Radical Options for Scotland and Europe

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Scotland's budgetary outlook remains difficult for the current financial year and uncertain for the next. It seems unlikely, according to the June Fraser of Allander *Commentary*, that the Scottish government's 0.5 percent payroll cut will resolve the government's growing deficit for 2026-27. More worrying still is the statement from COSLA (June 2026): "The [2026] Accounts Commission bulletin highlights the perilous position of Council budgets, with over half a billion identified gap for 2026/27. Of notable concern, the "critical financial pressures" facing our Health and Social Care Partnerships'.

More generally Scotland has seen a growth in unemployment – though it remains lower than that in England (4.4 percent against 5.0). The main increases are in areas affected by reduced consumer spending. This is likely to worsen. From 1 July increased power costs (£220 on average a year) are estimated to increase the number of households in Scotland spending over 10 percent of their income on energy by another 200,000.

In terms of the Scottish economy as a whole the onward march of US private equity continues. According to the *Scottish Insider* (2026), US private equity companies control up to 39 percent of all equity investment in Scotland's top 500 firms. This is concentrated in the biggest industrials, energy transition and essential services. This level of control heightens concerns about Scotland's low productivity. Private equity companies are usually profit-takers rather than investors. More generally, in terms of funding for Research and Development, the sharp decline (20 percent) in overseas student numbers is also likely to have a disproportionate impact on Scotland's R&D investment. In the past university R&D has compensated for very low levels of Scottish corporate investment.

The Burnham factor

What plans does the new prime minister in waiting have for Scotland ? In the course of calling for a devolution of powers from central government, Burnham talked about devolving more powers from the Scottish government to local and regional centres. On the face of it, this might seem constitutionally difficult – and politically inappropriate. However, if intended to create a new climate for discussion in Scotland, it is a perspective to be welcomed. The economic policy powers arrogated to central government in Johnson's EU settlement might indeed enable such restructuring.

What of Burnham's wider perspectives ? Public ownership of water? Yes. Overdue in England. But how far will it just rescue the shareholders of bankrupt firms ? Energy. Yes, essential, but leaving the state to pay for the rewiring of the grid to accommodate new local and renewable energy generation, something which the private sector should have done years ago. Housing ? Yes. Overdue. But £1 billion is not near enough – and how far will construction remain in the hands of the current monopolistic cartel of house builders ? And how far will any advance in public ownership subsequently be surrendered to the 'competition' requirements of another of Burnham's proposals: rejoining the EU ? More immediately, how far will Burnham resist the continuing ramping up of defence spending – wiping out any fiscal room for social transformation. The proposal for a land tax is good. Will it survive ? All urgent questions: policies are likely to be defined in months.

Britain's defence quagmire

Generals are still demanding massive hikes in military spending. Behind these demands, which can be expected to continue beyond Starmer's current settlement, lie the corporate shareholders of the big armaments companies, most of them, like BAE, American owned, and a contracting process that was (and is) both very lucrative and inherently wasteful. Contracts take years, sometimes decades, and the weapons are by then often obsolete. Drones, autonomous vehicles and space warfare rule today – but it is frigates and tanks that are being delivered. Billions are still being spent on Trident while NATO planners on Russia's borders in the Baltic now say Britain needs airborne nuclear weapons.

This seems to be at least part of the background to the current defence crisis. Minutes of the House of Commons Defence Committee detail the issues. The AUKUS hearing, late 2025 to early 2026 (Report 28 April 2026) met against the background of shifting US priorities, a new UK focus on Europe and a new Australian government much more concerned with managing relations with China. The conclusions seemed to be moving towards dropping Part II altogether (new weaponry for underwater warfare) and reconsidering Part I (nuclear submarines to be built at Barrow). The subs are not yet funded or moved beyond the planning stage. Conversely the hearings in March 2026, HC 1677, 'Defence in the High North', pinpointed the Arctic as the key area for future UK military concentration – holding lead position in the Joint Expeditionary Force within which Britain would supply much of the hardware to Baltic and Scandinavian nations to secure the seaways and raw materials. 2030 was discussed as the date by which partners should be ready for war with Russia. Again, however, there were issues of appropriate weaponry, the methods of delivering nuclear strikes and the role of currently un-commissioned submarines.

The EU and NATO: the rival ambitions of Germany and France

The past two years have seen, first, a determination by the US to reconcentrate its military might in the Middle East and, above all, the Pacific, a consequent evacuation of forces and military subventions from Europe and a growing conflict between Germany and France, or more precisely those who control the corporate wealth, as to which country would reap the benefits of becoming the dominant armaments producer. This is at a time when economic growth across the EU as a whole has slowed, and, in its former economic power house, Germany, has, since 2019, virtually stopped.

The UK Parliament Research Briefing for 12 June gives the figures. Growth for Germany since 2019 just 0.8 percent, UK 6 percent, France 6.3 and Italy 7.4. All very low for a six year period, scarcely touching 1 percent annually (and to be contrasted with 15.5 percent overall in the US and over 25 percent for China). But Germany's decline has been exceptional – still minus 0.1 for the first quarter 2026 with 100,000 redundancies announced by Volkswagen this June.

Germany's response has been to become lead weapons producer for Europe – as far as possible cutting out its leading rival, France. The EU's economy research institute Breughel published a report on 3 June (Gunter Wolff, 'German Rearmament'). This details Germany's aim to have the 'strongest conventional army' by the next decade, able to defeat Russia, and with matching levels of military procurement directed particularly to German companies. Currently 60 percent of expenditure is for German sourcing (up from 30 percent in 2020) – with almost all the rest going to the US. The past six months have seen the final abandonment of the joint Franco-German project for a 'European' fighter jet with other joint ventures now in question. On 23 June talks were announced between France's Thales, Italy's Leonardo and Airbus for mergers – opposed by Germany.

Germany in turn has taken the most hawkish line in EU diplomacy with Russia. This June German Chancellor Merz sought to block the mission by the EU president Antonio Costa for exploratory talks with Russia (*Financial Times* 23 June).

In this context, NATO's supreme allied commander in Europe, US general Alexus Gryngkewich, had denied, just two weeks previously, that Russia was preparing military offensives against any EU country and claimed Putin was currently seeking non-aggression agreements (*Financial Times* 11 June; *Defence News* 12 June): *I've watched the intelligence very closely. Russia is not looking for a conflict,*" Gryngkewich said. "*They do understand the term 'defensive alliance,' and they do understand that we have a number of asymmetric advantages.*" British chiefs of staff, and MPs, should take note.