

**John Cridland, CBI Director-General**

**Speech to CBI East Midlands Annual Dinner**

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-----CHECK AGAINST DELIVERY-----

Good evening.

First of all, thank you to the Lord Chancellor for being with us this evening.

Thank you also to Center Parcs for being our headline sponsor, and Working Links for supporting the reception. It's much appreciated.

I'd also like to extend my gratitude to Baback Yazdani for all his hard work as our regional chairman, as well as to Lucy Haynes and to Sarah Wood, who organised tonight's dinner.

Times are tough. The big question is where we take things from here.

We're not helped by external forces. I won't discuss the euro zone crisis, because it's probably had a new setback since the start of dinner and it'll have another after pudding.

Instead I'll share with you my thoughts on economic rebalancing. I'll say what I think rebalancing means, the role manufacturing has in it, and how a new type of industrial activism could help breed home-grown success stories – and deliver sustainable growth.

First, a reflection.

We've been through a remarkable period in our economic history.

I'm not talking about the financial crisis, extraordinary though that was – and is.

And I'm not talking about the recession. Grim though it's been, and hard though the road ahead is, we've seen downturns before and we'll see them again.

The anomaly in all this is what happened in the years leading up to the crash.

This was what Mervyn King called the 'NICE' period – non-inflationary, constant expansion. From 1993 to 2007, the economy grew for the longest uninterrupted stretch for more than 200 years.

We know the hubris this bred. What's now become clear is the foundation of sand the growth was built on.

On the surface, all seemed well. The economy grew at around two per cent a year, with only the US enjoying faster expansion. In terms of per-capita GDP, the UK actually grew faster than the US, Germany or France.

But apparent stability masked massive underlying imbalances. Our outperformance was due purely to an unprecedented expansion in government spending.

Government debt doubled from 30 per cent of GDP in 2002 to 60 per cent this year. This'll rise to 70 per cent by 2013/14.

Household debt shot up, and, after a brief lull, is forecast to rise again.

We've run trade deficits of two per cent a year for a decade. That indicates excess financed by an increase in debt.

In contrast, business investment as a share of the economy has been falling. It's at its lowest in decades, and is much lower than in France or Germany. From 1997 to 2009, it shrank by 15 per cent. Government investment rose by 258 per cent.

These statistics show us the rebalancing act we need to perform. We need to move away from unsustainable government and consumer debt, and towards business investment and trade.

It's not a rebalancing act that should mean some sectors shrink. For example, we want a strong City of London. We want it to be a growth dynamo. But it needs to play a less dominant role in the overall economic mix. If not, we run the same risk of over-dependence that we did in the run-up to the financial crisis.

And rebalancing shouldn't mean trying to engineer a wholesale shift of economic activity away from services and towards manufacturing.

Our traditional strengths in services need to be built on, be it in finance, professional and business services, the creative industries, retail or tourism.

Services growth helps manufacturing, and we shouldn't draw an artificial distinction between the two.

Most manufacturers provide services, whether that's delivering and installing what they've made or being involved with performance management and consultancy. Logistics, design and finance are part of manufacturing just as they are part of services – and they're British strengths.

Providing services gets manufacturers closer to their customers, meaning they understand what they need, and can increase the complexity of what they offer - making them less vulnerable to purely price-based competition and commoditisation.

There's no better example of this blurring between manufacturing and services than Rolls-Royce providing its 'power by the hour' engine service to airlines. What sector would you say that came under?

Stimulating manufacturing boosts services, and vice-versa.

I think reports of the demise of British manufacturing are exaggerated. It doesn't take up anything like the share of the economy it did in 1970, let alone 1870, when the Derby Roundhouse was fully operational. We're never again going to have an economy based on coal and steel and shipbuilding.

But heavy industry can play its part alongside cutting-edge brands. A successful "march of the makers" can mean soaring sales of Swarfega – a famous Derbyshire brand – as well as of the latest computer software.

