HOUSE OF LORDS

Library Note

Debate on 21 June: Economic Growth Strategy

This Library Note provides background reading for the debate to be held on Thursday 21 June:

"The Importance of the Government's Growth Strategy for the UK Economy"

Sections 1 to 5 provide an overview of the Government's published plan for growth and the main policies and announcements made to date. Section 6 outlines the Office for Budget Responsibility's latest economic forecasts. Section 7 summarises recent reaction and comment on the UK's economy, prospects for growth and policies to achieve growth, expressed by a range of observers and organisations. Section 8 outlines the results of business confidence and consumer surveys. The Note concludes with a summary of the Governor of the Bank of England's and Chancellor of the Exchequer's Mansion House speeches.

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1. Introduction

This Library Note provides background information about the Government's growth strategy and summarises reaction to it. Section 2 outlines the Government's approach, as set out in *The Plan for Growth*, and summarises the key measures that the plan proposed. Section 3 summarises the major policy announcements made at the Autumn Statement in November 2011 and the Budget in March 2012. Section 4 outlines the main announcements for growth made in May's Queen's Speech and the Opposition's reaction to the proposals. Section 5 provides a brief overview of the provisions of the Enterprise and Regulatory Reform Bill announced in the Speech. Section 6 sets out the Office for Budget Responsibility's (OBR) latest economic forecasts. Section 7 summarises commentary and analysis of the Government's growth strategy from a number of different viewpoints. Section 8 includes an outline of results of business confidence and consumer surveys. The Note concludes with a summary of the Governor of the Bank of England's and Chancellor of the Exchequer's Mansion House speeches.

2. Budget: *The Plan for Growth* (March 2011)

On 23 March 2011 the Budget Statement was made to the House of Commons. In making the statement George Osborne set out OBR's economic forecasts:

> Although average quarterly growth this year is set to be higher than was previously forecast, the annual forecast for 2011 has been revised to 1.7 percent. This the OBR attributes specifically to the weaker-than-expected final quarter of last year, the rise in world commodity prices, and the higher-than-expected inflation in the UK. However, the OBR points out that the effect, in its words, "creates scope for slightly stronger growth in later years" than previously forecast. So while it expects real GDP growth of 2.5 percent next year, it forecasts it will then rise to 2.9 percent in 2013; to 2.9 percent in 2014; followed by 2.8 percent in 2015.
>
> (HC *Hansard*, 23 March 2011, col 952)

The same day the Government published 'phase one' of the results of the Growth Review, launched following the Autumn Forecast statement in 2010. Having told MPs about the publication of *The Plan for Growth*, Mr Osborne explained the Government's vision for the economy:

> Private sector growth must take the place of Government deficits. Prosperity must be shared across all parts of the UK. Yes, we want the City of London to remain the world's leading centre for financial services, but we should resolve that the rest of the country becomes a world leader in advanced manufacturing, life sciences, creative industries, business services, green energy and so much more. This is our vision for growth. Difficult decisions and major reforms are needed to make it happen, but the alternative is to accept Britain's economic decline and a continuing fall in living standards for our population, and that is not an alternative anyone in this House should be prepared to accept.
>
> (HC *Hansard*, 23 March 2011, cols 953–4)

In the foreword to *The Plan for Growth*, Vince Cable, the Business Secretary, and George Osborne said in the past decade "the UK economy stopped saving, investing and exporting" and had "turned to a model of growth that failed" with "rising levels of debt, over-leveraged banks, an unsustainable property boom, and a budget deficit that was forecast to be the largest of any of the world's twenty leading economies"

(HM Treasury and BIS, *The Plan for Growth*, March 2011, p 3). Noting the UK's competitiveness compared to other world economies, they then argued:

> The consequence of this failure over the last decade to confront the causes of our relative economic decline is clear. Our economy has become more and more unbalanced. The gap between the prosperity of the South East and the rest of the UK has grown, as has the gap between the richest in our society and the poorest. This is the case even as government spending has grown to equal about half of the entire national economic output, paid for by our highest peacetime budget deficit.
>
> We literally cannot afford to go on like this.
>
> Britain has to earn its way in the modern world. We have to become much more productive so we can be a leading high tech, highly skilled economy. We must build a new model of economic growth—where instead of borrowing from the rest of the world, we invest and we save and we export. Our economy must become more balanced.
>
> (ibid, p 4)

The paper asserted that the June Budget 2010 and 2010 Spending Review had "set out a credible plan to tackle the fiscal deficit and restore debt as a percentage of GDP to a sustainable, downward path". It argued that the "macroeconomic stability that this will create" was "an essential pre-condition for sustainable growth". Businesses will "not invest unless they have the confidence that inflation will remain low, long-term interest rates will remain stable, and finance will be available when needed" (ibid, p 5).

2.1 The Plan for Growth: Four Ambitions

The Plan for Growth sets out the measures that will "put the UK on a path to sustainable, long-term economic growth" (ibid, p 5). It is based on four "overarching ambitions" to ensure progress is made to meet this economic objective. For each the Government have set "measurable benchmarks" against which "the Government expects to be judged" (ibid, p 5). The Government's progress on implementing the announcements made under each 'benchmark' can be found in a document in the 'Growth Review' section of the HM Treasury website, *Plan for Growth: Implementation Update* (March 2012).

The announcements made in the Budget Statement 2011 are summarised in sections 2.1.1–2.1.4.

2.1.1 'To create the most competitive tax system in the G20'

- The lowest corporate tax rate in the G7 and among the lowest in the G20
- The best location for corporate headquarters in Europe
- A simpler, more certain tax system

> (HM Treasury and BIS, *The Plan for Growth*, March 2011, p 6)

In reference to the UK's tax system Mr Osborne told the House of Commons that the UK's international competiveness had declined: "our tax code has become so complex that it recently overtook India's to become the longest in the world" (HC *Hansard*, 23 March 2011, col 954). The principles of "good taxes" were that "taxes should be efficient and support growth. They should be certain and predictable. They should be simple to understand and easy to comply with, and our tax system should be fair, reward work, support aspiration and ask the most from those who can most afford the most" (ibid, col 954). He then announced that, following recommendations made by the Office of Tax Simplification and ongoing work by HM Revenue and Customs, 43 tax reliefs would be abolished. This, he said, would "at a stroke" remove "over 100 pages from our tax code and begins the work of simplification" (ibid, col 954).

Moving onto national insurance and income tax, Mr Osborne said that the Government would undertake to "dramatically simplify the tax system" and announced a consultation on the merging of the two. He argued that by operating them as "two fundamentally different taxes" it "forced businesses large and small to operate two completely different systems of administration, with two different periods and bases of charge". A consequence was that it imposed "totally unnecessary costs and complexity on employers and costs the taxpayer in the extra burden that it places on Her Majesty's Revenue and Customs" (ibid, cols 954–5).

In a further reference to the UK's competitiveness internationally, the Chancellor said that other countries were "quite deliberately making their tax systems more competitive and attracting multinational companies away from the United Kingdom". He announced that the main rate of corporation tax would be reduced by a further 1 percent, meaning that, from April 2011, the rate would be 26 percent (from 28 percent). He said that it would then "continue to fall by 1 percent in each of the following three years" to 23 percent, which he noted was "16 percent lower than America, 11 percent lower than France and 7 percent lower than Germany—the lowest corporation tax in the G7". He stated: "Let it be heard clearly around the world, from Shanghai to Seattle and from Stuttgart to Sao Paolo: Britain is open for business" (ibid, col 955). Further Government actions in this area set out in *The Plan for Growth* included:

- Income tax personal allowance would be increased to £8,105 in 2012–13, and "by further real terms increases in subsequent years towards the goal of a £10,000 personal allowance";

- The introduction of new Controlled Foreign Company (CFC) rules in the Finance Bill 2012 "making them more competitive and less burdensome to businesses";

- An opt-in exemption from corporation tax on the profits of foreign branches would be introduced to "contribute to the Government's aim for a more territorial corporate tax system and help make the UK a more competitive location for international businesses".

(HM Treasury and BIS, *The Plan for Growth*, March 2011, p 17, para 1.22)

2.1.2 'To make the UK one of the best places in Europe to start, finance and grow a business'

- Improving the UK's ranking in major international indices of competitiveness

- A lower domestic regulatory burden

- More finance for start-ups and business expansion

- An increase in the proportion of planning applications approved and dealt with on time

(HM Treasury and BIS, *The Plan for Growth*, March 2011, p 6)

On competitiveness, George Osborne told MPs that Germany, Denmark, Finland and the Netherlands had all overtaken the UK in international competitiveness rankings over the last decade (HC *Hansard*, 23 March 2011, cols 955–6). One such study is published annually by the World Economic Forum. In 2011 it ranked the UK 10th, with Switzerland (1st), Singapore (2nd) and Sweden (3rd) the most competitive economies.

Box 1 sets out the World Economic Forum's most recent analysis of the UK.

Box 1: World Economic Forum analysis of competitiveness of UK economy (2011/12)

The United Kingdom (10th) continues to make up lost ground in the rankings this year, rising by two more places and now moving back to the top 10 for the first time since 2007. The country improves its performance across the board, benefitting from clear strengths such as the efficiency of its labor market (7th), in sharp contrast to the rigidity of those of many other European countries. The United Kingdom continues to have sophisticated (8th) and innovative (13th) businesses that are highly adept at harnessing the latest technologies for productivity improvements and operating in a very large market (it is ranked 6th for market size). All these characteristics are important for spurring productivity enhancements. On the other hand, although improved since last year, the country's macroeconomic environment (85th) represents the greatest drag on its competitiveness, with a double-digit fiscal deficit in 2010 (placing the country 138th) that must be reined in to provide a more sustainable economic footing going into the future. The situation is made worse by the mounting public debt (77 percent of GDP in 2010, 120th) and a comparatively low national savings rate (12.3 percent of GDP in 2010, 119th).

(WE Forum, '*The Global Competitiveness Report 2011–2012*: Country Profile Highlights', 7 September 2011)

Mr Osborne said the UK's rankings were "not surprising when the total cost of regulation imposed on business since 1998 is almost £90 billion a year" (ibid, cols 955–6). The Chancellor then announced:

> £350 million worth of specific regulations will go, including the costly dual discrimination rules in the Equality Act 2010. Lord Young's recommendations on health and safety laws will be implemented in full; the no-win, no-fee legal services that prey on employers will be restricted; existing regulation will be scrutinised in a public consultation process; and from April, we are going to impose a moratorium exempting all businesses employing fewer than 10 people, and all genuine start-ups, from new domestic regulation for the next three years. We will also take this fight against regulation to Brussels, where this week my right hon. Friend the Prime Minister will be recruiting other European allies to ensure that our continent does not price itself out of the world.
>
> (HC *Hansard*, 23 March 2011, cols 955–6)

The Plan for Growth elaborated on the Government's policy on EU regulation. It explained the Government would "push" the EU Commission to deliver "a culture change that bears down on the overall impact of EU legislation", including "urging the

Commission to set a new ambitious target to cut EU regulatory burdens over the life of this Commission" (HM Treasury and BIS, *The Plan for Growth*, March 2011, p 23, para 1.33).

