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 81: September-October 2025

Scotland's vulnerable economy

The Fraser of Allander business monitor for the third quarter of 2025 indicates very subdued outlook: 80 percent of firms expect little or no growth over the next year. For the first two quarters of 2025 GDP growth was half that in England at 0.3 percent (the result of a 1.9 percent reduction in production Quarter2 2025 on 2024 against a 1.4 percent increase in services). Manufacturing contracted by 2.9 percent – mainly chemicals and reflecting the loss of Grangemouth. It is now at a lower level than 2019. The Quarterly also summarises the important research carried out by Megan Howes on the longer-term decline of manufacturing. She finds that since 1971 Scottish manufacturing has become much more narrowly focused, more dependent on exports and more vulnerable to external shocks. Since 1996 manufacturing employment has halved (and any compensating development in services less than England) with the Scottish economy becoming much more narrowly focused. In comparison with England exports are disproportionately reliant on just two areas, whisky and salmon. Electronics have halved since 2003 and the only significant area of expansion has been pharmaceuticals (up from 4 percent to 9.7 percent since 2000). Ownership is not covered. However, research by Richard Leonard shows the great bulk of exporting firms are now externally owned. Profits tend to be exported and not invested.

'New' production for military purposes

Defence Secretary Healey's industrial strategy was published on 8 September, the day before the key vote at the TUC which condemned the increases in military expenditure. Healey's introduction states '*we are in a new era of threat, which demands a new era for UK defence. To move to warfighting readiness, to deter threats and strengthen security in the Euro-Atlantic, we will REFORM procurement, INNOVATE at wartime pace, and GROW our industrial base.'* The new strategy stresses plans to enhance the regional distribution of defence jobs across England, Scotland, Wales and Northern Ireland. In terms of **new** contracts for Scotland, these seem to have so far been limited to the £10Bn contract for ten warships for Norway to be built at BAE Govan – estimated to sustain, over the next decade, 2,000 jobs in the yard and another 2,000 outside (roughly the existing levels of employment). To enable the supply of plate steel the government announced in October that it is financing the reopening of Dalzell Steel in Motherwell where workers have been on unpaid furlough for the past year. Dalzell is ultimately owned by Singapore-based Greensill currently being investigated by the Serious Fraud Squad. The government is also spending £11m to develop a Welding Development Facility at Clydebank (Rolls Royce in partnership with the Malin Group). These developments were given a central place in the prime minster's speech to the Labour Party conference. No details have yet been given of the promised aid to Rosyth.

Scotland's budget position ahead of Reeves' Autumn Statement

Estimates of the size of the 'fiscal gap' in the Treasury's earlier statements, particularly as a result of the reduction in levels of growth, vary between £20Bn and £30Bn. At the lower level this would indicate a cut of over £2Bn in previous estimates for Scotland – a minimum of 4 percent reduction in the block grant from Westminster. The September increase in unemployment to 4.8 percent will also impact negatively on both revenue and expenditure.

Commons Paper on the scale of military expenditure

A House of Commons Research Briefing issued on 10 October detailed the scale of increase over the past five years. In 2019-20 spending was £29.9bn. In the 2024/25 financial year, the UK spent £60.2 billion on defence. Spending plans set out in the 2025 Spending Review show that defence spending is expected to total £62.2 billion in 2025/26, increasing to £73.5 billion in 2028/29. This is equivalent to an annual average real-terms growth rate of 3.8% over this period – or in cash terms, including inflation, well over 7 percent. The report also notes that budgets have prioritised capital expenditure. This is significant in the context of the Bruegel Institute's 2024 research on defence spending. It shows that up to 10 percent of UK capital expenditure on weapons and equipment is spent abroad. With the new decision to buy a dozen F35 nuclear-enabled bombers this pattern does not look like changing. It is a finding that has very significant consequences for the argument that defence creates jobs. Not just do defence jobs cost up to three times more than jobs in social care or health (and involve an additional profit element) but a significant proportion of defence expenditure creates jobs elsewhere and not in this country.

Economic stagnation in the EU
Leaders fall out over debt-fuelled military expenditure

GDP growth Q2 2025: EU 0.2 percent; Euro area 0.1; Germany -0.3, Italy -0.1, France 0.3, Spain 0.8

Talk of 'military Keynesianism' has subsided as leading EU states battle low or zero growth despite increasing levels of military spending. Last year the EU modified its 60 percent/GDP rule on member states' national debt to allow an additional 1.5 percent of GDP spending on arms to be exempt. Germany relaxed its own strict fiscal debt rules to allow an additional 1 percent to national debt if used for defence. German defence expenditure has increased from 1.38 percent in 2023 to 2.0 percent in 2024 and a target of up to 3.5 percent over following years. Rheinmetall, Germany's biggest military producer, is estimated by the Financial Times to have trebled its capacity and also acquired a military shipyard, Lussen. At the same time US tariffs and Chinese competition have reduced German car output to below pre-pandemic level, a decline that continues. 2024 saw passenger car output 9 percent down on 2023. France, also battling economic stagnation, has sought similar solutions. In July 2025 Macron increased his defence budget by 2027 to 64€Bn, twice the 2017 level.

Will this provide a 'Keynesian' boost ? Unlikely on current figures. There is also the issue of arms imports.The Bruegel Institute's research on EU defence expenditure shows that over the past four years purchases of US equipment have increased sharply and now constitute up to 10 percent of the total defence equipment expenditures of EU countries, a bigger share even than Britain's and similarly at the expense of other areas of investment. The Bruegel research also identifies a further area of concern: that is, system compatibility and lock-in. Once a country's equipment becomes based on specific tech systems it will tend to become tied to them (Bruegel, Europe's dependence on US foreign military sales and what to do about it, October 2025)

The EU's response, pushed through by the President Von der Leyen earlier this year, was to allocate €150billion to defence (Security Action for Europe, SAFE) as an attempt to break out of this trap with the construction of an all-EU fighter-bomber jet. The last few months, however, have seen a fall-out between France and Germany on a) how far this should be based on an existing French prototype and b) how far Britain should be allowed as a partner rather than a supplier (possessing relevant technology but its technology US-linked). Spain, the only major EU country to have refused to increase military expenditure, has one of the highest EU growth rates.

Britain as US spoiler in Europe ?

The Starmer government signed two overseas economic deals in May 2025. The first was with the EU. It covers fishing, trade, defence and energy. It rolls over the terms of the previous Johnson deal and adds further deals over fishing rights (to continue another 12 years) and eliminates some 'trade frictions' (particularly in food trades), promises an ill-defined participation in the €150B EU defence fund, restores the Erasmus student mobility programme but also subjects all trade disputes as well as emissions trading to the EU Court of Justice. The second Treaty was with the US: the *UK-US Economic Prosperity Deal* – setting new tariff levels and agreements for collaboration in pharmaceuticals, aerospace, biotech, quantum computing and nuclear fusion.

Subsequently the US has brokered deals by which US tech firms base computing centres in Britain (these provide minimum employment, are at the bottom end of the tech range and consume water at a scale that will compromise existing supply). It has also seen the three biggest UK-listed pharma firms shift their future research programmes to the US (and, though their major shareholders are US, they had still offered a significant research base in Britain – linked to the NHS). October also saw Britain's only rare earth refiner shift to the US. Currently all ten of the London Stock Exchanges top valued companies on the London Stock Exchange have dominant shareholdings by US investment companies. Britain might well be seen as a US spoiler in Europe – being encouraged to be so politically and enhancing institutional links to the EU to do so.