from the UN Trade and Development report for 2024 he highlights the 54 countries spending over 10 percent of tax revenue on servicing debt, an interest burden that has doubled since 2010. 3.3 billion people now live in countries spending more on debt than health.