

UK Chancellor Jeremy Hunt - Speech at Bloomberg on the Future of the UK Economy, January 27, 2023

*The speech made by Jeremy Hunt, the Chancellor of the Exchequer, at Bloomberg in London on 27 January 2023*

Good Morning

Thank you for that welcome, thank you all for joining us at Bloomberg.

From the way we communicate and collaborate, to the way we buy and sell goods and services, digital technology has transformed nearly every aspect of our economic lives.

How do I know that?

Because I too, just like Matt asked ChatGPT to craft the the opening lines of this speech.

Who needs politicians when you have AI?

Like other countries, the UK has been dealing with economic headwinds caused by a decade of black swan events: a financial crisis, a pandemic and then an international energy crisis.

And my party understands better than others the importance of low taxes in creating incentives and fostering the animal spirits that spur economic growth.

But another Conservative insight is that risk taking by individuals and businesses can only happen when governments provide economic and financial stability.

So the best tax cut right now is a cut in inflation.

And the plan I set out in the Autumn Statement tackles that root cause of instability in the British economy.

The Prime Minister talked about halving inflation as one of his five key priorities and doing so is the only sustainable way to restore industrial harmony.

But today I want to talk about his second priority, to grow the economy. (In case you weren't sure, I have them on the screen behind me.)

We want to be one of the most prosperous countries in Europe and today I'm going to outline the 4 pillars of our plan to get there.

Just as our plan to halve inflation requires patience and discipline, so too will our plan for prosperity and growth.

But it's also going to need something else which is in rather short supply - Optimism, but we can get there.

Just this month columnists from both left and the right have talked about an "existential crisis," "Britain teetering on the edge" and that "all we can hope for...is that things don't get worse."

I welcome the debate - but Chancellors, too, are allowed their say.

And I say simply this: declinism about Britain is just wrong.

It has always been wrong in the past - and it is wrong today.

Some of the gloom is based on statistics that do not reflect the whole picture.

Like every G7 country, our growth was slower in the years after the financial crisis than before it.

But since 2010, the UK has grown faster than France, Japan and Italy. Not at the bottom, but right in the middle of the pack.

Since the Brexit referendum, we have grown at about the same rate as Germany.

Yes we have not yet returned to pre-pandemic employment or output levels.,

But an economy that contracted 20% in a pandemic still has nearly the lowest unemployment for half a century.

And while our public sector continues to recover more slowly than we would like from the pandemic - strengthening the case for reform - our private sector has grown 7.5% in the last year.

Yes inflation has risen - but is still lower than in 14 EU countries, with interest rates rising more slowly than in the US or Canada.

And yes we have to improve our productivity. But output per hour worked is higher than pre-pandemic.

And last week a survey of business leaders by PWC said the UK was the third-most attractive country for CEOs expanding their businesses.

Economists and journalists know you can spend a long time arguing the toss on statistics,

But the strongest grounds for optimism comes not from debating this or that way of analysing data points but from our long term prospects: because when it comes to the innovation industries that will shape and define this century the UK is powerfully positioned to play a leading role.

Let's just look at some of them.

In digital technology, as we heard from Michelle, we have become only the third economy in the world with a trillion-dollar sector.

We have created more unicorns than France and Germany combined with eight UK cities now home to two or more unicorns.

The London / Oxford / Cambridge triangle has the largest number of tech businesses in the world outside San Francisco and New York.

PWC say that UK GDP will be up to 10% higher in 2030 because of AI alone. Fintech attracted more funding last year than anywhere in the world outside the US.

Or life sciences, where we have the largest sector in Europe. And a brilliant advocate with our superb Science Minister George Freeman.

We produced one of the world's first Covid vaccines, estimated to have saved more than 6 million lives worldwide.

We identified the treatment most widely used to save lives in hospitals, saving more than a million lives across the globe.

We are behind only the US and China in terms of high-quality life science papers published, and every one of the world's top 25 biopharmaceutical firms has operations in the UK.

Another big growth area is our green and clean energy sector.

The UK is a world leader here, with the largest offshore wind farm in the world. Last year we were able to generate an incredible 40% of our electricity from renewables. But on one day, a rather windy December 30th, we actually got 60% of our electricity from renewables - mainly wind.

McKinsey estimate that the global market opportunity for UK green industries could be worth more than £1 trillion between now and 2030.

