**AUSTERITY DAMAGES BUSINESS**

**The Business Argument for Social Investment**

**Introduction – Tony Banks**

Austerity damages business. It damages the economy and increases, not decreases, sovereign debt. Austerity makes it harder to do business, harder to make profit, and harder to keep employing workers, damaging the prospects for future business. The major political parties at Westminster are all signed up to long-term austerity measures, continuing to cut public spending and social investment, thereby causing long-term damage to the economy. The current plans of George Osborne will take public spending down to levels not seen since 1948 and competition to see who can cut deepest and fastest appears to be developing at Westminster.

That prospect is worrying for Scottish businesses. We need social investment, we need public investment in services and infrastructure, we need government to look at the evidence and invest rather than cut out of ideological blindness. The economy we operate in has already been damaged as a result of this wrong-headed austerity programme and we need an immediate shift from austerity to increased levels of investment. That looks almost impossible in the UK; the fixation of all of those competing for high office in London is cutting public spending.

At Business for Scotland we contrast the position of those Westminster politicians with the political conversation in Scotland. We see the intent of the current Scottish Government to find the money for social investment, we hear the calls from campaigners for investment in a series of programmes, and we see a more considered appreciation of the economic outlook and what government can do. We see the contrast and consider that the best option for Scottish businesses is full control of the economic and fiscal levers being vested in the Scottish Government. This may have been possible if Full Fiscal Autonomy had been implemented some years ago but it is, clearly, now only likely to be possible with independence.

**Tony Banks**

Chair of Business for Scotland, Owner of Balhousie Care Group, former Para who fought in the Falklands, serves on the board of the Scottish Entrepreneurial Exchange.

**The Academic Evidence**

Scots-born **Mark Blyth, Professor of International Political Economy** at the Ivy League Brown University, has written of the damage that austerity does to economies. In his essay [*The Austerity Delusion*](http://www.foreignaffairs.com/articles/139105/mark-blyth/the-austerity-delusion) he noted that "every country that had embraced austerity had significantly more debt than when it started" and that there were no examples in history of a nation cutting its way to prosperity.

He identified factors which undermine the 'stop spending' argument; the uneven distribution of pain (the poorest get hit hardest) "is both cruel and mathematically difficult"; trading partners cutting their spending at the same time leads to contraction of the common economy; and public spending cuts don't promote private investment and doesn't boost investor confidence.

Professor Blyth also noted the historical lessons of austerity of the first half of the 1920s and 1930s and the advantage that the USA gained by not indulging the same austerity orgy as Europe from 2008 onwards and lamented the increasing American austerity programme. He pointed to public works being left undone, learning being damaged and the skill set of the underutilised labour market atrophying.

**Professor Brian Ashcroft, Emeritus Professor of Economics** at Strathclyde University and Economics Editor of the Fraser of Allander Institute Economic Commentary, [warned in March 2012](http://www.heraldscotland.com/politics/political-news/economist-says-austerity-policy-is-serious-mistake.1330571038) that "This austerity policy is a serious economic policy mistake that will arguably be remembered for generations to come" and added that "It is also an economic tragedy because of a risk a generation of employees may lose, or fail to gain, key employment skills that would be of significant productive use to the economy. Potential output will fall."

In [May 2013 he said](http://www.bbc.co.uk/news/uk-scotland-scotland-business-21688927) "Household demand, net trade and investment demand remain weak while fiscal austerity continues with 68% of planned benefit cuts and 78% of current departmental spending cuts still to come after April this year" and added "Ironically, the UK lost its AAA credit rating not because of fiscal profligacy but because of austerity. The austerity has severely lowered growth and tax revenue prospects as affirmed by the IMF."

Even the **European Commission** [has admitted](http://ec.europa.eu/economy_finance/publications/economic_paper/2013/pdf/ecp506_en.pdf) that austerity has stifled economic recovery and deepened the economic crisis.

