Radical Options for Scotland and Europe

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Scotland's economic and social outlook continues to be worryingly uncertain. The 2026 Scottish budget did its best to conceal the basic issues. It did so within a wider British economy that looks equally vulnerable. This briefing will examine the immediate consequences for Scotland and then on what seem to be more structural shifts internationally.

Stephen Boyd for IPPR Scotland described Scotland's January Budget as 'tepid' and not beginning 'to address Scotland's pressing problems' – even those expressly identified by the First Minister as 'top priorities': child poverty and climate change. It provided only a minimal tax boost by freezing income tax brackets in face of inflation . It spoke about, but did not action, reform of the council tax. The Fraser of Allander highlighted 'what was not said' by Shona Robison: the £850m cut in capital spend and £450m in day to day spending over the coming year. COSLA estimated the shortfall for the Scottish living wage as £15m and early learning and child care at £4m.

The Scottish Fiscal Commission itemised areas facing cuts as education and local government services. It also noted that the budget set the guideline for increases in the living wage at 2.9 percent. Currently Retail Price inflation is at 4.2 percent and CPI at 3.4. It therefore seems that the current rise in unemployment will be used to lever in wage cuts. Additionally, and coming from Westminster not Holyrood, there is the cut in the UK Local Growth Fund used to sustain the voluntary organisations that have increasingly plugged gaps in local services. Over three years funding will have been cut by two thirds. More generally it is clear that worse is to come. As set by the Westminster government, Britain's 2026-27 budget held military expenditure at 2025-26 levels. From 2027-28 arms spending is to increase sharply. Social spending is likely to be further squeezed.

Dave Watson for the Jimmy Reid Foundation stressed the more general point, also made by Stephen Boyd, that 'social' spending is essential for any increase in general productivity – for the nurture and development of the next generation of workers and ensuring the well-being of those who currently work. In doing so, Watson stresses the importance of 'community' and the need for the trade union movement to involve itself, as in the past, in mobilisations at that level and doing so with a view to creating a much more community-based, owned and controlled economy.

The decline of Scotland's, and Britain's, economies

A basic problem, possibly the basic problem, determining this decline has been the failure to invest, and the consequent inability to increase productivity in Britain and even more so in Scotland. A research paper for the IMF in August 2025 by Leonardo Indraccolo speaks of Britain's 'decoupling' from the productivity levels achieved elsewhere since 2010. He does so on the basis of a specific comparison with the US which shows the major firms operating in Britain as failing to invest at anything like a competitive rate and industries failing to grow at a competitive level. Germany and France have not done well either. But Britain has done even worse – and Scotland worse still.

In his chapter in the 2025 Red Paper on Scotland Richard Leonard pointed out the complacent folly of the Scottish government in describing the external takeover of Scottish firms as 'investment into Scotland' when in fact the new owners usually seek markets for their own more productive plants based elsewhere and invest very little. Andrew Haldane, former Bank of England Chief Economist, has repeatedly highlighted the biggest issue: the increasing ownership of our major companies by consortia of investment companies commercially dependent on maximising their own immediate returns to investors. Taking the top 25 companies on the London Stock Exchange all are now owned in this way – by overseas companies, overwhelmingly from the US, investing on behalf of the very rich. This is also the case with the hedge funds operating in London. Of the top 15 all but two are US owned. Effectively Britain has politically, in terms of its governing institutions, abdicated control of its own economy. Only when companies go broke does the British state play any part in its productive infrastructure, its industries or a significant share of its essential services.

A savage and unsafe world

The UN Commission on Trade and Development (UNCTAD)'s 2026 'Global Trade Update' stresses the dangers at world level. 'Global trade enters 2026 under mounting pressure from slower growth, geopolitical fragilities, accelerating digital and green transitions and tighter national regulations'. The Bank of International Settlements has stressed this month the danger that continuing and rising inflation poses for an over-extended financial system. Kristalina Georgieva for the IMF also warned, at the 6 February conference for emerging nations: 'we will surely experience more shocks with depleted financial buffers and rising debt levels'.

These are coded warnings of the impact of Trump's tariffs (following on Biden's equally disruptive trade subsidies) on a fragile global financial system in which credit has ballooned to sustain America's AI giants. Already across Britain small and medium enterprises report cuts in employment in face of rising IT costs (IT giants actively use monopoly power) and more difficult market conditions. Some much larger companies are cutting expenditure including Unilever and Anglo-American Tobacco as well as 'wealth managers' such as St James Place. Globally the top six AI giants are spending $500B in 2026 with another $100B being spent by the top ten start-ups. Can their loans be sustained ?

A different Europe facing stagnation and war – and a dislocated Britain

The countries of the European Union are still adjusting to the geo-political challenges of the past five years. First there was the push by Biden, assisted by Britain, to re-focus geo-politically on the Pacific (against China) and, also assisted by Britain, to end the supplies of cheap oil and gas from Russia that gave Germany's cars, chemicals and engineering a competitive edge over the US, The past five years have been, for the EU's leading economies, ones of stagnation and outright decline. In 2018 Germany sold 4m cars to the US; last year the figure was 3.2m. Germany's overall economic growth has varied between -0.1 and +0.1 annually. France has done only marginally better.

Under Biden and then Trump, Britain was given the task of boosting NATO to become Europe's leading cross-national organisation – interlinking with EU states through the Coalition of the Willing, then pushing the EU's €150 billion SAFE rearmament programme and the accompanying decision to lift the 60 percent GDP debt limit for arms spending. Initially at least this spending programme was very beneficial to US armament companies. Even Germany had to spend 40 percent of its arms budget there because of the lack of local capacity. This has now changed with Rheinmetall the biggest arms producer in Europe (profits estimated at 15 percent for 2025: €1 billion), but Germany's overall GDP growth only rose by 0.3 in the last quarter and right-wing populism is continuing to gain ground and does so in face of the impoverishment of the less well off. A paper from Moritz Schularick of Germany's Kiel Institute (*Journal of the German Economic Association* 2026) finds the wealth of Germany's bottom 50 percent to have halved since 1990. The right-wing populist AfD is currently running just ahead of the ruling CDs in the polls while in France the far-right RN is moving towards 40 percent and possible alliance with the Republican Right. The EU's hitherto dominant powers, Germany and France, also appear to be in strategic conflict – seen in the current refusal of France's Dassault to cooperate with the German-dominated fighter aircraft project. France is now turning to Britain. A paper from the governmental French Haut Commissariat a la Strategie (Joel Reland, January 2026, No 14) has just discovered that the great bulk of British legislation remains fully compatible with EU law.

But the Starmer cabinet is conflicted. Unlike France and Germany its financial sector is controlled from the US. So are its biggest companies. Its military and intelligence centres are fused with their US counterparts. Writing in the Financial Times on 6 February Nicholas Macpherson, former Treasury Chief Secretary, remembered that in 2008 his office was over-run with (British) bankers; now (with a scarcely veiled reference to Peter Theil) it is with US IT moguls. A comprador state ?