And we are proceeding with the new plant at Sizewell C, led by our excellent Business Secretary who also spoke very wisely and surprisingly classically earlier on.

I could also talk about our creative industries which employ over two million people and grew at twice the rate of the UK economy in the last decade.

They have made the UK the world's largest exporter of unscripted TV formats and help give us a top three spot in the Portland Soft Power index.

Or our advanced manufacturing sector, key to exports, where we produce around half of the world's large civil aircraft wings and its biggest aeroengines as well as around half of the world's Formula One Grand Prix cars.

The golden thread running through the industries where the Britain does best is innovation.

Amongst the world's largest economies, the Global Innovation Index ranks us fourth globally.

Those innovation industries now account for around a quarter of our output. They have been responsible for nearly all our productivity growth since 1997.

And they're also the reason that all of you are here.

In the audience we have leaders from Meta, Microsoft, Amazon, Apple and Google, the world's largest tech companies all with major operations in the UK.

We have Monzo and Revolut, shining examples from our world-beating fintech sector.

And we have founders and CEOs from some of our most exciting UK technology companies, like Proximie and Matillion.

You are all vital for Britain's economic future, but Britain is vital for your future too.

So I want to ask all of you to help our country achieve something that is both ambitious and strategic.

I want you to ask you to help turn the UK into the world's next Silicon Valley.

What do I mean by that?

If anyone is thinking of starting or investing in an innovation or technology-centred business, I want them to do it here [in the UK].

I want the world's tech entrepreneurs, life science innovators, and green tech companies to come to the UK because it offers the best possible place to make their visions happen.

And if you do, we will put at your service not just British ingenuity - but British universities to fuel your innovation, Britain's financial sector to fund it and a British government that will back you to the hilt.

Our universities are ranked second globally for their quality and include three of the world's top ten.

In order to support the ground-breaking work they do in so many new fields the government has protected our £20 billion research budget, now at the highest level in history.

And as you look for funding to expand, we offer one of the world's top two financial hubs and the world's largest net exporter of financial services.

The capability of the City of London combined with the research strengths of our universities makes our aspiration to be a technology superpower not just ambitious but achievable - and today I am here to say the government is determined to make it happen.

But like any business embracing new opportunities, we should also be straight about our weaknesses.

Structural issues like poor productivity, skills gaps, low business investment and the over-concentration of wealth in the South-East have led to uneven and lower growth. Real incomes have not risen by as much as they could as a result.

Confidence in the future though, starts with honesty about the present.

We want to be one of the most prosperous countries in Europe, so today I set out our plan to address those issues.

That plan, our plan for growth, is necessitated, energised and made possible by Brexit.

The desire to move to a high wage, high skill economy is one shared on all sides of that debate.

And we need to make Brexit a catalyst for the bold choices that we'll take advantage of the nimbleness and flexibilities that it makes possible.

This is a plan for growth and not a series of measures or announcements, which will have to wait for budgets and autumn statements in the years ahead.

But this plan is a framework against which individual policies will be assessed and taken forward.

I set out that plan, those priorities under four pillars. They build on the "People, Capital, Ideas" themes set out by the Prime Minister last year in his Mais Lecture and as such are the pillars essential for any modern, innovation-led economy.

For ease of memory the 4 pillars all happen to start with the letter 'E'. The Four 'E's of economic growth and prosperity. And they are Enterprise, Education, Employment and Everywhere.

So let's start with the first 'E' which is enterprise. If we are to be Europe's most prosperous economy, we need to have quite simply, its most dynamic and productive companies.

There is a wide range of literature citing the importance of entrepreneurship on business dynamism, whereby more productive firms enter and grow and less productive firms shrink.

But I don't just believe the theory, I have put it into practice.

I set up and ran my own business for 14 years. It was one of the best decisions I ever made - and I actually owe it to Margaret Thatcher and Nigel Lawson.

Because by the time I got to university and was thinking about my career options, they had changed attitudes towards entrepreneurship. Had they not, I would have probably ended up in the City or the Civil Service.

Instead I took a different route to end up at the Treasury - less the Fast Stream, more the Long Way Round.

Like thousands of others setting up on their own, I learned to take calculated risks, live with uncertainty and work through failures (of which there were many).

Every big business was a start-up once - and we will not build the world's next Silicon Valley unless we nurture battalions of dynamic new challenger businesses.

Today, we are already ranked by the World Bank as the best place to do business amongst large European nations and second only to America in the G7.

