# Radical Options for Scotland and Europe

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# Briefing 80: August 2025

## Scotland's economy exposed as Treasury considers a further round of spending cuts and tax rises

Following the publication of National Institute of Economic and Social Research's UK Economic Outlook on 6 August the Chancellor's autumn statement is likely to require a mix of cuts and tax rises amounting to £41.2 billion (equivalent to just under 2 percent of total public spending): https://niesr.ac.uk/publications/uk-economic-outlook-chancellors-trilemma?type=uk-economic-outlook.

For Scotland this would mean a cut of around £4 billion and, as in Britain as a whole, it comes at a time when business activity in the dominant service sector and also construction is already in decline. In Scotland the economy looks weak. Fraser of Allander has downgraded its forecast for 2025 to 0.8 and for 2026 to 1.0 percent. The regular survey undertaken by Business Scotland found the percentage of businesses (mainly small and medium) reporting distress as increasing from 2.7 in the first quarter of 2025 to 9.1 in the second. The summer has already seen a number of small business closures mainly in metals and construction.

Less publicised, the Scottish government's Fiscal Sustainability Delivery Plan published in July already requires new public sector cuts that will cumulatively reduce the workforce by 2.5 percent by 2028 – with a negative impact on wider growth as well as public services. This is before Reeves' Autumn Statement.

### Poverty's stubborn presence in face of 15 years of wage stagnation

Rowntree Foundation research published in April 2025 (https://www.jrf.org.uk/child-poverty/children-being-left-behind-deep-poverty-among-families-in-scotland) documents continuing levels of child poverty that includes an *increase* in the number of children in 'deep poverty' in Scotland. This is in the context of the stagnation of real wages since 2008 –as the 'social wage', in terms of free access to health and social services, has been relentlessly cut: S. Machin, 'Real Wage Stagnation', **LSE Public Policy Review**, 2024/2.

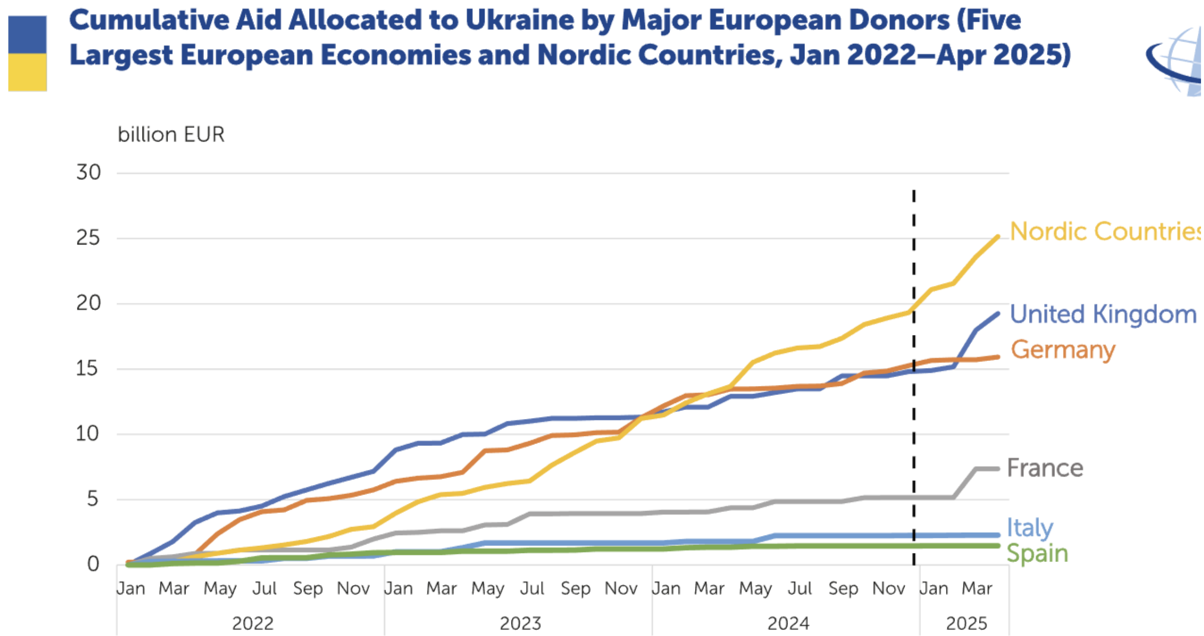
### The breakdown of community cohesion and the rise of the Far Right

