

Scotland's problem is it does not have enough businesses



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CREDIT: ANTHONY BROWN

It might be the threat of leaving the European Union. It might be the years of austerity imposed by the cruel-hearted English. Heck, it might even be the legacy of the crushing of its industry by Mrs Thatcher three decades ago. There are lots of potential explanations – north of the border anyway – for why the Scottish economy might not be living up to its full potential within the UK.

But here's the real reason. It simply doesn't have enough businesses.

According to figures just published by the Scottish Government, the number of companies is now falling in Scotland, while it is rising rapidly across Britain as a whole. It is hard to see that as anything other than very worrying for the future of its economy – for the simple reason that without lots of businesses, and new small businesses in particular, it is very hard for growth to be sustained.

Unless a way can be found to turn that around, Scotland has little future as an independent economy – and if it stays, as seems more likely, it will turn into more and more of a drag on the rest of Britain.



The decline of North Sea oil is one factor behind Scotland's shrinking economy CREDIT:ACE STOCK LIMITED / ALAMY STOCK PHOTO

There can be little debate that the Scottish economy is starting to persistently underperform the rest of the UK. An analysis by the economist John McLaren published in the summer found that Scottish GDP fell last year, while growing for the UK. Overall, it has expanded by only 4pc since the recession of 2008/2009, compared with 23pc for the UK. In the second quarter of this year, the Scottish growth rate was a whole percentage point behind the UK rate. Relentlessly, the country is lagging behind the rest of Britain, opening

up a widening gap in productivity and wealth. Year after year, the Scots are getting poorer relative to the UK.

The decline in North Sea oil has, of course, been one factor in that. But it is far from the whole story. In truth, Scotland has become an increasingly unattractive place to base a business – and that is starting to have an impact.

The Scottish Government has just published figures on the numbers of companies operating in Scotland. They show that there are about a quarter fewer businesses in Scotland, measured on a per capita basis, than for the whole of the UK. More precisely, it has 768 enterprises per 10,000 people compared with 1,040 for the UK as whole – a huge difference given that, on the surface, you would expect the numbers to be roughly equal. Even more significantly, it now has the lowest ‘business density’ rate of any region or country within the UK – it is performing even worse than Northern Ireland and Wales, the next two regions with the lowest results.



Scotland might have plenty of wide open spaces - but what it doesn't have is a high density of businesses CREDIT: MEDIA MOGUL

More seriously still, the numbers are now falling. From March 2015 to March 2016, the number of enterprises fell by 3pc, even while the total was hitting record levels for the UK. Even worse, it has far few small businesses than you would expect. There are only 210 small businesses per 10,000 adults in Scotland compared with 243 for the UK and large companies account for 45pc of employment north of the border against 40pc south. That matters. Small businesses are the source of future growth and employment – and new small businesses in particular. Scotland doesn't have nearly as many of them as it needs.

You don't exactly need a doctorate in economics to work out why that matters. There is a clear correlation between the number of businesses and overall prosperity. It is no surprise that the south of England has the highest business density rate in the UK. The more companies you have, the more competition you have for staff, the more companies are

forced to raise productivity, and the faster wages rise. Companies form clusters where success is re-enforced – but Scotland is starting to look more and more like a desert than a cluster.



Scotland is looking more like a desert than a dense cluster of businesses CREDIT: OLEG ZNAMENSKIY

What's the problem? The most obvious difference between Scotland the rest of the UK is the devolved, regional government dominated by a Scottish National Party that campaigns for independence.

The SNP has already introduced uncertainty about the future of the country and what currency it will have. There has already been one referendum on independence, which was decisively won for the union, but the SNP leader Nicola Sturgeon is now promising another one as soon as it is practical. How are companies supposed to feel about that? Do they want to base themselves in a country where the future is in so much doubt? Probably not.

Even more damagingly, the Scottish government is now also campaigning to take an independent Scotland into the EU, even as the rest of the UK leaves. We have no idea yet what the trade deal between the UK and the EU will look like. But if it is a "hard Brexit" there may well be tariffs. The trouble is, the EU is not a major market for Scottish industry. Once you exclude oil and gas, then Scotland chalks up exports of £11.6bn to the EU per year. By contrast, its sales to the rest of the world are £15.2bn, while exports to the rest of the UK account for a whopping £48bn. So once the UK has left, only 18pc of its exports will go to the EU, and its largest trade partners will be England and the US. Ouch. Do you really want to base your company in a place where there may be tariffs with your two dominant trading partners? Again, probably not.



Scottish Nationalism and the threat of independence is creating uncertainty which harms Scotland's economy CREDIT: AFP

And that is before you get into the SNP's specific policies. It has started increasing personal taxes by not lifting tax-free allowances in line with the rest of the country. That may well be a first step towards a higher top rate for Scotland – hardly encouraging for executives thinking of basing themselves there. It has introduced a punishing new set of rates on large companies – which prompted business organisations to protest that jobs would be lost to England. Overall, the SNP is rapidly turning it into a high-tax, high-spending Scandinavian economy – but without Scandinavian levels of skills or competitiveness.

The result? It is hardly surprising that companies are starting to shift away from the country. It increasingly has very little to recommend it.

It would hardly be difficult to reverse that. Northern Ireland is planning a lower rate of corporation tax. Why not match that? Or why not use its income tax powers to lower the top rate to 43pc – a few fund managers might decide the Edinburgh office was not so bad after all. There is plenty of scope – if the devolved government wanted to. But if it doesn't, the Scots should stop blaming everything on London and start paying attention to the way business is abandoning the country. Because if it can't fix that it will steadily get poorer and poorer – and become more and more of a drag on the rest of the UK.