And the result of that pro-business climate is that since 2010 we have created more than a million new businesses in this country.

But the question I want to ask is how are we going to generate the next million?

Firstly, we need lower taxes. In Britain, even after recent tax rises, we have one of the lowest levels of business tax as a proportion of GDP amongst major countries.

But we should be explicit: high taxes directly affect the incentives which determine decisions by entrepreneurs, investors or larger companies about whether to pursue their ambitions in Britain.

With volatile markets and high inflation, sound money must come first.

But our ambition should be to have nothing less than the most competitive tax regime of any major country.

That means restraint on spending - and in case anyone is in any doubt about who will actually deliver that restraint to make a lower tax economy possible, I gently point out that in the three weeks since Labour promised no big government chequebook they have made £45 billion of unfunded spending commitments.

But it isn't just about lower taxes. We also need a more positive attitude to risk taking.

Let's start with one of the most public risks taken this year. Richard Branson, his team and the UK Space Agency deserve massive credit for getting LauncherOne off the ground in Cornwall.

The mission may not have succeeded this time, but what we learn from it will make future success more likely.

We should heed the words of Thomas Edison who said: "I have not failed 10,000 times - I've successfully found 10,000 ways that will not work."

Edison was American - and our attitude to risk in this country can still be too cautious compared to our US friends.

But we are capable of smart risking in this country: at the start of the pandemic we bought over 350 million doses of vaccine without knowing if they would actually work - and ended up with one of the fastest and most effective vaccine programmes in the world.

We also need, if we are going to deliver those competitive enterprises, smarter regulation.

Brexit is an opportunity not just to change regulations but also to work with our experienced, effective and independent regulators to create an economic environment which is more innovation friendly and more growth focused.

Our Chief Scientific Adviser, Sir Patrick Vallance, is currently reviewing how the UK can better regulate emerging technologies in high growth sectors and the government is identifying where to reform the laws we inherited from the EU.

In the digital space Patrick is working with the brilliant, Matt Clifford - who we heard from earlier - and our amazing Culture Secretary Michelle Donelan, both of whom gave excellent speeches.

Before we conclude those findings, we want to hear from you. That's why we've invited you this morning - and we will repeat the process for green industries, life sciences, creative industries and advanced manufacturing.

Finally when it comes to the 'E' of Enterprise there is a critical need for easier access to capital, particularly scale ups.

I am supporting important changes to the pensions regulatory charge cap and I have used the regulatory flexibility provided by Brexit to change the Solvency II regulations which will begin to be implemented in the coming months.

Alongside other measures announced in the Edinburgh reforms, this could unlock over one hundred billion pounds of additional investment into the UK's most productive growth industries.

But there is much more to be done and I want to harness the ideas and the expertise in this room to turn the 'E' of enterprise into an enterprise culture built on low taxes, reward for risk, access to capital and smarter regulation.

The next 'E' is Education.

This is an area where we have made dramatic progress in recent years thanks to the work of successive Conservative education ministers.

The UK has risen nearly 10 places in the global school league tables for maths and reading since 2015 alone.

Our teachers and lecturers are some of the best in the world.

And as the Prime Minister has said, having a good education system is the best economic, moral, and social policy any country can have.

That is why the Autumn Statement we gave schools an extra £2.3 billion of funding and why the Prime Minister recently prioritised the teaching of maths until 18.

But there is much to improve. We don't do nearly as well for the 50% of school leavers who do not go to university as we do for those who do.

We have around 9 million adults with low basic literacy or numeracy skills, over 100,000 people leaving school every year unable to reach the required standard in English and maths.

That matters.

We are becoming an adaptive economy in which people are likely to have to train for not one but several jobs in their working lives.

Not having basic skills in reading and maths makes that difficult, sometimes impossible.

And equally important is what happens beyond school.

We have made progress with T-levels, boot camps and apprenticeships and Sir Michael Barber is advising the government on further improvements to the implementation of our reform agenda and we want to ensure our young people have the skills they would get in Switzerland or Singapore.

If we want to reduce dependence on migration and become a high skill economy, the 'E' of education will be essential - and that means ensuring opportunity is as open to those who do not go to university as to those who do.

So, Silicon Valley enterprises; Finnish and Singaporean education and skills; let me now turn to the third 'E' which is Employment.

If companies cannot employ the staff they need, they cannot grow.