The planning system was described as a "chronic obstacle to economic growth in Britain". George Osborne said that:

> ... from today, we will expect all bodies involved in planning decisions to prioritise growth and jobs, and we will introduce a new presumption in favour of sustainable development, so that the default answer to development is yes. We will retain existing controls on green belt, but we will remove the nationally imposed targets on the use of previously developed land. We will also allow certain use class changes, introduce time limits on applications and pilot, for the first time ever, auctions of planning permission on land.
>
> (HC *Hansard*, 23 March 2011, col 956)

In addition *The Plan for Growth* said the new National Planning Policy Framework (NPPF) would be "shorter, more focused and inherently pro-growth" so to "deliver more development in suitable and viable locations" (HM Treasury and BIS, *The Plan for Growth*, March 2011, p 23, para 1.34).

With regard to finance for small businesses, Mr Osborne noted that although "we have agreed with the banks a 15 percent increase in the availability of credit" the "lack of start-up capital has long been a problem in the British economy" (ibid, col 956). The consequence was, he contended, that "too often we have great ideas in Britain, but it is other countries that exploit them". He announced "sweeping changes to improve the generosity, the simplicity and the reach of the enterprise investment scheme". He said:

> From April this year, income tax relief will increase from 20 percent to 30 percent. Next year, we will double the amount that any individual can invest through EIS [enterprise investment scheme], increase the size of company that can qualify for investment, and raise the limit on the amount that can be invested in a company by 400 percent.
>
> Next week, my right hon. Friends the Prime Minister and the Business Secretary will launch "Start-up Britain", a new campaign by entrepreneurs for entrepreneurs, supported by many of Britain's most successful firms, that will help people to start and grow businesses. Today we can add to that help. From 6 April this year, I am doubling the size of entrepreneur's relief to £10 million. Let Britain be the home of enterprise in an age when people can invest all over the world.
>
> (ibid, col 956)

The Government would also act so that the number of UK SMEs (small and medium sized enterprises) required to have an audit would be reduced; legislation would be brought forward "to exempt many subsidiaries from producing audited accounts"; the European Commission would be encouraged "to exempt the smallest companies from audit" and narrative reporting for quoted companies in the UK would be "materially simplified" (HM Treasury and BIS, *The Plan for Growth*, March 2011, pp 23–4, para 1.35).

2.1.3 'To encourage investment and exports as a route to a more balanced economy'

- Ensure the UK remains one of the top destinations for foreign direct investment (FDI)
- An increase in exports to key target markets
- An increase in private sector employment, especially in regions outside London and the South East
- Increased investment in low carbon technologies

(HM Treasury and BIS, *The Plan for Growth*, March 2011, p 6)

George Osborne stated that *The Plan for Growth* "set out specific measures we can take to help a wide range of businesses" (HC *Hansard*, 23 March 2011, col 958). He explained:

> In life sciences, we will radically reduce the time it takes to get approval for clinical trials; in our digital and creative industries, we will improve the intellectual property regime; and in our professional and business services—one of our unsung success stories—we will reform our burdensome money laundering regime now, promote the UK as the global centre of legal arbitration, and launch a new, trusted business visa service.
>
> (ibid, col 957)

He added that many small shopkeepers were anxious about business rate increases and so the relief holiday would be extended to October 2012 (ibid). For the manufacturing sector, which he said was "crucial to the rebalancing of our economy", Mr Osborne announced plans "to make our export promotion more entrepreneurial and create new export credits to help smaller businesses; launch Britain's first technology and innovation centre for high-value manufacturing; and fund a further nine new university centres for innovative manufacturing" (ibid, col 958). He said that science was "one area where Britain already had an advantage over many other countries, and it is central to our future as a place to create businesses". He added that he had "protected the science budget from cuts last year" and he had found "an additional £100 million to invest in new science facilities at the Babraham research campus in Cambridge, the Norwich research park for environmental and life sciences, the International Space Innovation Centre at Harwell, and the national science and innovation campus at Daresbury" (ibid, col 958). Mr Osborne said that for "research and development to take place not just in our great universities, but in our smaller businesses too" he had followed James Dyson's advice and small companies research and development tax credit would "rise to 200 percent, and from next year it will rise again, to 225 percent" (ibid).

Mr Osborne explained that "supporting the private sector across the whole of the United Kingdom" was "central to our economic ambitions". Announcing that 21 enterprise zones would be funded in total, the Chancellor said that:

> Businesses will get up to a 100 percent discount on rates, new superfast broadband and the potential to use enhanced capital allowances in zones where there is a strong focus on manufacturing. In return for radically reduced planning

restrictions, we will let local authorities keep all business rate growth in their zones for a period of at least 25 years to spend on development priorities.

(ibid, col 959)

He told MPs that the first 10 enterprise zones were to be launched "in urban areas of highest need, but also the highest potential": Birmingham and Solihull, Leeds, Liverpool, Greater Manchester, the Tees valley, Tyneside, the Bristol area, the Black Country, Derbyshire and Nottinghamshire, and Sheffield (ibid).

To promote labour mobility the supply of housing would be "boosted" through support for the house building industry "with a FirstBuy shared equity programme to assist over 10,000 first time buyers to get on the housing ladder, reforms to stamp duty land tax for bulk purchases of residential property and a range of measures to remove barriers to entry for new Real Estate Investment Trusts" (HM Treasury and BIS, *The Plan for Growth*, March 2011, pp 38–9, paras 1.65–1.67).

The Chancellor then spoke of the "opportunity presented by the green energy revolution" and reiterated the Government's desire to be the "greenest Government ever" (ibid, col 959). Mr Osborne said the Government had taken a "bold step" with "the creation of the green investment bank, to support low-carbon investment where the returns are too long term or too risky for the market". He explained:

> We have already committed £1 billion to the bank; today I commit £2 billion more, funded from asset sales and underwritten by the Treasury. This will enable the green investment bank to start operation one year earlier than planned, in 2012. It will leverage an additional £15 billion of private sector investment in green projects over this Parliament. I can also confirm today that from 2015–16, and subject to our overall debt target being met, we will allow the green investment bank to borrow and invest in a better future.
>
> So, a green investment bank with its resources trebled; a new carbon price floor; new capital allowances for manufacturing; new support for home builders and first-time buyers; an economy where growth happens across the country and across all sectors—that is our ambition.
>
> (ibid, cols 959–60)

2.1.4 'To create a more educated workforce that is the most flexible in Europe'

- Supporting more apprenticeships than any previous government
- Home to more of the world's top universities than any other country except the USA
- An increase in the participation of 16–24 year olds in employment or learning
- Narrowing the educational attainment gap, allowing everyone to meet their potential
- Lowest burdens from employment regulation in the EU

(HM Treasury and BIS, *The Plan for Growth*, March 2011, p 6)

With regard to employment and skills, George Osborne commented that "Britain's working-age population has lower skills than the populations of America, Germany and France, and that is probably the biggest problem facing our economy in the future" (HC *Hansard*, 23 March 2011, col 960). Funding, he said, was available for 24 new university technical colleges and for "another 40,000 apprenticeships for young unemployed people". In addition:

> There are currently only 1,500 higher level apprenticeships across the whole of England. This Budget provides for 10,000 more. That brings a total of 250,000 more apprenticeships over the next four years as a result of this Government's policies—a Government backing what works: real training, secure jobs and more growth.
>
> (ibid, col 961)

Further Government commitments were set out in *The Plan for Growth*. These included:

- Working with key sectors "to ensure the skills system is delivering what the sector needs". The paper explained that, for example, "the Government will work with the retail sector to provide reemployment retail skills training to the unemployed and encouraging greater take-up of retail apprenticeships". Also in the life sciences sector, the Government would "work to improve market signalling by bringing companies and educators together, through Cogent, the Sector Skills Council, to ensure that educators provide the skilled individuals the sector needs to grow";

- The planned extension in April 2011 to SMEs of the right for staff to request time to train and the right to request flexible working to parents with children under 17 would be scrapped;

- Continuing to review employment laws for employers and employees "to ensure they maximise flexibility for both parties while protecting fairness and providing the competitive enterprise to thrive".

(HM Treasury and BIS, *The Plan for Growth*, March 2011, pp 38–9, paras 1.65–1.67)

3. Further Announcements

3.1 Autumn Forecast Statement (November 2011)

George Osborne opened his Autumn Forecast statement by setting out the Office for Budget Responsibility's latest forecasts for the economy. He said:

> The central forecast that we publish today from the independent Office for Budget Responsibility does not predict a recession here in Britain, but it has unsurprisingly revised down its short-term growth prospects for our country, for Europe and for the world. It expects gross domestic product in Britain to grow this year by 0.9 percent and by 0.7 percent next year. It then forecasts 2.1 percent growth in 2013; 2.7 percent in 2014; followed by 3 percent in 2015 and 3 percent again in 2016.
>
> (HC *Hansard*, 29 November 2011, col 799)

He referred to the warnings of the OBR about the possible negative implications for the UK economy of further trouble in Europe. Mr Osborne added: "We hope that this can be averted, but if the rest of Europe heads into recession, it may prove hard to avoid one here in the UK" (ibid, col 799).

A press notice released by the Treasury the same day set out a "wide-ranging package of more than 140 reforms to build a stronger and more balanced economy". These measures included "actions from the second phase of the Government's Growth Review Phase II and the National Infrastructure Plan" (HM Treasury press notice, 'Autumn Statement: Growth', 29 November 2011, 135/11). The press notice said the Government had published the *National Infrastructure Plan* (29 November 2011), the key measures including:

- Introducing a new approach to financing infrastructure, by leveraging £20 billion of private investment from pension funds.

- Giving local authorities more flexibility to support major infrastructure by considering local borrowing to fund the Northern Line extension to Battersea, and exploring new sources of revenue, such as options for tolling on the A14.

- Investing over £1 billion to tackle areas of congestion and improve the national road network, including £270 million for two new managed motorway schemes at congested times on the M3 and M6.

- Investing more than £1.4 billion in railway infrastructure and commuter links, including £270 million for a rail link between Oxford and Bedford and £390 million on enhancement and renewal works to improve stations and infrastructure.

- Investing £100 million to create up to ten 'super-connected cities' across the UK, with 80-100 megabits per second broadband and city-wide high-speed mobile coverage.

- The Chief Secretary to the Treasury, Danny Alexander, will chair a new cabinet committee on infrastructure, to push through the delivery of the top 40 priority projects and programmes that are critical for growth.

(HM Treasury press notice, 'Autumn Statement: Growth', 29 November 2011, 135/11)

The press notice continued that "the second phase of the Government's Growth Review has been led jointly by HM Treasury and the Department for Business, Innovation and Skills (BIS). The Autumn Statement announces a set of further reforms building on this", which included:

- Creating a £20 billion National Loan Guarantee Scheme, to lower the cost of loans to small businesses, and a £1 billion Business Finance Partnership, which will lend to mid-sized businesses and small and medium sized businesses in the UK through non-bank channels.

- Increasing the Regional Growth Fund by £1 billion to provide ongoing support to grow the private sector in areas currently dependent on the public sector.

- An extra £600 million to fund 100 additional Free Schools, and an additional £600 million to deliver an additional 40,000 school places.

- Introducing a new build mortgage indemnity scheme which will help up to 100,000 families to buy their own home, and launching a new £400 million Get Britain Building investment fund to progress stalled developments.

- Providing £45 million of support to UK firms wishing to export, doubling from 25,000 to 50,000 the number of SMEs supported, and making similar support available to 500 mid-sized businesses.

- Making 100 percent capital allowances available in six Enterprise Zones (Black Country, Humber, Liverpool, North Eastern, Sheffield, and Tees Valley).

