

## Chemicals Industries Association

*Alan Duncan*

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It's a huge pleasure to be speaking at the Chemicals Industries Association annual dinner.

I'm glad to be able to pay tribute to the fantastic work that the Chemicals Industry Association does. This morning I was talking to Lord Hunt, our front bench shadow to Lord Mandelson in the Lords. (It's obvious that the Prince of Darkness doesn't cast a shadow himself, so we had to get one for him). He told me that when he was trade secretary in the 90s, his diary was often leaked to his opposite number Rhodri Morgan – and would sometimes receive panicked phone calls from Labour officials asking why the secretary of state was having dinner with the CIA.

Under the really excellent leadership of your chief executive, Steve Elliot, this is one of the very best trade bodies that I deal with. In lobbying, you are balanced, analytical and always helpful – and always with your members interests at heart, rather than following an unspoken political agenda. And I think

it's a testament to the CIA's hard work that the chemicals industry has such an impressive reputation in the UK.

I also want to pay tribute to the work that MPs from all of the major parties do to keep building the links between Westminster and the chemicals companies that are spread across the UK. In Brian Iddon, who is the chair of the All Party Parliamentary Group, you have that quality that is increasingly rare in politics: a man with experience in his own brief. As a Labour scientist, I'm sure Brian will be more than aware of the concept of the Brownian Motion (??) Other members of the APPG here tonight include Lord Jenkin, who provides us with incomparable wisdom on all matters energy, particularly nuclear; and Michael Connarty, who has the Grangemouth facility in his constituency.

It's becoming clearer by the day that the economic model that we have lived off for the last decade was fundamentally flawed and is now fundamentally broken. While we politicians certainly need an urgent response to the difficulties that specific business sectors are currently encountering – none more so than the many successful chemicals companies that are based here in the UK, 150 of which are represented by the CIA – it's absolutely clear to me that we need a radical rethink of our longer-term economic strategy for the UK.

I should also preface this speech with the health warning. I don't intend to pull my punches against what I view as ten years of unprecedented profligacy and fiscal irresponsibility at the heart of government. This is not partisan point-scoring, as the Prime Minister tried to claim last weekend. We wouldn't have the right to call ourselves the Opposition if we chose never to criticise.

So let me set out my stall from the start: I believe that Gordon Brown's decisions have led directly to the UK being one of the least prepared economies to cope with a global downturn. He has squandered a decade of economic prosperity and borrowed heavily to fuel unsustainable bubbles in house and asset prices. After fourteen years of continuous growth, the country should be well-placed to weather the hurricane.

Government borrowing should have been converted into surplus, savings should be higher, or should exist at all, taxes should be lower, unemployment reduced, and pensions set aside for everyone. Instead, the opposite is true - public and personal debt have soared, savings plummeted, council tax doubled, pensions have been destroyed and the tragedy of soaring unemployment has become a reality. Last week, around 15,000 people lost their jobs across Britain – while every day brings news of swingeing cuts across virtually every industry. My fear

– like the CBI’s too – is that the total will break through 3 million.

The IMF has claimed that Britain is one of the most vulnerable major economies. The European Union has said that the UK will experience the deepest recession. And global investors have given every indication of their confidence in the British economy by giving the pound a real pounding. So George Osborne was completely right to observe as he did that over the last 12 months sterling has fallen by 25 per cent against the dollar. It may not be as spectacular as the one-day devaluations that haunted previous Labour governments – in 1967 or 1978 – but the fall is already larger. The truth is that the markets are treating the Government’s claim that the UK is better equipped than its rivals to deal with a recession as a bad joke.

Fiscal incontinence in Whitehall appeared to encourage the second cause of our current crisis: the bewilderingly irresponsible behaviour of our banks. For too many bankers the creation of credit became an exercise in pyramid selling, operating fiendishly complicated schemes that had a sphinx-like obscurity. Undercapitalised banks were leveraged to absurd degrees, and remunerated their executives in ways which only exacerbated chronic short-termism.