**The Local Economy – Frances Barron**

Austerity cuts are the noose around the neck of local businesses. Many local businesses are already struggling to stay afloat as people feel the squeeze of the UK government's obsession with an economic model which has failure stamped all over it. Profits shrink as businesses try to remain competitive in the face of rising costs. Staff cuts and reduced hours are becoming the norm. Businesses are closing so less and less money is available to spend in those businesses which still manage to stay afloat. The UK government plans to spend billions on replacing Trident; that would be spent stimulating the economy.

Austerity removes money from local economies. Cutbacks in capital mean lower turnover for construction firms and cutbacks in revenue mean the same applies to firms providing services and revenue stream goods. As that money is removed from the economy the cashflow that powers local trade slows.

When that happens trading becomes harder for companies at the front line and there are knock-on effects for businesses up the chain - as turnover drops orders with suppliers drop; capital expenditure is deferred so repairs and refurbishments aren't done and equipment isn't replaced.

The long-term and continuing effects on business are serious; as income drops expansion becomes less likely and contraction becomes a threat. Continuation of those conditions threatens the survival of businesses. That tightens the screw again, increasing unemployment, reducing the cashflow in the economy, perpetuating a vicious spiral.

That spiral is made steeper, tighter and sharper by cuts in benefits. It's a blunt, cold and unavoidable fact that those with least resources are those who will spend the greatest percentage of their income on a daily and weekly basis as they buy essentials - surviving instead of living. Taking resources out of that subsistence economy is taking cashflow straight out of local economies, damaging the prospects of prosperity. Austerity is bad for business and the businesses worst affected are small and medium sized businesses (SMEs). 98% of Scottish businesses are SMEs - austerity is bad for Scotland.

**Frances Barron**

Owner of The Dessert Depot and Handmade Cheesecake company and is based in Ayr, raised in a mining village in East Ayrshire, spent 25 years in electronics manufacturing with blue chip companies, launched business in 2003.

**Business needs the NHS – Jil Murphy**

Business needs employees to be healthy in order to keep business moving. When health fails business needs employees healed and back to work quickly. Poor health or unaddressed weaknesses in workers damages business; productivity is damaged where employees are not at their best or when they are ill. Business also needs prospective employers to be healthy; without a supply of healthy individuals willing - and able - to work, business will find itself with a labour shortage.

An effective health service available to employees and potential employees is a sensible business investment as well as a social investment and it should be free at the point of use; the [Prescription Charges Coalition produced research](http://www.prescriptionchargescoalition.org.uk/uploads/1/2/7/5/12754304/prescription_charges_and_employment_report_feb_2014.pdf) which showed that charging for prescriptions led people to make choices about their treatment which resulted in them missing work through ill health. That's a cost to business and the abolition of prescription charges helps ensure that the health service is available to all when it is needed.

Investment in the nation's health service, sufficient investment in training medical staff, building and supplying the infrastructure, keeping people healthy and restoring the others to health are vital, not just to the health of individuals and society in general but also to the productivity health of commercial enterprise. Business needs the NHS.

Scotland's NHS has been protected to a great extent by the Scottish Government and by the Scottish Executive before that. Public investment in the protection and promotion of health has been maintained in the face of budget

pressures but it is questionable, to say the least, whether such investment can be maintained if the austerity agenda continues and cuts to the Scottish budget are exacerbated in future years.

**Jil Murphy**

Founding partner at ThinRedLine Design, a marketing and branding company, has worked as a freelance stylist and copywriter and in property, establishing and managing Home Apartments and a property development company, MacBeth & Murphy Ltd.

**Business needs excellent Education – Donald Maclean**

Business needs an educated workforce and an educated pool of potential labour to draw new workers from. Not only do we need our employees to be able to read and write and count, we need professionals to work for us and with us. We need accountants, engineers, architects, lawyers, researchers, IT experts, scientists, and so on.

We also need an educated marketplace with money to spend. People who can understand the product are more likely to buy or invest and are more likely to recommend it. We need a pool of potential customers with the resources to buy - that's why graduates shouldn't be leaving university with large debts; new graduates, earning a proper salary for the first time and not yet burdened with family responsibilities, mortgages and other repayments should be an economic driver.