- Making available around £250 million from 2013 to support energy intensive industries manage the costs of electricity, including increasing the relief from the climate change levy on electricity for Climate Change Agreement participants to 90 per cent.

- An additional £200 million for science capital investment.

- Investing £55m into the Strategic Rail Freight Network to help deliver schemes that remove bottlenecks and improve capability and longer term connectivity to the UK's major ports.

- Giving a bigger role to businesses in purchasing vocational training programmes. In the New Year employers will be invited to bid for a share of a new £250 million government fund. This will route public investment directly to employers.

- Taking decisive action to remove barriers to hiring by making reforms to streamline employment law.

- Investing £10 million over five years from 2013–14 in Project Enthuse, matched by investment from the Wellcome Trust, to improve the quality of science teaching in schools.

- Announcing how the Government will maximise the value of public sector data.

(HM Treasury press notice, 'Autumn Statement: Growth', 29 November 2011, 135/11)

3.2 Budget (March 2012)

On 21 March 2012, the Budget Statement was made to the House of Commons. George Osborne told MPs that: "this Budget reaffirms our unwavering commitment to deal with Britain's record debts, but because we have already taken difficult decisions this can also be a reforming Budget that seeks to repair the disastrous model of economic growth that created those debts—a model that saw manufacturing almost halved as a share of our national economy, while the national debt doubled" (HC *Hansard*, 21 March 2012, col 793). He noted: "the Office for Budget Responsibility is slightly revising up its growth forecasts for the UK this year to 0.8 percent... The OBR forecasts 2 percent next year, 2.7 percent in 2014, and 3 percent in both 2015 and 2016" (ibid, col 794).

A Treasury press notice published that day summarised the provisions for growth announced in the Budget. It referred to the "wide-ranging programme of over 250 economic reforms and investment in infrastructure" already announced in *The Plan for Growth*, Autumn Statement 2011 and The National Infrastructure Plan 2011 (HM Treasury, 'Reforms to support growth', 21 March 2012). It noted that "significant progress" had already been made on these reforms. The Government would:

- Take forward many of Alan Cook's recommendations for the roads, including developing a national roads strategy. The Government will also consider whether to go further and carry out a feasibility study into new ownership and financing models for the national road network.

- Confirm selection of Belfast, Birmingham, Bradford, Bristol, Cardiff, Edinburgh, Leeds, London, Manchester and Newcastle to become broadband super-connected cities, as part of the £100 million investment announced at 2011 Autumn Statement. £50m will be used to fund a second wave of cities.

- Support the establishment of a new Pension Infrastructure Platform owned and run by UK pension funds, which will begin its initial £2 billion investment in UK infrastructure by early 2013.

- Relax Sunday trading laws during the Olympics and Paralympics, to allow retailers to make the most of the occasion.

- Accept the Low Pay Commission's recommendation for a below inflation increase of the National Minimum Wage to support employers and help protect jobs.

- Improve and reform the Enterprise Management Incentive scheme which helps SMEs recruit and retain talent, by providing additional support to help start-ups access the scheme and more than doubling the grant limit to £250,000, subject to State Aid approval.

- Introduce corporation tax reliefs from April 2013 for the video games, animation and high-end television industries, subject to state aid approval; and following consultation.

- Publish a strategy for gas generation in the Autumn, recognising that by gas-fired electricity generation will continue to play a major role in UK energy supplies for the next decade and beyond.

- Introduce a package of tax measures to secure billions of pounds of additional oil and gas investment in the UK Continental Shelf.

(HM Treasury, 'Reforms to Support Growth', 21 March 2012)

4. Queen's Speech (May 2012)

The Queen's Speech on 9 May 2012 said the "Government's legislative programme will focus on economic growth, justice and constitutional reform" (HC *Hansard*, 9 May 2012, col 3). David Cameron told MPs that the Government's legislative programme contained "a number of important measures... to promote growth and jobs". He explained:

> As well as the Work programme and the youth contract, we have the national loan guarantee scheme, with £20 billion to get cheaper loans flowing to small businesses. The most important work of the Government is implementing all those schemes and programmes, but we must do more to rebalance our economy. It is clear what went wrong. The public sector grew too large, our economy became unbalanced between north and south and we ended up too dependent on financial services. So we know what we need to do as a country. We must revive the private sector, spread growth and jobs across the country and make sure that financial services truly serve the economy—not the other way around.
>
> To expand the private sector we need to cut the burdens on business and make it easier for employers to take people on. That is in our enterprise Bill. To make the most of growth in the energy sector, including gas, nuclear and renewables, we need to reform the energy market, and that is what the energy Bill will do. To make the most of green investment, we need to legislate properly for the Green investment bank, with £3 billion of money in its coffers. That will be done through the measures announced in the Queen's Speech as well.
>
> (ibid, col 25)

Debates were then held in both Houses over the following days with discussion in the House of Commons on the topic of business and the economy taking place on 14 May (HC *Hansard*, cols 280–382) and jobs and growth discussed on 17 May (HC *Hansard*, cols 712–812).

4.1 Opposition's Reaction

Opening the final day of debate on the Queen's Speech, Ed Balls, the Shadow Chancellor, moved an amendment to the motion approving the Speech. Mr Balls summed up the Opposition's view of the Government's proposed programme:

> I have to say how disappointing it is, with our economy now pushed into recession, the Eurozone crisis deepening, and businesses and families up and down the country crying out for a plan for jobs and growth, that we are today debating what is widely regarded to be a disappointing and directionless Queen's Speech programme from a Tory-led coalition that has, frankly, lost its way.
>
> (HC *Hansard*, 17 May 2012, col 712)

He insisted that the Government's handling of the economy was not working. He argued the Prime Minister and the Chancellor were "still clinging to the mistaken and, now, increasingly discredited view that cutting spending and raising taxes faster to cut the deficit is the route to economic growth, when all the evidence is to the contrary". He maintained that "trying to cut the deficit faster has not boosted growth in recession; it has choked off confidence, unemployment is up, and we are borrowing more than he planned, not less" (ibid, col 716). He said that Labour had "set out a clear alternative":

> We have said "Repeat the bank bonus tax, and use the money to create jobs". We have said "Rip up the failed national insurance cut introduced by the Chancellor, and use the money for a tax cut for small businesses". We have said "Yes, cut VAT by £12 billion for a year to get the economy moving".
>
> (ibid, col 717)

Mr Balls then asked: "Where is the plan in the Queen's Speech to restore confidence and promote business investment and jobs in Britain?". He continued by listing what was missing from the Government's programme:

> With net lending falling month on month—according to the Bank of England it has been down every month for over two years now—where is the action in the Queen's Speech to promote small business lending? With youth unemployment now at a record high, and with yesterday's figures confirming that long-term unemployment among young people is still rising, where is the legislation in the Queen's Speech to get our young people back to work? Where is the legislation to repeat the bank bonus tax to fund a jobs guarantee for young people—or, for that matter, to cut taxes for small businesses hiring new workers, or to help the construction sector with a temporary cut in VAT? Our economy has ground to a halt and our construction sector is in great distress. Where is the plan to support jobs and growth by bringing forward new infrastructure projects? Where is the legislation to make our economy stronger and fairer for the future? Stronger corporate governance; a business investment bank; progress on high-speed rail; reforms in our universities to promote innovation—all are completely absent from this Queen's Speech.
>
> (ibid, col 720)

He concluded: "this Queen's Speech delivers neither a new economic plan, nor an urgent relaunch. He [Mr Osborne] and the Prime Minister should go back to the drawing board and think again" (ibid, col 722).

In response George Osborne contended "under Labour we entered the financial crisis with the largest budget deficit in the G7 and left it with the largest in the G20". Consequently "Britain's economy became over-borrowed, unbalanced and unsustainable" and, he suggested, Mr Balls was to blame:

> The person more responsible for that than anyone else active in politics today, the person who encouraged the borrowing, dismantled the banking regulation and gambled the futures of 60 million people on the City of London, is sitting right over there—the Shadow Chancellor. It is the people on this side of the House who are clearing up the mess he left behind.
>
> (ibid, col 723)

Mr Osborne said that the Government were "reducing the structural deficit, keeping our credibility in the bond markets and our interest rates low. We are reforming our banks, helping our unemployed, supporting our businesses, and giving back to our country the prosperous future that the Labour party so cruelly snatched from them" (ibid, col 734).

5. Enterprise and Regulatory Reform Bill

One of the Bills announced in the Queen's Speech was the Enterprise and Regulatory Reform Bill. The Bill's main elements are to:

- Overhaul the employment tribunal system, and transform the dispute resolution landscape.
- Improve the effectiveness and efficiency of competition enforcement and the competitiveness of markets, by strengthening the regime and improving the speed and predictability for business.
- Set the purpose of the UK Green Investment Bank and ensure its independence.
- Strengthen the framework for setting directors' pay by introducing binding votes.
- Extend the Primary Authority scheme, reduce inspection burdens on business and strengthen the legal framework for sunset clauses on regulation.
- Repeal unnecessary legislation, cutting the burden on business and citizens.

> (BIS website, 'The Queen's Speech 2012', 9 May 2012)

The Bill received its second reading in the House of Commons on 11 June 2012. Introducing the debate, Vince Cable told MPs that the Bill was a "far-reaching package of measures" that "will scrap the unnecessary bureaucracy that is holding back companies, overhaul the competition framework, and boost business and consumer confidence" (HC *Hansard*, 11 June 2012, col 64). Chuka Umunna, the Shadow Business Secretary, moved an amendment to the motion. It said:

> That this House... declines to give a Second Reading to the Enterprise and Regulatory Reform Bill because it does not provide a strategy for economic growth; believes that the Bill contains inadequate measures to boost business confidence, enhance this country's international competitiveness, increase competition in consumer markets or protect consumers from powerful vested interests; further believes that the Bill fails to provide sufficient support to empower shareholders, investors and employees on executive remuneration to bring to an end excessive rewards for corporate failure; and is concerned that the Bill grants the Secretary of State additional powers to alter compensatory awards for unfair dismissal and contains provisions relating to the conciliation process that could dilute the rights of people at work.
>
> (ibid, col 77)

Labour's amendment was defeated 301 votes to 216. The House of Commons then voted to give the Bill a second reading 301 votes to 213.

6. Office for Budget Responsibility Forecasts (March 2012)

The OBR's most recent forecasts for the outlook and risks for the UK economy were published in March 2012. It said its overall assessments were broadly unchanged from its November evaluation. The OBR said:

- We still expect the economy to avoid a technical recession with positive growth in the first quarter of 2012, although another fall cannot be ruled out given the volatility of quarterly output estimates. We forecast that GDP will grow by 0.8 percent this year, the same rate as in 2011. This is an upward revision of 0.1 percentage points relative to our November forecast, reflecting our judgement that the economy carried a little more momentum into the new year than previously anticipated.

- Our medium-term growth forecast is very similar to November. We forecast growth of 2.0 percent in 2013 (revised down from 2.1 percent in November), picking up to 2.7 percent in 2014 and 3.0 percent in the final two years of the forecast. We still assume that potential output will take until 2014 to return to its long-term average growth rate of around 2.3 percent a year, as the financial sector and credit conditions take time to normalise. The key risks that we identify to our forecast are the situation in the euro area and a further spike in oil prices.

