

# Radical Options for Scotland and Europe

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## BRIEFING 86 AUGUST-SEPTEMBER 2026

**Scotland's financial outlook appears increasingly problematic ahead of the UK budget on 28 October.** On 25 August the Scottish Fiscal Commission described the outlook for 2027/28 as 'challenging' and that day-to-day spending on public services could fall overall. The assessment noted that the January 2026 Scottish budget had revealed an underlying deficit of £659m and that projections for 2026/27 had assumed NHS savings of £563m 'which do not appear to have happened'. COSLA, representing Scottish local authorities, issued a statement in August warning that many services were now on life support. Core funding had only increased by 0.2 percent since 2013. Ring-fenced services now take 24 percent of the total. Cost pressures are impinging on child poverty, employability and business support. All this is before factoring in the impact of inflationary food and energy costs on wages (see below).

Stephen Boyd of the Institute of Public Policy Research (Scotland) responded to John Sweeney's Autumn Statement by noting that it was 'correct to prioritise democracy-enhancing local government reform and the long-term sustainability of social care for this Parliament. But it is difficult to envisage how any real consensus can be achieved over the next three months. Proposals to consolidate public bodies, including health boards and environmental agencies, need to be properly and quickly fleshed out. Past experience suggests that merger costs will be underestimated and savings over-estimated. The key question is: how will these reforms improve delivery for the Scottish people? Several new commitments, including the bus fare cap, point to higher spending. Others, including a major projects office and a growth unit, imply more administration. But the first minister made little reference to constrained public finances, the government's commitment to reduce public sector employment, or the trade-offs inherent in delivering new spending.'

Andy Burnham has called a meeting of the National Economic Council for Scotland, Wales and Northern Ireland for this October. The meeting will have to review the immediate funding crisis as well as proposals for further devolution – designed to permit greater local 'community' involvement in economic and social development. A key issue here will be how far consideration will be given to questions repeatedly raised by the STUC (and its counterparts in Wales and Northern Ireland) about the external ownership of both industrial and land resources as barriers to real community ownership (See the STUC's **Behind the Rich List - Scotland's Wealth Gap**)

### Britain's Crisis of Development

Chancellor Healey's announcement at the end of August that he was dropping the arms spending target of 3 percent GDP for 2030 indicates the likely severity of the October budget. It also highlights the wider fiscal and developmental challenges facing Britain.

In the immediate future Britain will face both higher costs of energy as a result of the Gulf War and higher food prices resulting from world-wide harvest failure and the impact of conflict in Ukraine and Russia on grain production. The Food and Drink Federation estimate a minimum 10 percent price increase by December. Household energy will rise by the now increased maximum statutory limit of 9 percent. Between them food and energy now make up over 20 percent of the expenditure of the average working class household. On the wages front it should also be noted that the financial and business representatives on the Bank of England's Monetary Policy Committee, meeting on 28 July, considered they can hold the line against any matching wage increase and did not feel it necessary to increase interest rates: 'loose labour market conditions and high interest rates faced by households' would act to 'reduce inflation' (meaning in plain language that rising unemployment and the pressure of debt on households will make collective action to defend wages more difficult).

The current bleak outlook was detailed by two research papers issued by the House of Commons Library on 24 August. Manufacturing industry has been stagnant since 2022. Productivity (GDP per hour worked) was lower by 0.2 in 2026 Q2 than 2025 Q2 and has not increased since 2021 (when it was only 5 per cent higher than 2007). By international comparison Britain stands at 79 compared with France 87, Germany 94 and US 97 (2023 figures). Household spending is at the same level in 2026 as it was in 2021. On the other hand, the index of stocks quoted on the London Stock Exchange has increased from 7,000 to 11,000 since 2023 – either indicating debt fuelled speculation or higher profit levels or both. The growing crisis in bond markets points to the former.

Britain's longer term challenges are outlined in research published last month by the Institute for Public Policy Research from William Ellis and Carsten Young on 'Why we need a better fiscal framework'. This looks at the increase in Britain's national debt over the past decade and projects the same rate of increase to the 2050s and 60s. Britain's increase is not very different from that elsewhere in Europe where economic growth has been at a historic low for the past two decades - much lower than that globally. Ellis and Young calculate the costs of servicing such a debt, increasing at the same rate as at present, would grow from 7 percent to between 21 and 47 percent of tax income by the 2060s – with payments to wealthy bond holders crushing what remains of the welfare state. However, the authors also argue that a speedy shift in government policy towards systematic public investment in comprehensive preventative health care (and associated productive investment), in measures to ensure climate resilience and associated measures to enhance industrial productivity could minimise the increase in government debt to less than ten per cent of tax income.

#### **Continental Europe slowly strangled by the EU's neo-liberal structures**

EU states are, like Britain, faced with economic stagnation, rising debt and political turmoil. Total EU public debt has risen from 12.9 trillion euro in 2021 Q2 to 15.9 trillion euro in Q2 2026 – most sharply of all in France. France's interest rate now stands at 4.13, the highest since 2008. At the same time economic growth has been minimal. Germany has managed just 1.5 percent over a five year period; France 4.5 and Italy 5. The formerly dominant German car industry has lost over 100,000 jobs and is forecast to lose another 150,000 by 2035 (Financial Times 25 August). Output in chemicals is down 30 percent. And while public ownership continues in some sectors of the productive economy in France and Italy, it is now as a strategically dependent partner of private capital. The rapidly expanding arms industry is entirely state funded but privately owned and plagued by competitive rivalry. Writing for the European Policy Centre (24 July) Paul Taylor documents the collapse of the two major joint (Franco-German) projects all reliant on the private sector – for the 'Main Ground Combat System (tanks) and The Future Combat Air System (fighter aircraft). Research by Guntram Wolff for the Kiel Institute (12 May 2026) analyses Germany's 85 billion euro armaments order book for 2025 (the biggest in Europe) and finds the great bulk of it focused on old technology and dependent on buying hi-tech aircraft and drones from the US.

#### **The global dollar economy now in crisis territory**

A review of public debt in the Americas in the Summer 2026 *Bulletin* of the Bank of International Settlements by Eduardo Ameral describes the 'unusually high debt levels materially heightening the macro-financial risks associated with fiscal loosening'. This applies to a number of countries but now includes the US. Many of the manoeuvres over the summer by the US Treasury and Federal Reserve, such as the use of euros to prop up the Japanese yen, appear to have been taken to offset the effects of ballooning US public debt (crisis-stricken Japan is one of the biggest holders of dollar bonds). This year the US's domestic economy has seen rapid expansion – partly on the back of AI investment (an industry tightly intertwined with the US military) and partly as a result of Trump's strongly protectionist economic interventions. However, the level of economic activity remains highly dependent on unprecedentedly high federal expenditure (Taj Parikh, *Financial Times* 29 August). The same issue of the FT cites David Shilling and Jonathan Llewellyn from Independent Economics on US's 'increasingly aggressive tactics' to maintain internal and external investments in US bonds.