High employment levels have long been a strength of our economic model.

Since 2010, the UK has seen a record employment rate, the lowest unemployment rate in nearly fifty years and labour market participation at an all-time high.

Partly thanks to the coalition reforms of a decade ago we are at 76% , employment levels higher than Canada, the US, France or Italy.

But the pandemic has exposed weaknesses in our model. Total employment is nearly 300,000 people lower than pre-pandemic with around one fifth of working-age adults economically inactive.

Excluding students that amounts to 6.6 million people - an enormous and shocking waste of talent and potential.

Of that 6.6 million people, around 1.4 million people want to work. But a further five million do not.

It is time for a fundamental programme of reforms to support people with long-term conditions or mental illness to overcome the barriers and prejudices that prevent them working.

We will never harness the full potential of our country unless we unlock it for each and every one of our citizens.

Nor will we fix our productivity puzzle unless everyone who can participate does.

So to those who retired early after the pandemic or haven't found the right role after furlough, I say: 'Britain needs you' and we will look at the conditions necessary to make work worth your while.

That is why employment is such a vital third 'E.'

Enterprise, Education and Employment - three key components for long term prosperity.

I conclude with my final 'E' - Everywhere. That means ensuring the benefits of economic development are felt not just in London and the South-East but across the whole of the UK.

It is socially divisive if young people feel the only way to make a decent living is to head south. But it is also economically damaging.

If our second cities were the productive powerhouses we see in the other major countries, our GDP would be nearly 5% higher - making us second only to the United States and Germany for GDP per head.

That is why levelling up matters. And why last week it was so exciting to see the progress being made.

Since February 2020, when the levelling up agenda really got underway, 70% of new employed jobs have been created outside of London and the South-East.

Thanks to our powerhouse regions we remain one of the top 10 manufacturers globally, and the same is starting to happen with new industries: whether fintech in Bristol, gaming in Dundee or clean energy in Teesside.

Every region has seen pay grow faster than London since 2010, which shows that our approach to regional growth is working.

But there is much more to do, and whilst government grants can play a galvanising role they are not the whole answer.

We also need the connectivity that comes from better infrastructure.

That is why in the Autumn Statement we protected key projects like HS2, East West Rail and core Northern Powerhouse Rail.

Digital connectivity matters as well. Under Michelle's leadership, full-fibre broadband now available to more than 40% of all homes in the UK.

Last year four million more premises got access, with the biggest increases in Scotland and Northern Ireland.

But the 'E' of Everywhere has to be about local wealth creation as much as about local infrastructure.

So this year we will announce investment zones, mini-Canary Wharfs, supporting each one of our growth industries, and each one focused in high potential but underperforming areas, in line with our mission to level up.

They will be focused on our research strengths and executed in partnership with local government, with advantageous fiscal treatment to attract new investment.

We will shortly start a process to identify exactly where they will go.

But spreading opportunity everywhere needs local decision making alongside local infrastructure and local enterprise.

So we must also give civic entrepreneurs the ability to find and fund their own solutions without having to bang down a Whitehall door.

Shortly over 50% of the population of England will be covered by a devolution deal and two thirds covered by a unitary authority and that's a very important part of that.

But we need to move more decisively towards fiscal devolution so that fantastic local leaders like Ben Houchen and Andy Street have the tools they need to deliver for their communities.

Four 'E's - Enterprise, Education, Employment and Everywhere - four 'E's to unlock our national potential to be one of Europe's most exciting, most innovative and most prosperous economies.

Bill Gates is supposed to have said people overestimate what they can do in one year and underestimate what they can do in ten.

When it comes to the British economy, we are certainly not going to fall into that trap.

We will remember the essential foundation on which long term prosperity depends, namely the sound money that comes from bringing down inflation. But right now, starts our longer-term journey into growth and prosperity.

World-beating enterprises to make Britain the world's next Silicon Valley.

An education system where world-class skills sit alongside world-class degrees.

Employment opportunities that tap into the potential of every single person so businesses can build the motivated teams they need.

And as talent is spread everywhere, so we will make sure opportunities are as well.

Yes there are many structural challenges to address. And working our four pillars we will do just that. Never forgetting though the combination of bold ingenuity and quiet confidence that defines our national character.

Ladies and gentlemen, being a technology entrepreneur changed my life.

Being a technology superpower can change our country's destiny.

So let's make it happen.

Thank you very much.