(OBR, *Economic and Fiscal Outlook—March 2012*, 21 March 2012, p 5, paras 1.1–1.2)

At a press conference in support of the release, Robert Chote, the Chair of the OBR, explained some of the main components of GDP:

> The biggest component of demand in the economy is consumer spending. We have revised up our consumer spending forecasts a little, thanks to pension protection insurance windfalls and stronger asset prices. But overall we continue to see consumer spending acting as a drag on the recovery until wage increases once again start to outpace price increases by a decent margin in 2014.
>
> Business investment remains an important driver of recovery. Our investment forecasts have been boosted by about 1 percent by the extra cut in corporation tax announced in the Budget, but overall we have revised the growth rates down a bit. For 2012 this reflects the particularly weak data for the fourth quarter of 2011, although that may well be revised. Towards the end of the forecast it reflects our belief that corporate balance sheets are not quite as strong as official data suggest.
>
> Looking over the forecast horizon as a whole, we see business investment increasing by around 40 percent over the next five years. This looks plausible when you consider that it rose by 50 percent in the equivalent period of the last recovery, following a very similar decline during the recession.
>
> (Robert Chote, 'Speaking Note: March 2012 Economic and Fiscal Outlook Briefing', *Office for Budgetary Responsibility*, 21 March 2012)

In addition he noted that:

- Housing investment is forecast to revive as activity in the housing market returns towards normal;

- Government consumption and investment looks slightly less negative for growth, as the Coalition's spending cuts are showing up more in prices than output than we originally assumed; and

- Net trade makes a positive but diminishing contribution to growth, with a slightly weaker forecast than in November thanks to weaker export demand.

(ibid)

In terms of the labour market, Mr Chote said that there was "little change to our forecasts for ILO employment and unemployment" with "the unemployment rate rising from its current 8.4 percent to peak at around 8.7 percent at the end of this year" (ibid).

7. Commentary

7.1 OECD: Forecast for the UK Economy

In May 2012, the OECD gave the following forecast summary for the UK's growth prospects:

> The global economic slowdown and uncertainties in the euro area outlook, alongside fiscal retrenchment and private deleveraging, are generating headwinds to growth. Growth will remain weak in the first half of 2012, but should gain momentum thereafter, with private consumption supported by higher real incomes, as inflation slows, and exports and business investment revive with stronger external demand. Unemployment will continue to rise over the projection period, due to job cuts in public administration and weak output growth.
>
> Budget deficit reduction remains on target, fostering fiscal policy credibility and leaving room to let the automatic stabilisers work. Structural reforms to promote fiscal sustainability, strengthen the financial sector and improve educational outcomes should help the necessary rebalancing of the economy from debt-financed private consumption and public spending to exports and investment.

The OECD also provided the following statistical overview of the UK economy:

	2010	2011	2012	2013	Fourth quarter		
					2011	2012	2013
	Current prices £ billion	Percentage changes from previous year volume (2008 prices)					
GDP at market prices	1463.7	0.7	0.5	1.9	0.5	1.2	1.9
Private consumption	942.0	-1.2	0.8	1.4	-1.2	1.4	1.2
Government consumption	337.4	0.1	-0.7	-1.8	0.3	-1.6	-1.8
Gross fixed investment	218.2	-1.2	-0.9	2.8	-1.0	0.0	3.4
Public[1]	39.6	-9.6	-6.8	-3.9	-7.2	-3.9	-3.9
Residential	56.3	-0.4	-3.3	1.8	-2.9	-1.8	1.7
Non-residential	122.3	1.2	1.8	5.3	1.6	2.0	6.3
Final domestic demand	1497.6	-0.9	0.2	0.9	-0.8	0.5	0.9
Stockbuilding	2.8	0.1	0.1	0.0			
Total domestic demand	1500.5	-0.9	0.2	0.9	-0.7	0.7	0.9
Exports of goods and services	440.9	4.6	1.9	5.3	0.7	3.1	5.8
Imports of goods and services	477.6	1.2	1.5	2.3	-1.3	1.6	2.6
Net exports[2]	-36.7	1.0	0.1	1.0			

Note: Detailed quarterly projections are reported for the major seven countries, the euro and the total OECD in the Statistical Annex.

1. Including nationalised industries and public corporations

2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column

(Source: *OECD Economic Outlook 91* database)

In terms of international comparisons, the OECD gave the following regional projections[1]:

	2011	2012	2013	2011		2012				2013				2011	2012	2013
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q4/Q4	
								Percent								
Real GDP growth																
United States	1.7	2.4	2.6	1.8	3.0	2.2	2.5	2.5	2.5	2.6	2.7	2.8	2.8	1.6	2.4	2.7
Euro area	1.5	-0.1	0.9	0.7	-1.5	0.0	-0.3	0.3	0.7	0.9	1.2	1.5	1.7	0.7	0.2	1.3
Japan	-0.7	2.0	1.5	7.1	-0.7	4.1	0.8	1.2	1.4	1.5	1.6	1.6	1.8	-0.6	1.9	1.6
Total OECD	1.8	1.6	2.2	2.5	0.9	1.6	1.5	1.9	2.1	2.2	2.4	2.5	2.7	1.4	1.8	2.4

7.2 International Monetary Fund (IMF): Commentary on Growth and UK Policies

In May 2012, the IMF issued an analysis of the UK economy and government policies. It noted that policies were assisting economic rebalancing and financial sector stabilisation:

> The UK has made substantial progress toward achieving a more sustainable budgetary position and reducing fiscal risks. Bold monetary stimulus has helped support the economy, as has the free operation of automatic fiscal stabilizers. This macroeconomic policy mix assists in rebalancing the economy toward investment and external demand. Further, financial sector stability in the UK is of global importance as highlighted in spillover analysis. In this context, policies have encouraged the buildup of capital and liquidity buffers, the domestic oversight framework is being strengthened, and work is underway to enhance the capacity to deal with systemically important financial institutions.

However, the IMF pointed to low growth in the UK economy:

> The hand-off from public to private demand-led growth has not fully materialized. Much of this underperformance relative to earlier expectations is due to transitory commodity price shocks and heightened uncertainty following the intensification of stress in the euro area. However, the weak recovery also indicates that the process of unwinding pre-crisis imbalances is likely to be more protracted than previously anticipated, in part due to persistent tight credit conditions. Reflecting these forces, output remains more than 4 percent below its pre-crisis peak. Encouragingly, labor market performance has been better, with falling unemployment in recent months and fewer employment losses than in the aftermath of previous major UK recessions. This disparity between output and labor market indicators complicates the assessment of the current state of the economy. But unemployment at 8.2 percent, with a large number of youth without a job, is still much too high.
>
> ... Over the medium term, economic activity is expected to gain additional momentum, but the continued headwinds from private-sector deleveraging and the need to reduce the structural fiscal deficit will constrain the pace. The output gap is projected to remain sizeable for an extended period, raising the risk of hysteresis as sustained cyclical weakness reduces the economy's productive capacity.

[1] For more detailed comparative statistics see: OECD, *Economic Outlook No 91* (May 2012).

It also suggested that setbacks in the euro area could lead to “an adverse and self-reinforcing cycle of lower confidence and exports, higher bank funding costs, tighter credit, and falling asset values, resulting in a substantial contractionary shock”, whereas, a “decisive and durable resolution” to the euro area crisis would aid the UK’s recovery.

The IMF commented on specific UK policies and made several policy suggestions, though acknowledging that they carried their own risks. It said that the UK authorities should consider more quantitative easing and cutting interest rates. Though it endorsed the Government’s deficit cutting plan, saying it was essential, it believed that if growth failed to pick up, the Government would have to consider delaying cuts. It also stated that fiscal easing measures should “focus on temporary tax cuts and greater infrastructure spending, as these may be more credibly temporary than increases in current spending”. The IMF acknowledged that inflation had been on a downward trend since peaking in September 2011, as the impact of indirect tax hikes and commodity price shocks had begun to dissipate. It thought that this trend would continue as the large output gap exerted deflationary pressure. Thus, inflation was expected to decline below the 2 percent target over the next 18–24 months with an unchanged macroeconomic stance and barring any sustained increase in commodity prices. Because of the “global importance” of the UK’s financial centre, it praised policies that had helped to build up capital “buffers” at banks, and the strengthening of regulation within the UK. It looked forward to draft legislation to implement the proposals of the Independent Commission on Banking. It welcomed the UK Government’s intention to further boost credit for business, housing, and infrastructure, as “lowering private-sector borrowing costs would be valuable”. It suggested further options. These included using the Bank of England to purchase private-sector bonds, as undertaken by several major central banks, to support mortgage lending and financing for business. They also included providing “longer-term bank funding facilities against a broad range of collateral (with haircuts) to reduce funding costs and boost demand for assets eligible as collateral”, complemented by regulatory policies to ensure that banks did not become dependent on such facilities. It welcomed the Government’s ongoing efforts to ease planning restrictions to help boost investment. It thought that the agenda for tax reforms in recent budgets could be expanded by revenue-neutral reform of corporate income tax through an allowance for new corporate equity aimed at reducing the tax code’s bias in favour of debt over equity finance.

7.3 European Commission: Support for Deficit Reduction but Structural Problems Remain

On 30 May 2012, the European Commission issued a number of recommendations about the UK economy. It reported that the UK was delivering its planned programme of fiscal consolidation measures, which it supported, though it noted that “the deficit is now projected to fall more slowly than previously expected, due to a weaker growth outlook in the medium term”. It acknowledged that the government had “an extensive legislative reform agenda across financial regulation, planning, education and welfare”. The Commission also drew attention to a number of remaining structural challenges, which it recommended needed to be addressed. Fiscal consolidation remained a pressing need and had to be balanced with more investment, in particular to improve essential network infrastructure. Financing conditions remained tight, particularly for SMEs. Private debt levels were high and further deleveraging was necessary. Skills mismatches had translated into higher unemployment levels, especially for young people, and the lack of high-quality and affordable childcare also contributed to the high proportion of workless households. There was a significant shortage of housing and house prices remained too high, which was linked to high levels of mortgage debt. The UK’s persistently negative net export position necessitated a strengthening of the non-cost competitiveness of the UK economy.

7.4 Confederation of British Industry (CBI): Re-Balancing the UK Economy for Investment and Export-Led Growth

The CBI has identified a number of areas to help growth. For instance, its report, *A Vision for Rebalancing the Economy—A New Approach to Growth* (December 2011), argued for a number of steps to re-focus the UK economy and move it away from "its dependence on debt driven household and government spending" to one based on investment and exports:

> The task of delivering rebalanced growth will be achieved most effectively by 'swimming with the tide' to take advantage of the long-term domestic and global changes, particularly the rise of middle-class consumers in emerging markets, spurring a greater demand for our services. The demand within the UK for significant investment to update our ailing infrastructure, digital growth and the diversification towards renewable energy will provide significant business investment opportunities.

Part of the re-balancing of the economy according to the CBI rests on the ability of medium-sized businesses (MSBs) to provide dynamism. *Future Champions: Unlocking Growth in the UK's Medium-Sized Businesses* (October 2011) made a number recommendations to encourage MSBs, which it estimated could lead to additional growth in the UK economy of between £20 billion and £50 billion a year by 2020. It recommended more representation for MSBs on the Prime Minister's Business Advisory Council and on international trade delegations and more of a MSB focus by government initiatives. More thought should also be given to: improving MSB management capabilities; encouraging large companies to work constructively with MSBs; offering expertise in relation to growth strategies; promoting the Export Enterprise Finance Guarantee Scheme to those MSBs who qualify; UK Trade and Investment proactively targeting those MSBs with export potential; restructuring and broadening the scope of help for MSBs in terms of investment and R&D activities. Finally, it called for more help regarding finance. This included: reinstating the Corporate Venturing Incentive to allow large companies to offset the cost of investing in smaller companies against tax liabilities; making equity investments tax deductible and on a par with debt investments; establishing an industry working group to develop necessary infrastructure to allow MSBs to issue bonds more easily; exploring the feasibility of an ISA savings type once an institutional market is established to help develop a market for bonds issued by MSBs in the long term.