While those at the top of Government broke bread with those at the top of the banking institutions, and indulged in their collective delusion, it is now the ordinary, less glamorous, but more valued and productive businesses – from the medium-sized manufacturer to the large chemicals plant – who are really feeling the pain. No sector or region of our economy is immune to the ferocity of the credit virus.

The disappearance of credit, combined with a global contraction that are leaving order books collecting dust, are making these the most treacherous conditions for manufacturers for decades. Our business climate has turned from overheating to permafrost virtually overnight. It's no wonder that the sector, which had looked resilient at the beginning of the year, is now suffering from a crisis in confidence – the biggest fall in confidence, according to the CBI, in 28 years.

It is a tragedy that heavy industry, who have undergone necessary but painful transformations over the last 30 years, who have had to find new ways to compete against the factories of China, India and Brazil, and who have shed over a million jobs since 1997, are now being significantly undermined by the policy failures at the top of our most powerful political and financial institutions.

The tragedy for Britain is that just when we'd like to be able to draw on reserves and savings to boost activity following this downturn in the cycle, we find there's nothing there.

This makes the choice we face about how to alleviate current pain far more difficult than it should be. Some say we must have a Keynesian fiscal stimulus - others say that by piling debt on top of debt it would make things much worse.

It seems that Gordon Brown, the architect of our debt mountain, wants to reduce taxation by increasing borrowing. It is far from clear that such a general spending splurge would in any way have the desired affect. At the very least, it would lead to tax increases later; at worst, it could lead to a systemic deterioration in the whole country's economic condition.

In short, it could prompt a collision between fiscal policy and monetary policy. Low interest rates remain the most immediate and the most potent instrument for assisting cash-flow and helping people service their debt. But if the country's fiscal deficit suddenly grows at a time when the overall economy is contracting, there is a serious danger that long-term interest rates would have to rise both in order to sell the gilts it needs to finance its deficit and also to stop the pound from going into freefall.

And so it might turn out that greater borrowing, instead of stimulating the economy, could in fact sink it.

But there is a further danger. The Government, and others, insist that these supposedly stimulating tax cuts should be temporary. We would therefore face the prospect of taxes going up again, and by more than would otherwise be the case, just as Britain is emerging from recession.

What David Cameron proposed on Tuesday better understands the modern world and is better attuned both to the challenge of recession and the opportunities for recovery. We do not want to see unfunded tax cuts and a massive increase in borrowing now; nor do we want to jeopardise the low interest rates that people need. Consistent with that view, we have announced that our public spending plans from 2010/11 will diverge from Labour's published figures and take a lower path.

In the world after Keynes, cash and capital moves around far more quickly. Greater borrowing is not an instrument whose effects can be applied without broader consequences. Gordon Brown's plans put our recovery at risk because just when we would be coming out of recession, his earlier fiscal laxity would be hurting our international competitiveness.

In the same way as we are ill-equipped to cope with this stage of the economic cycle now, Gordon Brown seems determined to set us up to be even more ill-equipped for coping with the recovery. Fiscal indulgence now would become a drag-anchor on recovery later.

A temporary tax cut is meaningless to the investor who wants a stable picture for the long term and if excessive borrowing has created systemic deterioration all it will do is make the recession longer and deeper. Temporary measures funded by borrowing and by lasting tax increases will prove detrimental in the long term.

Gordon Brown has become a manager of decline. David Cameron is the architect of long-term prosperity. That is now the difference between the two parties in Britain.

We have made a number of proposals to the Government which are designed to bring some relief, to lift some pressure off businesses who are struggling to keep afloat. Deferring VAT. Temporarily reducing National Insurance. Opening up local and central Government procurement practices to small firms. Cutting NICs. Pledging to reverse the absurd rise in small business corporation tax.