Additionally, having young professionals, those just starting out on their careers, relatively free of financial concerns means they will have more energy and concentration to apply to learning their craft and providing an investment return for employers. Tuition fees and student loans are a drag on the economy and bad for business. We need education to be an investment in society, not a tradeable commodity.

The Scottish administration has, so far, been able to abolish tuition fees and provide bursary funding for some students and we'd like to see that go further with increased investment in education to grow that educated workforce and customer base. As with health spending, however, continued downward pressure on Scotland's budget would create tensions that would threaten this investment.

**Donald Maclean**

Owns the largest Scottish utility consultancy, Business Cost Consultants.

**Business Needs Effective Infrastructure – Kat Heathcote**

We need good infrastructure. We need investment in our ports to be able to efficiently bring in raw materials and get them to our manufacturing centres. We need excellent transport links to get our goods to the marketplace and to get our workers to and from work safely. We need telecommunications - internet facilities and telephone networks - to communicate with suppliers, customers, servicers, and with each other. We need efficient and effective utilities supplies to keep our businesses running.

We need an integrated infrastructure strategy that is properly planned and organised on both a national and regional scale. We need to take account of the diverse needs of businesses in different areas of the country. Harris tweed manufacture in the Hebrides has different infrastructure needs from the oil industry in Aberdeen; a farmer in Galloway has needs that differ from a publisher in Livingston.

We need public investment in the nation's infrastructure from planning to building and on to maintenance and improvement. Scotland's infrastructure at both local authority and national levels is suffering from a massive maintenance backlog and is years behind in terms of planning and building new elements. There is a long-term plan in place for transport, but it is very long-term and Scottish businesses need more attention to be paid right now.

Investment in our infrastructure needs to be substantially increased and that cannot happen while cuts reduce the resources available for investment.

Infrastructure investment is impaired by the austerity agenda. Scotland needs that investment

**Kat Heathcote**

Director/Owner at Witherby Publishing Group, which she joined in 2004 after more than 20 years in the energy industry with companies such as BP and Wood Mackenzie.

**Business needs Security – Anne Rendall**

Business also needs to know that our borders are safe; that when a foreign, uninvited naval vessel enters our waters our response won't be 1,000 miles away and take days to sail up to face the potential threat. We need to know that our customs service is well enough staffed and equipped and appropriately located to ensure that our business investments are not compromised by a porous border for illicit imports. Our marine industries need to be confident that a vessel in trouble will have a coastguard service nearby staffed by people with knowledge of the local area and that tugs will be available to help them if needed. We need to know that search and rescue services are available - including a maritime patrol option like Nimrod - to keep people safe.

Scotland currently lacks the ability to fulfill those needs; we have no naval vessels protecting our coastline; a customs operation stretched beyond its elasticity; a coastguard which lacks tug capability and whose operations are being diminished under the austerity regime; and a search and rescue system short of capacity and lacking any Nimrod-style service. The UK spends more than the European average on defence but defence resources are scarce to non-existent in Scotland and we get far less than a population share of defence spending. Austerity can and will only make this situation worse. We need investment in these public services, we need Scottish waters to be safe and Scottish borders to be secure; we need confidence in our security.

**Anne Rendall**

Owner of Vine Communication in Dundee, previously worked as a journalist on best-selling magazine Jackie.

**Justice – Les Meikle**

We need to have our investments protected - our premises and our goods. We need our staff protected, our customers protected and our suppliers protected. We need a sufficient and effective police force and an effective justice system. Workers will work better when they have fewer concerns about their safety, the safety of their families, and the security of their homes and workplaces; they will be more efficient and effective when the communities they live in are free from crime. Customers are more likely to spend when they have the same confidence, and suppliers will be more reliable with that confidence. Business is heartened by the increase in police numbers in Scotland but concerned that future changes forced on the justice system by budget cuts may impinge on our potential growth. We note the HMIC report ["Adapting to Austerity"](http://www.hmic.gov.uk/media/adapting-to-austerity-20110721.pdf) which says that austerity will cut 11% of the police force in England and Wales. .