As noted, the CBI has highlighted the need to improve the UK's export performance. *Winning Overseas: Boosting Business Export Performance* (November 2011) indicated that the UK's share of global exports had declined sharply from 5.3 percent in 2000 to 4.1 percent in 2010, as part of a longer term trend of decline since the 1950s. By contrast, Germany, for example, had grown its share of global exports from 8.9 percent to 9.3 percent over the last decade. The main explanation for the UK's relative decline according to the CBI has been the UK's inability to break into and succeed in high-growth markets. This has been due to both a historic reliance on advanced economies and a mismatch between the goods and services sold and those demanded by high-growth economies; while Germany has done well exporting capital goods—such as machinery, tools and equipment—to support the booming manufacturing capability of the BRICs, the UK has been less prolific. To address this, the CBI recommends identifying key markets and key sectors for exports, namely: construction services (markets include Nigeria, India, China, Russia, Vietnam and Indonesia); electrical, optical and high-tech goods; financial services (markets include the BRICs and the Gulf States); and communication services. The CBI project that these sectors and markets could have a combined impact "worth a 1.5 percent lift, or £20bn injection to UK GDP by 2020". To enable this the CBI has set out a five point plan: a high bar for export performance to be met by 2020 through a national exports strategy; the right policy framework to boost businesses' export capability; UKTI must inject greater commercial focus into its operations to better support UK business; the CBI will take the lead in supporting UK businesses entering new markets; business and Government must work together to increase the availability of export finance.

The CBI's *Ambition for All* campaign approaches educational provision in UK schools from a "constructive business point of view" to see "what works well, where there are gaps and what more should be done to ensure that all our young people are leaving school with the skills to make the most of future opportunities".

The CBI also launched a campaign to encourage a competitive tax regime for businesses whilst highlighting the positive contributions that they make to the UK economy in terms of tax. *Tax and British Business: Making the Case* (April 2012) notes: "In the latest financial year, businesses operating in the UK paid around £163bn in taxes, which is more than a quarter of the total UK tax take of £551bn for 2010–11". It also argues that tax competitiveness would give the UK a competitive edge, from which the UK as a whole would benefit. The need to lower the business tax burden, even in times of austerity, would benefit entrepreneurs and owners of capital but also workers, their families, the supply chain and the Exchequer.

7.5 Bank of England: Lending by UK Banks to UK Businesses

The Bank of England publishes a quarterly review of lending by UK banks to UK businesses, *Trends in Lending*. The most recent was published in April 2012 and included:

Table 1.A Lending to UK Businesses[a]

	Averages							2011	2012	
	2007	2008	2009	2010	2011	2011 Q3	2011 Q4	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	7.4	3.8	-3.9	-2.1	-0.8	-0.5	0.1	-1.8	-3.4	-4.0
Three-month annualised growth rate (percent)	20.9	10.7	-7.7	-5.2	-2.0	-3.0	0.2	0.2	-2.7	-7.9
Twelve-month growth rate (percent)	16.8	17.9	-1.8	-7.1	-3.3	-3.2	-2.1	-2.0	-2.2	-3.0

[a] Lending by UK monetary financial institutions to PNFCs. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Seasonally adjusted.

The review commented:

> The annual rate of growth in the stock of lending to UK businesses was negative in the three months to February. The stock of lending to small and medium-sized enterprises continued to contract. The annual rate of growth in the stock of secured lending to individuals was broadly unchanged. Mortgage approvals by all UK-resident mortgage lenders for house purchase fell over the three months to February, though were higher than the same period last year. Net monthly consumer credit flows remained subdued and were lower, on average, in the three months to February compared to the previous three months.

In response to these figures, the *Daily Telegraph* reported the comments of John Walker, National Chairman of the Federation of Small Businesses, who said that the latest figures were "very disappointing, but not surprising", and showed that the Government's plan to boost lending to help small businesses had failed. The *Guardian* reported the comments of Lord Oakeshott, former Liberal Democrat Treasury Spokesman: "There is no way our economy can grow when the banks keep sucking the lifeblood out business—£11 billion of negative net business lending over the last three months makes it a £100 billion bank attack on business, jobs and growth over the last three-and-a-half years".

7.6 Federation of Small Businesses (FSB): Helping Small Businesses Deliver Growth

John Walker, the National Chairman of the FSB, gave a measured reaction to the Budget in terms of growth and help for small businesses. He welcomed proposals to cut the burden of red tape, help to get young workers into employment, measures to improve access to finance and moves to simplify the tax system for the country's smallest companies. He commended the fact that the Budget was fiscally neutral which would help reduce the budget deficit. However, he was disappointed that more could have been done to reduce the level of fuel duty to help struggling small firms and "to champion small firms at the heart of Government with a cabinet level minister". The latter was "the missing link to ensuring that all initiatives have the maximum impact for small firms".

In reaction to the Queen's Speech, the FSB welcomed a number of measures. This included the Enterprise and Regulatory Reform Bill and its measures aimed at resolving workplace disputes and reforming the employment tribunal system, which would "considerably improve small business owners' willingness to take on more employees". It agreed with the idea of compromise (settlement) agreements which should enable both employees and employers to part in a mutually acceptable way and also optional conciliation "if ACAS is provided with the resources to effectively carry out its workload". It was also pleased with efforts to make tribunals more cost-effective and fairer to the employer. It noted its own research which indicated that the typical cost of a tribunal was "£6,900, together with the amount of time spent preparing for it" which meant that "many weal claims are settled rather than contested". The FSB also welcomed the Groceries Code Adjudicator Bill, which it was hoped would protect "smaller businesses from potentially one-sided and damaging trading relationships with large supermarket chains", and the Water Bill, which would allow small businesses to choose their preferred water supplier.

7.7 British Bankers Association (BBA): Banks, Business, Growth and the Cost of Lending

The BBA's Chief Executive, Angela Knight, in a speech given on 17 May 2012, argued that the "UK economy's future success stories are those businesses that innovate and invest for the recovery during recessionary times". She maintained that even withstanding problems in the Eurozone three requirements were needed to enable the UK's future success. This included a "proper strategy" for industry, for business and for exporters. It meant a recognition that regulation of banking—unless done right—"can have a real adverse impact on the supply of credit into a recovering economy". Finally, it necessitated an honest and open debate about public finances and being able to recognise that "we cannot live beyond our means even though we might like that to be the case".

Previously, she had welcomed the March 2012 Budget as "a budget for business", which made it "more attractive for businesses to do business here in the UK" and was "about giving businesses the confidence to invest in their futures and giving their customers the confidence to spend again" and "underlines the fact that bank finance continues to be available for viable businesses". It also gave "our international trading partners confidence that the country is fully focussed on restoring financial stability and promoting economic recovery". She drew particular attention to the National Loan Guarantee Scheme, which involved a number of UK banks and which would encourage "growth and new lending" for business and which would make the UK's lending market "very competitive".

The BBA has sought to highlight that the cost of lending money to business has increased. It noted that before 2007 some banks used the wholesale markets to source a proportion of their deposits that they lent to businesses, which meant that money was relatively inexpensive and enabled banks to offer lower lending prices than was historically normal. However, from 2008, with the dramatic freezing of wholesale markets, this source of funding proved much less attractive. This increased demand for other, more traditional funding sources, such as retail deposits, which in turn increased the costs of banks raising funds to lend meant a return to something more like a historical norm. The BBA also noted that banks have also been asked by regulators to raise deposits over longer terms than they have historically, and to hold greater liquidity buffers against unforeseen circumstances. This means that banks must pay higher market rates for longer term deposits, and that a higher proportion of those deposits raised cannot be lent to customers but must be put aside, incurring additional cost. Finally, the amount of capital banks are required to hold by regulators has risen sharply, leading to a corresponding increase in the cost of capital that is included in the price of debt.

7.8 British Chambers of Commerce (BCC): The Need for Bold Enterprise-Friendly Policies

On 1 June 2012, the BCC issued its forecast for the UK economy. It downgraded its prediction for UK GDP growth in 2012 to 0.1 percent (from 0.6 percent). However, though it predicted that there would be minimal growth in 2012 it suggested that there would be an improvement in 2013, with growth of 1.9 percent in 2013 (revised upwards from 1.8 percent). The BCC also predicted that UK unemployment would increase from 2.6 million (8.2 percent of the workforce) in Q1 2012, to 2.9 million (9 percent of the workforce) in Q3 2013, a net increase of 275,000 in the jobless total. It suggested that this was partly down to public sector spending cuts, many of which were still to be implemented, while if demand in domestic and export markets remained weak, this would add to the jobless total. It estimated that youth unemployment would total 1.07 million in Q3 2013, with unemployment in the 16–17 age group forecast to total around 223,000 (a jobless rate of 41 percent) in Q3 2013. Unemployment in the 18–24 age group was forecast to total around 850,000 (a jobless rate of 23 percent) in Q3 2013. John Longworth, Director General of the British Chambers of Commerce, said: "Our new forecast underlines the need for bold action to deliver growth... if companies are to accept uncertainty as the new norm, then they must be met with a bold, enterprise-friendly government to enable them to grow in the long term". He called for a number of measures. They included: the creation of a business bank, which would provide capital to new and growing companies; real domestic deregulation, and a moratorium on new European regulation that hindered businesses; clear, long-term strategies on aviation and energy to deliver more certainty to supply chains and investors; investment in infrastructure to create robust rail, air, maritime, energy and digital networks privately funded or kick-started by the public sector, with pension funds and sovereign wealth funds able to purchase the assets when the projects are completed. He argued that such measures could "be achieved while sticking to the aims of deficit reduction and crucially, maintaining the UK's market credibility".

The BCC has produced a number of policy briefs with recommendations relating to UK exporters. *Exporting is Good for Britain: Market Barriers* (2012), for instance, points to policies to address problems facing British exporters, such as new free trade agreements, better teaching of languages within schools and improved support for companies wishing to export. *Red Tape Challenged?* (2011) also seeks to show that various "excessive" regulations continue to inhibit firms and stifle growth.

7.9 EEF: Manufacturing Fragility

EEF, the manufacturers' organisation, on 1 June 2012 issued its *Economic Monthly Brief*. Drawing on revised ONS figures for the first quarter of 2012, it noted that manufacturing output had flattened over the quarter, with growth in March after two weaker months. May's Manufacturing PMI survey pointed to continued challenges for the sector, dipping to a three year low. The EEF's Chief Economist stated that "while many manufacturers in the UK are continuing to report solid trading conditions, the marked deterioration in global manufacturing indicators puts short term prospects on amber warning" and the "sharp drop in the UK manufacturing PMI will add further to worries about growth in the UK if this trend persists in the coming months". In January 2012, the EEF had forecast growth across the coming year as "sluggish". It noted that net trade and investment that might support rebalancing across the economy would be extremely susceptible to external forces:

> If the global economy shakes off the Eurozone worries and we see a swift and successful resolution to the crisis, the prospects for the UK this year and beyond would be on much firmer ground. We would see the private sector pick up the growth mantle and improving confidence and labour market prospects would reinforce growth. The downside scenario is, however, a considerably gloomier prospect.

