

Baroness Jo Valentine's speech in the House of Lords debate on the UK's international competitiveness

8 June 2010

London and the south-east account for one-third of Britain's GDP. Productivity rates in this region are substantially higher than in the rest of the UK, and the region sports internationally competitive talent in creative industries, professional services and, yes, even banking. My speech today therefore focuses on how to nurture this valuable global talent hub at the same time as balancing the budget. Encouragingly, the Government appear to be proposing spending cuts to tax increases in the ratio of roughly 80 per cent to 20 per cent. That approach is supported by successful international examples of deficit reduction campaigns, such as that in Canada.

In seeking to cut costs without affecting outputs, the Government can usefully draw on experience in the private sector, borne of the pressures of meeting customers' demands in competitive markets. Money can be saved while focusing on key outcomes through efficiencies and cutting economically less productive programmes. Take the skills sector, for example. To increase efficiency, the alphabet soup of quangos could be rationalised, and recent research by London First suggests that significant savings could be made from skills programmes which have low market impact. However, an objective mechanism is required to remove low-value programmes across all departments. Cutting spending well is as important as the pace and scale of cuts.

Lastly, government should preserve investment in long-term productive infrastructure. Noble Lords have heard me championing the case for Crossrail many times before. Inevitably, the Department for Transport has to bear a share of spending cuts, and the business community strongly supports robust action specifically to drive down costs in the Crossrail project, but cuts to scope are a false economy. Crossrail and, indeed, the Tube provide the capital's arteries.

On tax, the new Government should espouse three principles: fairness, competitiveness and stability. The Government have already set out a number of measures aimed at providing a fair tax framework, protecting those on the lowest incomes. Competitiveness in both business and personal taxes is also vital. We need to keep our existing talent and investment, as well as attract internationally mobile businesses and business people. If we fail, our productivity and our ability to grow in coming years will be damagingly constrained, as will tax yield.

Greater predictability in tax policy-making is equally important. Recent policy changes—for example, over non-doms or the bankers' bonus tax—have undermined the UK's reputation as a stable jurisdiction. I understand the previous Government's reasons for introducing the 50 per cent top rate, but a firm indication in the emergency Budget that this is a temporary measure might prevent this having a lasting impact on the perceived risks of locating in Britain.

In closing, I shall mention three areas of policy which have no funding impact but which require sensitive application if they are not to have a negative economic impact. The first is international air links. The cancellation of runway three is not the end of the story. Heathrow is still running at 99 per cent capacity. We need this hub for international business travel to be world class, which it cannot be without addressing delays caused by this lack of resilience.

Secondly, I urge caution in revising the planning system while the property sector remains fragile. Reform may be necessary, but not as necessary as ensuring that the buildings we need get built.

The third area is the implementation of an immigration cap. People who contribute to our global talent hub, whether in business or as students, must be allowed to come and go. Poor implementation risks multinationals running their operations from elsewhere and damage to our relationship with emerging economies.

Finally, we need a new relationship between government and the business community. The lead-up to the election saw an unhappy fight between parliamentarians and bankers to be least favourite. The Government need to find a way of respecting the strengths of the financial community while fine-tuning their legislative response to the credit crisis, and the banks need to recognise the Government's legitimate concerns while putting their own houses in order. I know that in this final area we can rely on the noble Lord, Lord Sassoon, to proceed with understanding and tact.