A new age of austerity

We've avoided economic Armageddon, but the recovery will be long, slow and painful. The hard work starts here...

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Pratt

After an uncertain year, we face the most fundamental change in the business environment ever known. The period of plenty is over and a sustained era of austerity is here.

At last, politicians seem to have woken up to this fact and share the view the rest of us reached nine months ago that there is a need for public expenditure cuts combined with tax rises. Most of us also recognise that business life will remain tough for a long time despite talk of "green shoots". We won't return to business as usual in a hurry and we have to adjust to what this means.

The impact of greater political involvement in the economy, both through bank ownership and a massive public sector, doesn't fill many of us with hope. It won't help us get out of our problems more quickly or less painfully. Anyone who has been involved with downsizing a government operation can tell you that. The redundancy, pension, and pay-off costs are significant and even as it becomes smaller, the public sector will still wreak havoc on the public purse. Add to this the inevitable strikes that will unfold and it is easy to see how a nascent recovery could be squashed at birth.

As entrepreneurs and directors, we face a future where our expertise has never been more critical. Higher taxation, savage cuts in public provision, unprecedented debt levels and increased government interference are not ingredients we would choose to help us revive the economy, but we will do our best. We must grab opportunities and resources to produce more than the sum of the parts. This value creation is the surplus from which all taxation ultimately springs.

But with an ageing population and a slowdown in immigration our effective labour pool is going to dwindle. Add to this the general shift in wealth from west to east, our compulsion in bringing the City to its knees through a sector-specific incomes policy on the money men, and it seems clear that the free capital at our disposal will also reduce as it migrates to more welcoming economies.

It is essential to forget outdated instincts. Some smart people continued to believe for a long time that the world was flat, that flight travel was impossible, and that there was no market for handheld music devices. But we don't have the time for such big errors of judgment.

During the good times, we focused on the pursuit of growth, on market share and on dominating particular markets. The answer to the question of "how big is your company?" has long been the turnover figure, or the employee headcount, rarely the net profit, and never the cashflow. Placing market share aspirations above profitability and cashflow is a habit that is going to be tough to shake. But the efficiency with which you put cash to work is what will give you an edge.

While Britain appears to have avoided economic Armageddon, it faces years of economic misery and the dawn of a long, slow and painful recovery. And that revival will be held back by high levels of private and public debt, an over-tightening of regulation, too much involvement of politicians in the economy, and the demographic time bomb that means the UK already has more people aged over 60 than it has under 15. On the plus side, austerity conditions will feed a frugality that should make us hungry enough to work smarter and to win in the modern gladiatorial contest that is business.

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JOHN ELKINGTON

KEEP MOTOWN'S WHEELS TURNING

"As they searched for glimmers of hope in the wreckage of the world economy earlier this year," *Time* magazine noted in its October 5 issue, "politicians, economists and commentators used one phrase so repeatedly that it became something of a mantra for our times". The phrase: In crisis, opportunity. And nowhere, it concluded, does the motto apply more than "to the problem of climate change. The financial crisis only crippled a global system; climate change is hurting the globe itself."

Time got the green bit between its teeth as long ago as 1990. It ran a dramatic cover with a crystal globe version of Earth exploding into shards. The magazine later upped its coverage of green issues, with this year's *Heroes of the Environment* survey, which extended beyond scientists, activists and political leaders to spotlight leading environmental entrepreneurs, from large-scale organic farmers through to carbon-trade brokers and Bill Weihl, the Google scientist whose mission is to make green energy ubiquitous.

But an even more interesting section came earlier in the magazine and focused on the hubris, racial tensions, myopic politicians, and the stupid auto industry leaders and woefully complicit union bosses who helped bring

"AUTO INDUSTRY LEADERS AND COMPLICIT UNION BOSSES HELPED BRING DETROIT TO ITS KNEES"

Detroit to its knees. Perhaps the key player was Representative John D Dingell, who did his level best over decades to stop Federal initiatives to make the US auto industry competitive by imposing more stringent energy efficiency standards.

But what really caught my eye was the two-page photograph of eight leaders—several working on environmental regeneration projects designed to help revive Motown. One suggestion is that, just as in the 1950s the US government began investing what turned into half a trillion dollars in what became the interstate highways system, we should now be funding areas such as fuel-cell technology and renewable energy to reboot the Detroit, US and global economies.

Fine, but only if they kick out the old-order leaders and replace them with the sort of people featured in *Time's Heroes of the Environment* survey.

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