In terms of policies, the EEF has called for an internationally competitive tax regime to ensure businesses have the funds to invest and count on inward investment and that larger manufacturers remain headquartered in the UK. It has advocated that the minimum wage should be calculated using a pre-determined formula, "namely a retrospective analysis of the movement of basic rates of pay across the economy". It has also argued for greater help for new entrant UK exporters to overcome issues such as: trade barriers; shipping and transport costs; poor credit protection for international transactions; language differences; lack of knowledge about opportunities; exchange rates; and differences in business practices. It said that often many of these perceived hurdles could be overcome with help and guidance.

7.10 London School of Economics and Political Science (LSE): Promoting Green Growth

In April 2012, the Grantham Research Institute in Climate Change and the Environment (LSE) and the Centre for Climate Change Economics and Policy (LSE and Leeds University) published *A Strategy for Restoring Confidence and Economic Growth through Green Investment and Innovation*. It argued that public money could be used to support green initiatives with attendant benefits:

> These policies would generate income for investors and would have credibility in the long term because they address growing externalities and market failures, while tapping into a fast-growing global market for resource efficient activities. Infrastructure—for instance for energy generation, transmission grids and energy efficiency—offers particular opportunities for long-term returns to investors, while

also promoting growth. Activities which make use of the rapid development of networked information and communications technologies—the main source of cross-sector productivity gains—offer particular opportunities to stimulate growth-inducing innovation.

The private sector is not heavily investing in green innovation and infrastructure because of a lack of confidence in future returns. The lack of confidence in this policy-driven sector is due to uncertainties surrounding current energy and environment policy. It is argued here that governments should incentivise such investment by themselves taking on elements of this policy risk. Because the public sector 'controls' this risk, there is a lot it can do to encourage investment. This should be seen as an opportunity. By backing their own low-carbon policies, governments can stimulate additional net private sector investment, and thereby make a significant contribution to economic growth and employment.

7.11 TUC: Investment, Jobs, Fairness and Equality as Catalysts for Growth

Brendan Barber, TUC General Secretary, in commenting on GDP figures published on 24 May 2012, argued that the Government was "taking our economy in completely the wrong direction". He contended that despite "ministers' efforts to blame Europe for everything the truth is many of our problems are home grown, with consumer spending and construction both struggling under the weight of the Government's austerity programme". He called for a change of tack: "The Government needs to face facts and focus on investment in infrastructure and jobs, rather than continue with self-defeating cuts that are holding back businesses, lowering living standards and failing to deal with the deficit".

In November 2011, he set out a five point plan as an alternative to the Government's approach. He argued for "a more realistic and achievable 10-year plan" for deficit reduction that would not "choke off growth" that could still be credible with the bond markets. He argued for fairer taxation that did not "disproportionately hit the poorest and most vulnerable" so that "those with the broadest shoulders, the people who did best from the long boom, pay a fair share". He suggested that a "simple sales tax" on the vast capital flows in the markets could yield tens of billions of pounds and many times more if implemented internationally. He called for a "proper strategy for growth". This would include stimulating demand by "giving a helping hand to people on low incomes most likely to spend, whether it's a temporary cut in VAT, a reduction in National Insurance contributions or an increase in tax credits". It would also involve: fast tracking infrastructure projects, which would have an immediate economic benefit, such as house-building, road improvements and better public transport; an "intelligent" industrial strategy to help nurture successful industries such as aerospace and pharmaceuticals and aid a transition to a low-carbon economy; smarter procurement to ensure government spending delivered "maximum economic and social benefit"; a new state investment bank, possibly capitalised by quantitative easing, that could provide the capital for small and medium-sized businesses for projects to green the economy, and for transport, energy and housing schemes; further reform of existing banks so that "they act as utilities that serve us rather than casinos that enrich themselves". Fourthly, he thought that unemployment had to be addressed. This meant a "rethink" of cuts to the public sector as jobs were not being replaced by the private sector and cuts were doing "immense harm" more generally. To address youth unemployment he advocated giving employers a two-year National Insurance holiday when employing under-25s, the reinstatement of the Educational Maintenance Allowance, an increase in university places and "intelligent" and well-funded welfare-to-work schemes. Finally, he called for a more equitable distribution of wealth. He contended that part of the drop in the share of GDP going to workers' wages since the 1970s had led to soaring debt and noted the

Office for Budget Responsibility's prediction that household debt in the UK could reach over £2 trillion by 2015. He contended that: "Unless workers see their pay packets growing, we won't be able to build sustainable consumer demand".

7.12 National Institute for Economic and Social Research (NIESR): Investing in Growth

In May 2012, NIESR published its assessment of the UK economy. It noted that more than four years after the start of the recession, the economy was well over 4 percent below its pre-crisis peak, which it saw as "unprecedented". Growth across 2012 would be "close to zero, but about 2 percent in 2013". Though its inflation forecast had increased, this was largely as a result of the increase in oil prices, and it still expected it to fall below target by the end of the year. It expected the cyclically adjusted current budget to be in slight surplus in 2016–17. It believed that unemployment would rise to almost 9 percent at the end of 2012 and to remain elevated in 2013, which it contended would do "permanent damage to the UK's productive capacity". It made the following recommendations for future action:

> It remains our view that fiscal policy could be used to raise aggregate demand in the economy with little to no loss of fiscal credibility. We have never and do not now advocate scaling back the Government's medium to longer-term policy of fiscal consolidation. However, the UK also suffers from a lack of demand in the short term. As we noted in our January Review, a 1 percent of GDP increase in Government investment this year would boost GDP by around 0.7 percent, assuming no reaction by the MPC. A temporary boost to net investment, which has been cut extremely sharply, would have no direct effect on the government's primary fiscal target of balancing the cyclically-adjusted current budget in 2016–17.

On 12 June 2012, it published its monthly update on UK GDP growth. It stated that the UK economy "has ceased to contract, but economic activity remains very weak" and that "with the economy stagnant, the negative output gap is likely to widen further". It expected the UK economy "to remain broadly 'flat' over the next six months" and that "while significant downside risks persist, we expect economic recovery to begin to take hold in 2013". More generally, it did "not expect output to pass its peak in early 2008 until 2014".

7.13 Institute for Public Policy Research (IPPR): Alternatives to Austerity

In May 2012, Tony Dolphin, IPPR's Senior Economist and Associate Director for Economic Policy, published an article which painted a gloomy picture of the UK economy. He noted that though there was some debate as to whether the UK had slipped back into recession, the "bigger picture shows economic activity in the UK is very weak. Real GDP has fallen in four of the last six quarters and has increased by just 0.4 percent since the Coalition Government took office in the second quarter of 2010". He argued that this was "a result of a number of factors, some of which—global energy prices for example—are outside the control of the Government", but added that there was "little doubt the Government's austerity measures have contributed to the slowdown". He noted that there was some good news: business confidence had been higher in 2012 than in the second half of 2011; retail sales were much better than expected in March and the latest figures showed a fall in unemployment over the last three months for the first time in nine months. However, he added: "But for every positive indicator, there is another negative one: consumer confidence is at very low levels; manufacturing output fell more than expected in February; and full-time employment is still falling". In terms of inflation, he noted that it was hoped that in 2012 there would be a sharp fall in inflation that would increase households' spending power, leading to a boost in consumer spending and stronger output growth. However, inflation unexpectedly increased in March and prices had risen about 2 percent faster than earnings over the last year. As a result, "any recovery in spending is likely to be weak or short-lived". He concluded: "At best, 2012 looks like being another year of disappointing growth". In a subsequent press release issued on 24 May 2012 he called upon the Monetary Policy Committee to "authorise an increase in the scale of quantitative easing at its next monthly meeting" and for the Chancellor to "ease fiscal policy through a temporary cut in national insurance contributions and a boost to infrastructure spending".

7.14 Policy Exchange: Looking to the Future of Growth

In November 2011, Policy Exchange published *Looking to the Future of Growth*, which brought together a number of writers to produce a series of recommendations to promote growth. It recommended that the Government should continue to commit to meeting its first fiscal mandate of eliminating the current structural deficit by 2015/16 and that any flexibility in spending such as reduced debt financing costs or better than-expected fiscal circumstances should be shared between investment to reduce the current structural deficit faster and structural reforms focused on the long-term growth of the UK. It called for a more stable and predictable tax system, which would require Government to set out tax rates, allowances and rules, for at least the following four years, in each Finance Bill and a green paper at the start of each Parliament indicating its intended tax reform plans over the remainder of that parliament. It believed that 50 percent of tax revenues in excess of those expected should be channelled into structural deficit reduction. In terms of encouraging businesses, it advocated trialling National Insurance Contribution holidays for new workers on a permanent basis, supported the removal of the 50 pence top rate of tax and the Government raising up to £25 billion of funds to be channelled through banks to businesses and returned by the banks if not lent over a set time period, such as three months. It supported long and short-term credit-easing measures through the tax system and the continuance of the Bank of England's Special Liquidity Scheme.[2] It called for regulatory reform and a review to assess the cumulative cost of: the Agency Workers Directive; changes to pensions regulations (the introduction of NEST); the existing system of and suggested changes to maternity and paternity leave; health and safety legislation. It called for planning policies to spur Garden Cities and to promote housing in those areas where it was needed and a move away from a plan-led system to an externality-led system of planning. Finally, it recommended reform of the public sector to improve productivity, including a collaborative delivery of services by the public, private and voluntary sectors and local pay bargaining.

7.15 Fabian Society: Promoting Sustainable Growth that is Fair, Responsible and Green

Andrew Harrop, Editor of a collection of Fabian essays entitled *The Economic Alternative: The Politics and Policy of a Fair Economy* (February 2012), contended:

> The UK's long-term economic fortunes will depend on developing a broad mix of business sectors where we can maintain and build comparative advantage—areas like the creative industries, business services, life sciences, higher education, perhaps green industries and, yes, finance. The state should champion and support all these sectors. That means we must avoid knocking

[2] The Special Liquidity Scheme (SLS) was introduced in April 2008 to improve the liquidity position of the banking system by allowing banks and building societies to swap their high quality mortgage-backed and other securities for UK Treasury Bills for up to three years. The SLS officially closed on 30 January 2012.

finance, just for the sake of it, although we should be much more demanding about the extent to which the City supports the rest of the economy.

This would require an emphasis on: infrastructure spending; education reforms; research and 'seedcorn' investment in start-ups; support for geographic clusters; building collaboration and leadership within business sectors; thought as to how the best graduates could be diverted away from the City; what technical training the state should fund; how market failures in business investment could be identified and how any new approach could be made to work for the regions. In terms of fairness, there was a need to tackle boardroom pay, both in terms of remuneration and transparency, whilst low pay should be addressed through "steep increases to the minimum wage" across a parliament to bring it into line with the UK living wage. Stable growth would require new institutional frameworks which championed the interests of the consumer and the market entrant against the incumbent; embedding long-termism and stewardship into the design of accounting, banking and tax regimes; ensuring that bottlenecks in the economy were not allowed to fester, such as the supply of credit to small businesses or of new homes for families. It would also perhaps need an independent institution to demand counter-cyclical policy action when asset bubbles grew or when loose credit or fiscal policies stoked-up a boom.

