

## **The economic prospects for the UK**

### **Baroness Jo Valentine's speech in the House of Lords debate, 7 May 2009**

My Lords, let me add my thanks to Lord Forsyth for calling this debate.

I want to focus my remarks on London and I declare my interest as Chief Executive of London First.

London is a highly successful world city and the engine of the UK's economy. But it is fuelled by professional and financial services: two of the sectors hit hardest by the recession.

So I welcome the recent reports, for the Chancellor's High Level Group, designed to improve their long term competitiveness.

Sir Michael Snyder chaired a review of professional services, which noted that the legal profession alone contributes 1½% of UK GDP. Harmonised international accounting standards might lack glamour, but are vital to our success. If the UK is a bridge between Europe and America, we have the most to lose if these economic tectonic plates drift apart.

The second financial services group, chaired by Sir Win Bischoff, reports today. I look forward to its findings and to a more closely coordinated and invigorated approach to promoting financial services. In terms of regulation I make just one point. We need to guard against over-correcting for past mistakes – against fighting the last war. Erecting a regulatory Maginot line will do as much good as the original did the French. If it stifles innovation, we will all be the poorer.

Nevertheless, we need to start now putting in place the architecture that will support future growth.

The scale of the challenge is daunting. Restoring public finances will involve what the Institute for Fiscal Studies has termed 'two parliaments of pain'. Post-budget, they've calculated that the government seeks to tighten fiscal policy by 6.3% of national income. Ten per cent of this will be from tax rises, forty per cent from spending cuts and the remaining half from measures still to be announced, effective in the Parliament after next. Some challenge for the next government!

Spending must take much of the strain. But we need to be strengthening, not weakening, our economically productive infrastructure.

In the last recession the last government ducked funding Crossrail, with the result that the tube has become even more stretched. As any squash-nosed, toe-trodden rush hour commuter knows, we desperately need the modernisation of the Tube and Crossrail. Delaying either will undermine the Capital.

Reductions in spending demand real efficiency savings – both achieving better outcomes for less but also doing fewer things. Let me applaud one example and offer one suggestion.

First, the new Chief Executive of the London Development Agency, Peter Rogers, has cut one in three of the LDA's staff and £11m from its £40m overhead. The public sector can deliver radical reform when there is the will.

Second, the Government has announced an additional £1.7 billion to help get people back into work. Separately, it has stated its aspiration to devolve some of this task from Jobcentreplus to the private and third sectors. Surely, my Lords, the Government should use this new money to meet its own ambition?

We must also avoid own goals. As Richard Branson put it, "Higher taxes may be politically attractive in the short term, but I think this could be a real hindrance to the next wave of UK entrepreneurs and international companies looking to invest." I agree.

We need to be more, not less, welcoming. The tax changes in the budget are in danger of presenting a 'No Entry' sign to would be investors or a 'bumpy road' sign to entrepreneurs.

But the level is a matter for legitimate debate. What is more concerning is the process. Businesses attach a premium to stability. Britain's tax certainty was undermined last year with the non-doms fiasco and now, with the Government breaking a manifesto commitment, more doubt has been sown. This is compounded by the deep uncertainty around how pension tax relief changes will be implemented.

We simply cannot afford this instability. Britain needs to re-establish its credibility as a jurisdiction where investors, employers and employees can have confidence in our income, capital and corporate tax regimes.

As the Finance Bill goes through the Commons I hope that Ministers will look at ways in which they can support competitiveness. I have three suggestions:

- tackle the business rates challenges facing the UK and London: so restore empty building rates relief and put in place an aggressive phasing of the coming revaluation;
- clarify the detail of pensions tax reform swiftly and equitably; and
- make clear, as has been hinted, that the new top rate of 50% is a temporary measure

My Lords, we retain enormous strengths in adversity. London, the heart of our economy, is a cosmopolitan city, with great international links and an outstanding talent pool. The currently competitive pound is helping to attract tourists, who we welcome. We have an innovative business culture, a 'can do' attitude and we speak English in the GMT timezone. We must take the right decisions now so that London and Britain flourish in the less-leveraged decade ahead.

**For further information, please contact:**

**Graham Capper on 020 7665 1505 / 07983 611 227**