This provides the context for the research from University College London showing, geographically, where traditional community ties and resilience across Britain are seen to have most markedly broken down – as measured by in depth local reportage and questionnaires. It is where the loss of well-paid employment and housing availability has been most marked. https://www.ucl.ac.uk/policy-lab/sites/policy_lab/files/this_place_matters_ucl_citizens_mic_july_2025.pdf.

The map also tends to match the advance of right-wing populism – as measured by support for Reform. This support remains significantly higher in England and Wales than in Scotland. In four of the five polls for Britain as a whole in August 2025 the vote for Reform has been over 30 percent and the lead over any other party more than 10 percent. In four of the five Scottish polls since April Reform has come second after the SNP at over 20 percent – though in the latest the SNP's lead is only 6 percent.

## And as his home base crumbles Starmer leads a very costly pro-US re-alignment in Europe

At approx. three billion euros the UK's replacement of US funding for Ukraine for just the first three months of 2025 is second only to the combined contribution of the Nordic countries and remains bigger than Germany's. It is in stark contrast to smaller amount coming from France and very minimal amounts from Spain, Italy and Portugal [see graph below from Kiel Institute for the World Economy report 16 June 2025]. The role of Britain and Germany in creating a pro-US axis in Europe extends also elsewhere: to increases in military spending and the purchase of US military equipment (thirteen F35 nuclear-compatible bombers by Britain), to the call from the CDU parliamentary leader for a European 'nuclear umbrella' under 'German leadership', and the announcement in July (FT 17 July) of Anglo-German rearmament plans which cover joint involvement in Typhoon fighter production (UK end at Wharton in Lancs), Airbus A40 military transport (Fulton Bristol) and armoured transport (joint with Rheinmetall – Telford Shropshire). A question might be posed in Parliament as to the budget head for the multi-billion UK support for Ukraine that appears to be scheduled for 2025.




## Pay-off through Trump's trade deal with the UK ?

The trade deal with the US announced on 8 May 2005 appears to represent a pay-off for Britain's role in maintaining US aligned policies in the EU. As detailed in the House of Commons Library Research Briefing (30 July 2025), Britain has secured a 10 percent tariff from the US for the bulk of its exports to the US – which make up 16 percent of all exports and are its biggest single element. This rate seems to be the lowest level of tariffs imposed anywhere. Exceptions remain steel, aluminium and cars (currently on higher tariffs) and semi-conductors and pharmaceuticals which have yet to be considered. These, however, are relatively big 'exceptions'.

## Global economy concerns

The IMF has been the most vocal of world commentators in its expressions of concern over the global economy. Its April Report expressed some disquiet about the strains among some highly levered financial institutions – with hedge fund borrowing up from $2T in 2014 to $7T in 2024 and US banks credit dependence from 62 to 119 percent. Britain's financial position was assessed as 'weak' and becoming 'moderately weaker'. It characterised the current global economic environment one of 'tenuous resilience amid persistent uncertainty'. The fastest growing economies are all members of the BRICS alliance: India 6.4, China 4.8, Saudi Arabia 3.6 and Brazil 2.3. US growth for 2025 is predicted at 1.9 and Germany's at 0.1.

## Welfare not Warfare: Public not Private

The National Institute of Social and Economic Research published its report on 'Joining Up Pro-Productivity Policies in the UK' on 8 July. It represented a tacit rebuke to the government for its failure to develop any comprehensive approach to Britain's disastrously low levels of productivity growth.

- Current levels of public investment were, it argued, 'very low' by international standards' (leaving a '£2 trillion gap') and that to meet these standards UK investment needs to be doubled to between 4 and 5 percent of GDP.
- The approach needs to planned at regional level, to be concerted and integrated – and throwing small parcels of money at mayoral and city regions militated against coherent development
- The approach should be focused on public sector productive assets – with synchronised and mutually planned programmes for transport, housing and skills training, especially in digital applications.