The UK is still one of the world's top-ten manufacturers. Near us tonight there's Rolls, Toyota, Triumph Motorcycles and BCM, the manufacturing arm of Alliance Boots.

They're just a few examples of British manufacturing excellence. They're modern, dynamic and their success is happening just around the corner.

They and others like them need to be part of a blend of industry, with success up and down the value chain. Our future should be one that mixes traditional strengths with innovation, R&D and advances in high-tech and low-carbon.

It's a future that could have brighter prospects if the government communicates better with business. What's needed is a new form of industrial policy, one that signals ambition, helps develop future capabilities and secures sustainable growth.

To many of us with memories of the 1970s, industrial policy means Red Robbo. It evokes long hours on the hard shoulder while a very nice man from the AA toiled under the bonnet of our parents' Austin Princess.

All too often, the car didn't move on. But that doesn't mean UK industrial policy can't.

The Business Secretary used a speech last week to start a discussion on a new industrial policy. As he said, "it's still a work in progress, and there is substantial room to develop it in scope and scale in future."

I think we should help Vince Cable help us.

Two of his most well-regarded predecessors were Peter Mandelson and Michael Heseltine. What they had in common is that they were both activists when it came to industrial policy.

This contrasted with much of the period from 1979 onwards, when the prevailing industrial policy was to do nothing. But we now know laissez-faire isn't always the best idea – the banking crisis showed us that.

We need an industrial policy that learns from the past, adopts successful practice from elsewhere and takes a pragmatic approach to what government can do.

The last thing this should mean is a return to picking winners. Governments picked losers – or, as Lord Mandelson quipped, “more often the losers picked us.”

Instead it has to be about creating an environment from which winners emerge.

A new understanding needs to run through all of government. Industrial policy might be based at the Department for Business, but all departments need to share the same ambition. They all need to work to join up policies and create a system that's more than the sum of its parts.

Competitiveness needs to be policy priority number one. We have to remember that if we aren't competitive, we won't get growth. Without that, the whole edifice crumbles.

In a globalised economy we need to fight for our share of inward investment. We had a great track record in attracting it. But our surveys show the UK is becoming a much less appealing investment destination.

We need to give investors confidence to put their money into growth here not abroad. Take the low-carbon sector, which has been growing across the world throughout the recession. We need to expand our share.

But last week the government announced a dramatic cut in the solar feed-in tariff. A reduction was already on the cards from April 1, but this will now come in by mid-December – before the consultation period has even ended.

This is the latest in a string of government own goals, following the Carbon Reduction Commitment becoming a pure revenue-raiser and the North Sea oil and gas tax.

As you all know, moving the goal posts doesn't just destroy projects. It creates a mood of uncertainty that puts off investors. They wonder what's coming next.

Some companies have invested heavily in solar photo voltaic systems, and in the supply chains needed to install them. That commitment has been undermined by the feed-in tariff decision – and so industry trust and confidence in the government has evaporated. This bodes poorly for investment in future initiatives.

A new industrial policy needs to recognise the real-time costs of bad decisions, and should set out a clear path that investors understand and can believe in.

Another critical aspect of any new industrial policy has to be public procurement.

Our government is the largest single consumer of goods and services in the UK. It can use this buying power to help shape a competitive future for business – as well as delivering more effective services.

Government departments and agencies need to look beyond lowest price and instead consider whole-life value and the broader economic impact, and how business is involved throughout the process.

Take defence as an example. It must be possible to achieve the twin aims of getting our servicemen and women the best kit, and gaining some advantage for our domestic industries.

But we've gone backwards since the defence review, with the last Defence Secretary seemingly suggesting off-the-peg products would suffice if it meant short-term savings. That's a mistake.

The delayed defence White Paper must recognise the economic importance of the sector and set out how it can best meet the country's security needs.

Look at how the Americans leverage their spend. The Defense Advanced Research Projects Agency, DARPA, doesn't just buy things. It has a mission, which is to prevent technological surprise to the US, but also to create technological surprise for its enemies.