7.16 Adam Smith Institute (ASI): Deregulation and Growth

In reaction to the Queen's Speech, Sam Bowman, Head of Research at the ASI, argued that the best way to stimulate growth was to reduce regulation:

> The Government seems determined to tinker around the edges of business and employment regulation. The tepid piecemeal modifications the Government is proposing will do virtually nothing to make doing business easier in Britain, and that's the only hope we have of generating a strong recovery. Our export markets are weak and domestic demand is stagnant—without a supply-side revolution that slashes business taxes and employment regulation, we will not see growth.
>
> ... Instead of more regulation like the immigration cap and the Communications Bill, the Government should be throwing out the regulation book and starting from the ground up. It should determine which regulations are absolutely necessary and ditch the rest. In the meantime, companies with 100 employees or fewer should be encouraged to register their employees as self-employed under contract, to side-step much of the existing employment regulation. Growth won't come from anywhere else, so we can't afford not to unleash British business. Unless we tackle the regulatory blockages, competition and enterprise policy will bear little fruit.

7.17 Centre for Policy Studies (CPS): Lessons from the 1930s

In March 2012, George Trefgarne published a CPS report, *Metroboom: Lessons from Britain's Recovery in the 1930s*, which suggested that a number of lessons could be drawn from the recovery from depression in the 1930s:

> **Spending cuts work**. Tough spending cuts—including an immediate 10 percent cut in benefits and civil service salaries—quickly led to balanced budgets and maintained the confidence of citizens, businesses and international investors. Today's cuts are much shallower in comparison.

Austerity in the public finances must be matched by a cheap money policy to encourage the private sector to expand. While this was achieved in the 1930s, the appropriateness of today's Quantitative Easing policy is far less certain.

Confidence in the legal and political foundations of the financial system must be restored. The early 1930s saw a number of high profile trials of those who had misbehaved in the previous decade. Today, nothing similar has happened and public confidence in the banks remains low.

Tax cuts work. From 1934 on, Neville Chamberlain's tax cuts for families and the low paid gave a further boost to business confidence. The top rate of tax was only 37.5 percent. A similar approach is needed today.

Press on with welfare reform. The National Government failed to do enough for the long-term unemployed and for those areas which had been hit particularly hard by the recession. Today's Coalition must not make the same mistake.

8. Business Confidence and Consumer Surveys

8.1 Business Confidence and the UK Economy

A number of surveys seek to track business confidence in the UK economy. The CBI conducts several surveys. Its latest *Industrial Trends Survey* (May 2012) found that of the 451 manufacturers responding, 19 percent reported total order books to be above normal, while 36 percent said they were below. The resulting rounded balance of -17 percent was in line with its long-run average (-17 percent). However, it found that export order books were holding up, with 16 percent of respondents stating that levels were above normal and 29 percent reporting they were below, giving a rounded balance of -12 percent, which remained above the long-run average (-21 percent). It concluded that "as a result of softer order books, output growth is expected to slow, with manufacturers anticipating that production will be broadly unchanged over the coming three months (a balance of -3 percent)".

The latest CBI *SME Trends Survey* (May 2012), which had 356 respondents, found that a balance of +22 percent said they were more optimistic regarding the business situation over the past quarter. This represented the first rise in sentiment in a year (+12 percent in April 2011). It found that over the previous three months the volume of total new orders rose modestly (+8 percent), and was expected to see faster growth over the next three months (+27 percent), driven by upturns in both domestic (+22 percent) and export order (+23 percent) growth. Output was reported as being broadly flat for the second quarter running (+1 percent), but, like orders, was expected to see a significant increase in the next three months (+19 percent). Similarly, SMEs also expected to increase employment (+16 percent) in the next quarter, having held headcount steady in the three months to April (+1 percent). With sentiment recovering, firms were raising their investment intentions. Respondents planned to raise capital expenditure in the year ahead compared to the past twelve months, with investment intentions for plant and machinery turning positive (+13 percent) for the first time in a year. However, economic uncertainty continued to be a factor influencing sentiment. Although SMEs expected export orders to rise, concerns about political and economic conditions limiting export demand had continued to pick up (cited by 43 percent of respondents). Nonetheless, orders and sales had fallen back as a factor likely to limit output in the coming quarter (67 percent, compared to 76 percent in January).

The results of its most recent *Distributive Trades Survey* (2012), which focused on retail, found that "sales volumes rose strongly in May compared to a year ago, and sentiment regarding the business situation for the next quarter has improved" but that "sales were still reported to be below average for the time of year".

Grant Thornton and ICAEW publish a quarterly UK Business Confidence Monitor (BCM), which offers coverage of different sectors and regions of the UK. The BCM for the second quarter of 2012 found that a "notable improvement in UK business confidence in the last three months suggests that the economy will come out of recession and return to growth in Q2 2012". Despite this the BCM supported the view of a "fragile recovery with the UK's economy continuing to zigzag over the next twelve months". It noted that as "output remained below pre-recession levels and significant risks to global economic stability remain—another escalation of the Eurozone sovereign debt crisis combined with political changes in Europe could trigger a market panic, for example, and bear down on economic growth". Amongst other findings the BCM found that reported employee headcount growth had failed to pick up across the quarter, though hiring expectations had strengthened, while firms in the IT & Communications sector remained significantly more confident than other sectors.

Markit and the Chartered Institute of Purchasing and Supply (CIPS) also produce monthly surveys of various UK business sectors. Data collected across May 2012 for the service sector suggested that growth was unchanged "during May at a solid rate, supported by a further marked gain in incoming new business". Companies had kept on top of workloads through the recruitment of new staff. Business expectations saw 50 percent of the survey panel signalling positive expectations for the year ahead, with respondents hoping that recent growth would be sustained in the sector, and that an improvement in the economic environment would help to support higher activity. However, worries over public sector spending cuts and the impact of the Eurozone debt crisis undermined sentiment, with confidence subsequently weakened to the lowest since December 2011. Data collected for the construction industry in May 2012 indicated that output growth had hit a three-month low, and that new business had risen at a much slower pace. The degree of positive sentiment about the year-ahead outlook was the lowest since October 2011 and much weaker than the average recorded since the UK economy entered deep recession in mid-2008.

8.2 Public and Consumer Attitudes towards the UK Economy and its Prospects

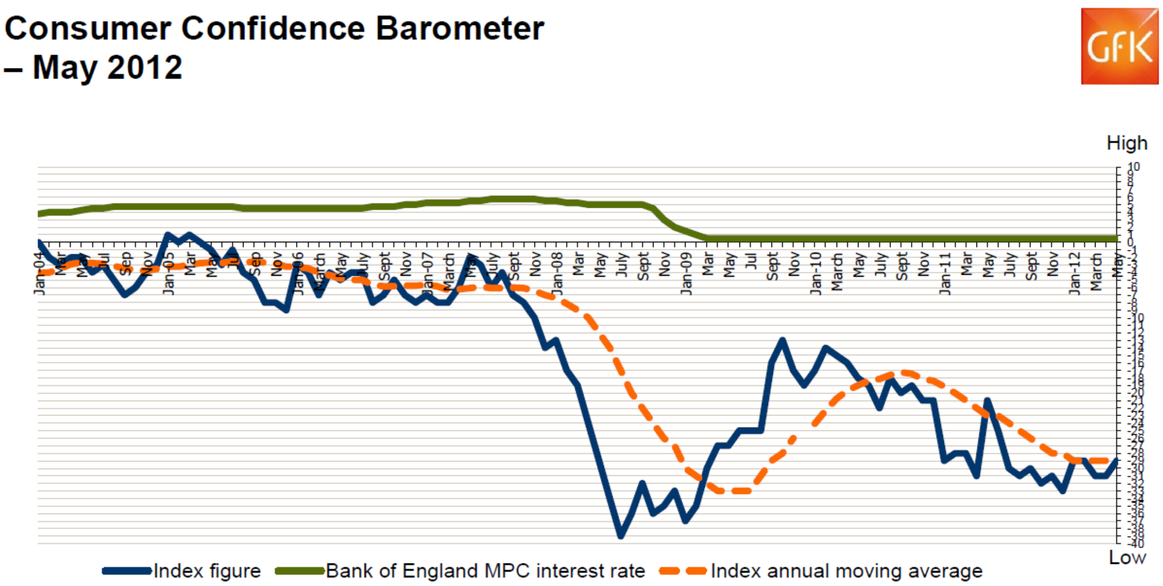
Ipsos MORI has produced a time-series set of data of public attitudes since 1997 based on the question: 'Do you think that the general economic condition of the country will improve, stay the same or get worse over the next 12 months?'. Data since January 2011 is below:

2011	Improve %	Stay the same %	Get worse %	Don't know %
21–24 January 2011	24	20	53	3
18–20 February 2011	19	23	56	2
11–13 March 2011	23	23	51	3
15–17 April 2011	31	24	42	3
20–24 May 2011	29	27	42	2
17–19 June 2011	23	28	46	3
16–18 July 2011	22	27	48	3
20–22 August 2011	19	26	52	3
10–12 September 2011	20	25	52	4

22–24 October 2011	16	25	57	3
19–21 November 2011	15	25	58	2
10–12 December 2011	12	25	60	2

2012	Improve %	Stay the same %	Get worse %	Don't know %
21–23 January 2012	16	29	51	3
25–27 February 2012	24	28	46	2
17–19 March 2012	29	25	43	2
21–23 April 2012	24	32	42	2
12–14 May 2012	21	32	44	3
9–11 June 2012	18	29	50	3

Since January 2004 GfK NOP has carried out a monthly survey of consumers—the UK Consumer Confidence Index.[3] The Index is reproduced below:



Commenting on the latest release (May 2012), Nick Moon, Managing Director of Social Research in GfK, noted that while there had been a slight rise in the index during May 2012, which was "indeed positive", he stated that "consumer confidence remains mired in the very negative position it has been in for almost 18 months". In terms of the measure for the general economic situation of the country, the survey found that during the last twelve months it had decreased one point in May to -58, which was fourteen points lower than May 2011. An expectation for the general economic situation over the next twelve months had increased by seven points during May 2012 to -26, eleven points lower than May 2011.

The Nationwide Building Society also publishes a monthly Consumer Confidence Index. In May 2012 it published its findings for March. Its Chief Economist commented that the main Consumer Confidence Index had "see-sawed in recent months, with alternating

[3] The Consumer Confidence Index is a composite based on respondents' views relating to five questions: their personal financial situation over the last twelve months; their personal financial situation for the next twelve months; perceptions of the general economic situation over the last twelve months; perceptions of the general economic situation for the next twelve months; perceptions of the Climate for major purchases.

rises and falls since September last year" though it had "consistently remained well below its long-run average, signalling ongoing caution on the part of UK consumers". He thought that it was not surprising that confidence remained fragile with "the economy shrinking over the past six months and labour market conditions still weak". He acknowledged that over the past six months there had been a sharp decline in inflation from 5.2 percent in September 2011 to 3.5 percent in March 2012, which had "helped to provide some support to purchasing power". However: "the sharp falls in inflation seen at the start of the year are unlikely to be repeated in the near-term, with inflation likely to fall back towards the 2 percent target only slowly", which meant as a result that "the easing price pressures will be less visible to households in the months ahead than at the start of the year". More generally, he added: "Much of the volatility in the main Confidence Index has been driven by swings in people's expectations of the future, which reflects the unusually uncertain environment facing consumers at present".

