



New Year Message - David C Watt, Executive Director, Institute of Directors, Scotland.

This past year has been traumatic for many businesses and individuals with 2011 looking like it may bring more of the same for many. However, on balance, 2010 wasn't quite as bad as some expected and hopefully the year ahead will not be as horrific as some fear.

That said, 2011 will certainly be a challenging year for Scotland's economy, with our hard working businesses required to show continued strong leadership and innovation if they're to chart a path back to prosperity.

And it will be tough, especially with economic growth across 2011 forecast to be slow (just over one per cent) and the impact that will have on our ability to stabilize unemployment, which although showing encouraging signs of dropping, remains above the UK average. Any growth forecast is however welcome, given that only a year ago such talk would've been dismissed as naively optimistic.

The rise in VAT is also a worry, given it could negatively affect consumer confidence, which itself is a key component to growth. The movement of interest rates might also prove significant here. One hopes that they will remain flat in 2011 but faced with potential rises in inflation there could well be increases – which will not be helpful to hard pressed individuals or businesses.

However, the big question concerning everyone is whether the Chancellor has got it right in correcting the economic drift or if we'll enter a double dip recession following widespread public sector cuts. No one can be sure, but if we push all the growth buttons and truly put the economy at the forefront of our agenda in Scotland, then perhaps we can drive private sector improvement hard enough to pull us through the worst - as fast as possible.

As we continue to see an ongoing squeeze of the public sector across Scotland and beyond, there are a number of significant sectors which have continued growing through the recession and are capable of soaking up at least some of the employment and skills released by reductions elsewhere. Renewable and other aspects of energy certainly will be one, as will a re-focused tourism industry, along with a re-energised manufacturing sector which has done extremely well to recover over the last year. Add life-sciences, technology, specialised financial services and business services provision and we have a solid base to compete globally.

Politically, 2011 will be an important year, with the Scottish elections ahead and the ongoing ramifications of the updated Scotland bill.

As ever, regardless of whoever holds the levers of power at Holyrood, business groups like the IoD will continue to work constructively with government – in Edinburgh and Westminster - to provide the best environment for business to thrive. Such co-operation is equally essential between politicians if business is to receive the strategic support required to return our economy to growth.

Whoever wins May's election will need to make hard decisions. The downturn has to be faced, although it also presents an opportunity to force through changes that many of us have long felt essential to get our economic balance correct. GDP with over 50% coming from the public sector is not sustainable and politicians and others must be brave enough to make the structural changes required to deliver long term prosperity.

In terms of public service in Scotland, for too long we've been locked in dogmatic debate instead of facing up to reality and moving on. We've truly "been fiddling while Rome burns!" and this can't continue. We have to move people working in the public sector into the private sector and find the entrepreneur inside them to make our country grow and prosper. 2011 hopefully will be the year we do that.

We must also finally address wage rates in the public sector where teachers, doctors and many managers receive salaries we simply can no longer afford. Equally, we should be looking closely at artificially maintained public sector pensions while also considering how we fund higher education at a time when around 50 per cent of youngsters are now opting for this route after school.

Alternative delivery methods for public services – such as co-operatives, trusts and social enterprises as well as the private sector - must also be seen as viable future options, considered across all areas from local authority services and economic development to social care and environmental protection.

2011 will undoubtedly be a time for tough decisions. However, with continued strong leadership across our business community matched by positive will from our politicians, it can be a year of optimism for Scotland and its people, especially if we all sign up to economic realism and genuinely work together to face (and overcome) the challenges ahead.