No policies can totally negate the adverse consequences of our plight. But these suggestions are worth more in the long run than Gordon Brown's 'rabbit-out-of-the-hat' tax plans because they are measures which are immediate, targeted and funded, underpinned by George Osborne's sensible framework of responsible borrowing that allows for sustained and substantial cuts in interest rates immediately, and lower taxes in the future. Economic tricks may help buy votes in the short-term; but they leave a crippling legacy of debt for future generations. We should remember Margaret Thatcher's prescient words in 1981: "All of that money [Labour spent] has got us nowhere but it still has to come from somewhere".

Now our challenge is clear. We need to go back to an economy which is genuinely productive – not constructed on a mountain of debt. Everything that we do from now must be designed to enhance the UK's long-term competitiveness. Every commitment government makes, every policy that Whitehall designs, every law that Parliament crafts needs to be forensically examined, and a simple question asked: Is what we proposing going to help or hinder our economic competitiveness?

Our economy is crying out to be recalibrated to the new trade corridors and opportunities that globalisation has created. This

country has an industrial base, and a pool of highly skilled talent, that other countries can only dream of. Over the last decade, we've just not built on that foundation or refilled that pool in the way that we should have done.

The message that I bring to you today is not just the doom and gloom of what has failed and how it is failing. I do acknowledge that it is far too early to talk about economic growth – for now we can only use the language of survival. But our only route out of this current mess is to focus relentlessly on boosting our broader economy and ending the monopoly grip on the economy that the City of London has held.

This is of course where the chemicals industry fits in. It's a statement of the obvious, but the chemicals sector has a unique position in Britain's industrial landscape – because it underpins every other industry and business. Your value stretches far beyond your economic significance. However, in these economically crucial times, let's not underplay that significance: this is an industry in which provides almost 200,000 jobs, turning over a hefty £60 billion.

These days, you can get at least three British banks for that.

Moreover, you're an industry that has the development and care of your personnel at the heart of what you do. The average earnings of an employee at one of your firms are likely to be 20 per cent higher than in the wider manufacturing sector. That's a great tribute to your successes as businesses – but it also speaks volumes about your emphasis on the development of your teams. We must remember that particularly in these very tough times, the loss of skills presents perhaps the deadliest threat to the UK's future competitiveness.

So real industry needs to be at the centre of this vision. That's why I and shadow ministers from our Treasury and Business teams spent time earlier this year with senior executives at Rolls Royce – visiting Derby, Glasgow and the company's new facility in Berlin. And that's why later this year, David Cameron and I will be holding a manufacturing summit in December to talk through the policies that a Conservative government might adopt to ensure that your sector is best positioned to seize the advantages of globalisation.

And this is where the Department of Business comes in. Under my leadership, the Department will not just be a 'voice for business', but also the eyes, ears and hands. We need to simplify corporate tax: so it will be the Department of Business lobbying inside the Treasury. We need to codify employment legislation:

so it will be the Department of Business working actively against needless regulations. We need to cut back on time-consuming red tape: so it will be the Department of Business that will reduce the stock and provide a proper system of redress against the bureaucrats. And we need a radical rethink of our regional economic policy, which after ten years of muddled thinking and conflicting initiatives has not translated into real progress on the ground.

The greatest difficulty that we will face over the next year was starkly demonstrated by today's CBI predictions on unemployment: how do we protect our skills? If a major car manufacturer, for instance, has significantly to reduce its workforce next year, how will we find the right people to ramp up production in the next three? I want this Department to be the one that coordinates between different Whitehall offices and the general business community to ensure that we keep Britain working.

We've had 14 years of growth yet once again democracy has failed to deliver the stability, the counter-cyclical action and the long-term approach a healthy economy requires. As we suffer the pain of recession, the clever thing to do now is to think long-term at a time when it is most difficult to do so. Everything we do now should be geared towards not repeating the mistakes of

the last decade and ensure that our policies enhance our competitiveness and equip us for the long term prosperity the current Government has squandered.