In April 2012, Angus Reid published the results of a survey of public confidence in the UK economy. The survey found that only 9 percent rated the economic conditions in the United Kingdom today as "very good" or "good", whereas 35 percent believed that their own personal finances were in "very good" or "good" shape. When asked about the prospects for the UK economy over the next six months, 40 percent foresaw a decline, while only 9 percent expected to see an improvement. The low level of economic confidence was accompanied by specific concerns, with 40 percent saying they have worried "frequently" or "occasionally" about themselves or somebody in their household becoming unemployed, and 30 percent felt anxiety over being able to pay their mortgage or rent.

9. Mansion House Speeches (June 2012)

9.1 Governor of the Bank of England

On 14 June 2012, the Governor of the Bank of England gave his Mansion House Speech. He gave the background to the current economic situation. Before 2007 credit had been more easily available. Now there was a need to generate a recovery while rebalancing the UK economy, "supported by a loose monetary policy and a large depreciation of sterling, on the one hand, and a gradual but steady reduction in the structural budget deficit, on the other". While this remained the goal, output had been "broadly flat" reflecting "unexpected increases in world energy and commodity prices, leading to an unprecedentedly long and severe squeeze on real take-home pay and so weak consumer spending". In addition, the crisis of the euro area was holding back both UK exports and investment. This crisis, despite the infusion of a trillion euros by the ECB, was not one of liquidity but of solvency: "a cumulative loss of competitiveness in periphery economies, leading to continuing external deficits and large external debt". The crisis had had two effects. The first was a rise in bank funding costs, leading to higher borrowing rates on mortgages and loans to SMEs, reflecting the exposure of the UK's major banks to the periphery economies. The second was the creation of uncertainty in the euro area, but also in the UK and world economies.

He noted that the Bank of England had expanded the broad money supply which had "helped offset what would otherwise have been an extremely damaging contraction". However, the Bank of England and HM Treasury had decided that more measures were required. He announced a "funding for lending" scheme that would "provide funding to banks for an extended period of several years, at rates below current market rates and linked to the performance of banks in sustaining or expanding their lending to the UK non-financial sector during the present period of heightened uncertainty". The Bank would lend, as in its existing facilities, "against a much greater value of collateral comprising loans to the real economy to protect taxpayers". It would complement the Government's existing schemes, and "tackle the high level of funding costs directly" and would hopefully be "in place within a few weeks". In addition, he said that the bank would activate a previously announced new Extended Collateral Term Repo Facility under which auctions of short-term sterling liquidity could be held at any time.[4] Both measures would "support the banking sector, and provide it with incentives to increase lending to the real economy".

9.2 Chancellor of the Exchequer

The Chancellor of the Exchequer, following the Governor, said that dealing with the UK's debt was central to his approach: "In short the UK economy had tested the limits of an unsustainable and unbalanced model of debt-fuelled growth, and was badly in need of a difficult but unavoidable rebalancing". He argued that tight fiscal policy and loose monetary policy was the right macroeconomic response. He stated that in two years the Government had cut the deficit by a quarter, the credibility of which had been "rewarded in the markets" with the UK "benefitting from safe haven inflows despite our large deficit and huge banking system". In May 2010, the UK's cost of borrowing had tracked Italy and Spain, whereas: "today Spain's borrowing costs hit a record 7 percent, and Italy is borrowing at more than 6 percent, while our ten year gilt rates are just 1.7 percent". Though long-term interest rates had been determined by several factors, he contended that "it would be perverse to argue that the credibility of the UK's fiscal consolidation has not been a crucial factor" and that this credibility had "created the space for the Bank of England to undertake QE on a large scale". The Government was also reforming the banking system and had made the UK economy "a place that better supports businesses, wealth creation and new jobs with necessary changes to the planning system, more pro-business employment law, more competition in our university sector, welfare changes, and above all, school reform".

He argued that the OBR, the IMF and others had identified several reasons for low growth in the UK economy: there was a larger than anticipated impact of the financial crisis and deleveraging on potential output; there had been global commodity price shocks, exacerbated in the UK by its depreciated exchange rate; there was ongoing uncertainty in the Eurozone which was now acknowledged to be having an impact on growth and investment across the world, from the US to China. However, there was "very little evidence from the OBR's forecasts to suggest that the impact of the fiscal consolidation on growth has been larger than they forecast two years ago". He said that not addressing debt would have been a mistake, as the UK's gross debt was already forecast to peak above 90 percent of GDP, with evidence suggesting that higher debt tended to reduce growth. The Eurozone illustrated that "high levels of gross debt can themselves leave a country vulnerable to unstable market dynamics" which would be "catastrophic for the process of recovery". He also challenged the view that the UK could have aped the US. The UK banking sector balance sheet was worth 500 percent of GDP—compared to just one fifth of that in the US—which created the "very real risk of a destructive negative feedback loop between the sovereign and the financial sectors". Also, sterling was not the global reserve currency, which meant that "the UK is much more exposed to market sentiment than the US". He then pointed to the actions taken to promote growth. There had been permanent reductions in current spending to pay for temporary increases in high quality capital spending, including investment in building new road and new rail, including Crossrail. The Government had also "introduced the biggest back to work programme in this country's history, including our new Youth

[4] Full details of the Extended Collateral Term Repo Facility were set out in a Bank of England Market Notice issued on 15 June 2012.

Contract to get more young people into work" and supported a large programme of credit easing for small businesses through the National Loan Guarantee Scheme.

The Chancellor then set out a number of new policies to help stimulate and track growth. The Government would amend the Financial Services Bill to give the new Financial Policy Committee a secondary legal requirement for it to report on how every Government action was compatible with economic growth as well as stability. He also acknowledged that a lack of credit was damaging businesses and costing jobs and, noting the Governor's previous comments, said that the Government would "take coordinated action on liquidity and on funding for new bank lending in order to inject new confidence into our financial system and support the flow of credit to where it is needed in the real economy".

9.3 Reaction to the Mansion House Speeches

Ed Balls, writing on his website, said that the Bank of England's new funding for lending scheme was "a significant admission that the Government's existing policies have failed" and that businesses would "be desperately hoping it is more successful than George Osborne's Project Merlin and credit easing schemes". He believed that the biggest problems in the economy were "a lack of confidence and a lack of demand" and that the proposals from the Bank of England did not go far enough. He argued that a change of course from the Government on fiscal policy was also required, alongside "a credible and balanced plan for jobs and growth that gets our economy moving again and people back to work".

The BBC's Robert Peston noted that the Extended Collateral Term Repo would allocate a minimum of £5 billion every month to banks in the form of six month loans and provide credit "against the security of pretty much any assets that the banks have, rather than the more narrowly defined and better quality assets that the Bank currently insists they provide". The intention was that this would encourage banks to "stop hoarding and start lending again". The other scheme—funding for lending—had the express purpose of lending to the real economy, rather "than just providing the marginal credit that commercial banks need to operate efficiently". He suggested that this would see a likely 5 percent increase in lending to the real economy, equivalent to £80 billion of net new loans. Bankers had doubts about how far the schemes would work. First, creditworthy businesses and households would be reluctant to increase their debts in uncertain times. Second, many of the companies and individuals desperate to borrow were in some financial difficulties, which meant that banks would not want to lend to them. He added that the Treasury and Bank of England wanted the risks of lending to stay with the banks, but that "if that remains the case, the new credit almost certainly won't get to those who most need it", while there was the issue of exposing "taxpayers to the probability that some businesses and households, who may deserve to be kept afloat, would not be able to repay all of what they owe".

The CBI generally welcomed the Chancellor's announcement. John Cridland, CBI Director-General, said that the Bank of England's action on liquidity was a "sensible pre-emptive move and will provide new liquidity to banks at a time of greater Eurozone related turbulence in the financial markets". He thought that the funding for lending scheme would need to "be practical for banks to participate, offer lower funding costs than found on the markets and most importantly, be easily accessible to small and medium-sized businesses who will be the backbone of our future economic recovery".

The Public and Commercial Services Union (PCS) was lukewarm in its response to the two announced schemes. Mark Serwotka, the PCS General Secretary, said that they showed that "the Government is desperate because their austerity policies are making things worse" and that the plan "won't do enough to stimulate the economy". He saw an alternative: "stop the brutal and damaging cuts programme, and use this money to invest directly in much-needed projects like housing, transport, and green energy. And collect the billions of pounds of tax that is avoided and evaded every year by the super rich and big business".

The British Banking Association welcomed the proposals. Chief Executive Angela Knight said that technical changes to the liquidity coverage ratio would "help ease up lending to provide affordable finance and signalled an important partnership between the Government and the City to help get the economy moving".

The EEF, the manufacturing organisation, was measured in its response. Steve Radley, EEF Director of Policy, welcomed the attempts to improve access to finance and noted that the "scale of these new announcements indicates how seriously the Government and the Bank view the current situation". However, he thought that the return on the new initiatives, "which by their nature are short-term in focus, is highly uncertain", while he was concerned whether "the Government is on the hook for the risk of this lending and how the additional lending will be monitored". The Government needed to "be similarly aggressive on tackling the structural problems in the financial sector—including a lack of competition between banks and a lack of options for accessing finance to support growth outside of banks".

Martin Wolf analysed the two new schemes in the *Financial Times*.[5] He said that the Extended Collateral Term Repo Facility was "an attempt to alleviate stresses on liquidity largely caused by the Eurozone crisis" and that as "a crisis prevention measure it makes sense". The funding for lending scheme was an "effort to kick-start disappointing lending". However, he questioned whether the cost of funding was the binding constraint on lending by banks to businesses and households or whether it was the risk aversion of banks and the state of potential borrowers: "those who are creditworthy do not wish to borrow; those who want to borrow are not creditworthy, at least in the current enfeebled state of the economy". He thought that more quantitative easing was on the way. Though it might have avoided a monetary contraction in the past, it was "very unlikely" to deliver a strong recovery. He saw no reason to expect a surge in lending from the new schemes announced and believed that if the Government wanted such a rise, it could "engineer one by telling the bosses of the banks in which it holds shares that the payment of bonuses depends on delivering a sharp rise in lending". He believed that the weakness of the Eurozone had allowed the Government to blame the weakness of the UK economy on "the antics of foreigners", which he found "quite unconvincing". However, it did "make it easier to stick to the line that the Government's policies are not themselves to blame and so to pursue relatively modest (and so modestly effective) modifications of the current policy regime".

Jeremy Warner writing in the *Daily Telegraph* stated: "Banks are to be offered up to £140 billion of cheap funding so as to free up lending capacity for households and businesses. The detail is yet to be settled, and the schemes may end up not as significant as they sound. But on the face of it, this is encouraging stuff. Belatedly, the Bank of England is cranking itself into action in preparation for the coming storm".

Larry Elliott, responding on the *Guardian* website, argued that the funding for lending scheme was an admission that Project Merlin had "now officially been branded a failure" and evidence that "the descent of the economy into a double-dip recession has forced George Osborne to adopt more robust measures to get the economy moving". The other scheme to "flood the banking system with unlimited amounts of cheap funding" was an

[5] *Financial Times*, 'Best not to Pin Hopes on UK's Plan A-Plus', 15 June 2012.

attempt to see UK institutions through the “turbulence ahead”. He was concerned that both initiatives meant that the Government was “convinced that immediate emergency action was needed to spare an already battered British economy from a second deep slump within four years”.

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