We need public investment in our security and that investment is made all but impossible by the austerity agenda.

**Les Meikle**

Founder of the largest property preservation company of its type in Scotland, previously worked as a quantity surveyor then preservation surveyor before setting up Wise Property Care, director of the Entrepreneurial Exchange and Chairman of the Property Care Association.

**Dignity – David Cairns**

Dignity provides the foundation for hope, aspiration and ambition; these in turn provide the conditions to foster stability, quality of life and personal and economic growth. Business prospers in a positive social environment. But a population shorn of confidence produces an uncertain, depressed marketplace and a demotivated workforce. Without dignity, without the belief that our fellow citizens will be afforded at least the basic essentials of life - food, shelter and warmth - without these essentials of humanity the confidence, optimism, creativity and collaboration that business needs to succeed are replaced by fear, timidity, distrust. And this destroys the very conditions that business needs to thrive.

It will be a rare person who is not discouraged, hammered down by economic deprivation created by an uncaring, indiscriminate austerity programme that delivers policies like the ‘bedroom’ tax. Such a person, as a new or existing employee, shorn of confidence, is a cost to business and therefore a drag on society. Such a person, as a customer without trust in a better future, without ambition, is a very difficult sell and therefore a cost to business. A society lacking belief that retirement will not mean years of penury is a society that fears the future and is therefore more cautious about spending in the present, making selling to them a harder proposition and a cost to business. All this makes it more difficult for business to thrive.

**David Cairns**

Chairman & Managing Director of PrismTech Group, he has held top management positions with small private to large publicly traded technology companies in the USA, Canada, the UK, Netherlands & Germany. Led multi-million dollar IPO's on the NASDAQ and Amsterdam stock exchanges. A, Fellow of the Chartered Institute of Management Accountants, director & past Chair of ScotlandIS, the trade body for Scotland’s digital industries, Advisory Board member Edinburgh Napier University’s Institute for Informatics & Digital Innovation. Member of the GlobalScot network.

**Conclusion - business needs independence**

The business society is part of the larger society; business needs society itself to be strong, confident, aspirational, united and hopeful to create the conditions for growth. Business in turn creates wealth, employment and the means to improve living standards. It's a symbiotic relationship. Business generates tax revenues, reinforces confidence and aspiration and adds value to the lives of individuals; business growth will create further tax revenues, greater confidence and more aspiration. Without a strong society money in the bank is just numbers in a computer's memory banks.

Business makes a valuable contribution to society but it needs a society capable of sustaining it. Austerity damages dignity; austerity damages confidence; austerity damages aspiration; austerity damages business. The dehumanising and dispiriting effects of austerity that damage society also damage the business environment. Business needs social investment; business is helped by a strong and supportive welfare state; business relies on effective health, education and justice systems.

The austerity fetish that has infected UK politics is extremely damaging to Scottish business; it undermines our efforts to build our companies, bring in profits and create wealth. When we see business opportunities we invest, we put in our money, time and effort and that creates benefits for the society we are part of. Austerity limits those opportunities in number and shrinks the potential of those that remain.

The opportunity to rebuild and reinvigorate a nation where business and society become mutually supportive and reinforce the benefits that each brings the other is an opportunity that Scotland should not miss in the referendum. Independence is, quite clearly, the best choice for Scottish business and a Yes vote in September will open up a range of possibilities. Yes is the key to unlocking opportunity.

**A Few Facts**

* Only 40% of the George Osborne cuts are in place - there are still £25bn in cuts to come in 2016/17.
* Scotland will have suffered £6bn in welfare cuts by 2016; £2.5bn of that in the year after the referendum if there is a No vote. It’s simply irrational to expect there to be money available in the Scottish budget to mitigate the effects of those cuts without cutting money from other vital public spending.
* The UK’s public sector debt is still rising in spite of austerity, both in terms of the absolute amount owed and the debt to GDP ratio.
* George Osborne has stated his intention of continuing his austerity programme for a further three years.
* The Scottish budget has already been cut by more than 10% under the austerity regime.
* £100m of construction expenditure supports around 1,300 jobs.