Underneath that vision, contractors have been given the freedom and confidence to innovate. So a challenge like being outnumbered in the battlefield has been dealt with by perfecting night-vision goggles. A problem like the cost of

training and using fighter pilots has been tackled by developing unmanned drones.

Our government should be looking to get more from suppliers by setting out its mission.

If the problem is an ageing population and pressure on hospital space, the quick fix is more beds. The long-term solution is reducing demand for beds through telecare and new treatments.

If the problem is hospital-acquired infections, then more mops might help. Much more innovative is the Design Council's 'Design Bugs Out' campaign, which worked with manufacturers and designers to develop hospital furniture and equipment that are easier to clean and that don't trap dirt.

If the problem is high reoffending rates, the simple answer is more prison cells. Better is work the Ministry of Justice is doing with outcomes-based commissioning and payment by results to drive recidivism down.

So let's see more of these reforms in education, health, defence, welfare, transport – anywhere there's major public spend.

The market will innovate – but it needs to know where to direct its forces. Let's help it, and let's identify the areas of most importance. That doesn't mean following the French and making yogurt a strategic industry.

But we can give home-grown industries advice about how best to compete on a level playing field, and achieve lasting results. Long-term UK needs and the government's procurement strategy can work with each other.

This needs better communication, and exchange of ideas and people between sectors. It means looking beyond price and considering quality, innovation, service levels and wider external policy factors. All this will fuel a far-better understanding of the long-term procurement pipeline.

There's an elephant in the room.

It's a brave man who comes to Derby, sits next to the UK chairman of Bombardier Transportation and doesn't mention the previous Transport Secretary's decision on rolling stock for the Thameslink network in London.

I can't provide expert knowledge on this. But it would be a missed opportunity if I didn't offer a view.

My question is whether every effort was made by government to give our domestic industry the chance to compete fairly.

I do know Philip Hammond and Vince Cable wrote to the prime minister suggesting that the apparent ability of other countries to favour local manufacturers merited closer examination.

On this order or any other, the aim should absolutely be to get the best deal for taxpayers, and to do it within EU procurement rules. But this can be achieved

while giving our manufacturers a much better chance than they have hitherto had.

In this particular case, the seed of the problem was sown in 2008. But for goodness' sake let's not blunder into this position again in the future.

Let's see the government learn the importance of setting a vision for its long-term needs, and help UK-based suppliers meet them. Let's see it lose that reluctance to challenge and stretch EU rules.

Tenders need to be fair to everyone, and in every way. If they're not, you bind the hands of those that follow and have to reap the repercussions.

Setting a vision doesn't mean state diktat and five-year plans. It means business plans that recognise the world's an uncertain place, and that have flexibility built in. It means Whitehall setting the broad direction, but letting innovation flourish underneath it.

Get this attitude running through government, and we can avoid unnecessary mistakes.

The government can be active without intervening. It can be supportive without breaking the rules.

The EU allows suppliers to give details about the economic impact of their operations in terms of job creation and future investment, for instance in strengthening UK capabilities and capacity. So let's encourage that.

A sense of broader economic implications of procurement decisions could get greater participation from our smaller and mid-sized companies. Many of them have great growth potential, and can help build and strengthen UK supply chains. We want that.

As the Business Secretary said last week, “we have allowed our latent capacity to wither.” But this process of hollowing out can be stopped if we think long term, strategically and coherently. We must do that.

Let’s complain if we think other EU members are breaking the rules. But when they’re not, and their home-grown industries are benefitting, let’s learn from them.

We need a culture change for this to happen. This is what must lie at the heart of a new industrial policy. The focus must be competitiveness, innovation and the broader national interest.

The past tells us that grand strategy can also mean grand failure. But it also tells us that doing nothing cannot be an option again.

By taking the right actions, we’ll encourage investment, boost industry and help that process of rebalancing away from debt and towards sustainable growth and an export-led recovery.

For Derby and for all the UK, that’s the best way forward.

Thank you very much.

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