

## **“Global Competitiveness: Maintaining the edge in adversity”**

**Industry Forum breakfast, 19 Nov 2009**

**Thanks to Rod and Mary, and to everyone for coming.**

**Its been an extraordinarily tough year, in the worst global downturn since the 1930s. One thing we have seen, I think, is, even in a globalised world, how much difference governments can make. The G20, under the UK presidency this year, took radical action to support the global economy – and I think its clear that was successful – and at the meeting in St Andrew’s two weeks ago, which I attended, launched a framework for strong, sustainable and balanced growth.**

### **Domestic Support**

**In the UK we stabilised the banking system and introduced fiscal measures to support demand. We complemented those measures through monetary policy, with a programme of quantitative easing to increase the money supply and boost activity.**

**We have taken direct action to support businesses and stimulate demand:**

- **the temporary reduction in VAT has been putting about £1 billion a month in the pockets of shoppers and retailers. I think its been one of the key reasons why retail sales have held up so well while the economy overall has shrunk sharply;**
- **Over 230,000 agreements have been reached with businesses to defer payment of over £4 billion of taxes, and what is very striking is that businesses are sticking to the agreements, so that £3bn has already been repaid.**

**All the governments at St Andrew's agreed it was too soon to be withdrawing support. There are increasingly positive signs of economic improvement, but we will continue to support the economy until we are sure recovery is secured.**

### **Public Finances**

**When times are tight, families and businesses will tighten their belts. But if governments act in the same way they can compound the problem and make the downturn much worse.**

**Borrowing to support people now and invest in the future may feel counter-intuitive, but in the longer term, it will mean the**

**bills we face are lower, and that we are better placed to pay them off.**

**The choice is not whether we can afford to support the economy. We can't afford not to. But once the recovery is secured we will need to rebuild the public finances over the medium term.**

**We announced in the Queen's Speech yesterday a Fiscal Responsibility Bill to require reductions in the deficit, to ensure the national debt follows a sustainable path in the medium term – halving the deficit over the next four years.**

**The Budget set out our plans for raising taxes on the highest incomes and that we will take tough choices on public spending in the years ahead. That will mean cutting costs, cutting waste, cutting lower priority budgets, and being clear about priorities for future investment. Failing to restrain public spending would mean higher inflation and higher taxation, both of them seriously threatening UK competitiveness. And we have to watch very closely how our rates of tax compare with others', because its very easy for many to move country.**

**At 28 per cent, the UK's corporation tax rate is now at its lowest ever level, and we have the lowest corporation tax rate of all the major G7 economies. We want to keep it that way.**

**This year's finance act introduced major reforms to the taxation of foreign profits, including a wide ranging dividend exemption, and work on reforming the Controlled Foreign Companies rules is proceeding well, following extensive engagement with business. We will make further announcements on the shape of the new rules in the coming months.**

**HMRC is working on a new relationship with business, based much more on trust and openness. They are committed to reducing the burden that businesses face in complying with their obligations. They are on course to meet their admin burden reduction targets by 2010/11 and are now looking at what future targets may look like.**

### **Role of growth in fiscal recovery**

**And we need to secure sustainable growth. By growing the economy, we will be able to pay back debt faster as well as providing jobs and improved living standards.**

**It will be Britain's companies, from blue-chip multinationals to innovative start-ups, who will drive this growth. They have to compete in a tough global economy. And Government can help them succeed.**

**I've mentioned tax competitiveness already, and we also want to dismantle barriers which can hold key sectors back.**

### **Digital technology**

**I am the Minister for Digital Britain, and we published our strategy for Digital Britain in June. This is a field of great opportunity for the UK. We have enormous strengths in the creative industries, and we can continue to do well in the future. The Queen's Speech yesterday announced our Digital Economy Bill, which will enable us to improve the infrastructure, and to protect creative enterprise by ensuring that copyright continues to work in the online era.**

**Broadband has unlocked opportunities across the country. Next generation broadband is becoming available, with the potential to create another wave of opportunities. We want to make sure we realise those opportunities, including with funding for the roll out of next generation broadband to the third of the country which would not be provided with it**

**otherwise. We think this is too important to let events simply take their course.**

### **Low carbon, Science and Innovation**

**Low-carbon technologies are another example. It is estimated that green industries could support a further 400,000 jobs over the next decade. We are releasing investment in offshore wind, low carbon vehicles, marine energy and low-carbon aerospace. And there will be more we need to do.**

**We have more than doubled the science budget since 1997, as well as doubling the money universities make from knowledge transfer and spinouts.**

**But we need to do more to exploit the excellent science produced by UK universities. With four universities in the world top-ten<sup>1</sup>, we should have even more commercial applications from our research and deeper R&D activity at our firms. The new Innovation Investment Fund will focus on investing in start-ups and spinouts – across digital and life sciences, clean technology and advanced manufacturing.**

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<sup>1</sup> Oxford, Cambridge, Imperial College London, University College London

## **Skills**

**Skills is also a key area for Government action to support growth and competitiveness. We have made some good progress. For example, apprenticeships have more than trebled in number since 1997. But there is still a skills gap with our competitors – and we need to address it.**

***Skills for Growth*, published last week, sets out our strategy.**

**An important focus will be on creating a cadre of skilled technicians through increasing the number of advanced apprenticeships for young people. And we need to be working with you on identifying the priorities for further improvement on skills.**

## **Infrastructure**

**Infrastructure is a vital contributor to growth. Since 1997 we have reversed decades of underinvestment, increasing capital spending and transforming how we invest.**

**But we know we need to do more, especially to bring in the private sector on a bigger scale. We are looking at High Speed Rail, and we will establish Infrastructure UK to look at our**

**broader infrastructure needs in the years to come: energy, waste, water, as well as transport.**

**Our aim is to encourage private investment and reduce market uncertainty, and changes we have made to the planning regime will also be important in securing investment in infrastructure.**

### **Conclusion**

**I think its clear we made the right choice, to support the economy through the recession: rescuing the banking system; supporting businesses; and helping individuals. The key decisions now are on growth, and on maintaining UK competitiveness in the medium term. That means putting our commitment to halve the deficit in four years in law; increasing investment in digital communications and other new technologies; ensuring the workforce has the right skills to meet the challenges.**

**There is a lot to do, but I think we can afford to be optimistic, and I am grateful to Industry Forum for giving us this chance for a discussion.**

**Thank you.**