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CBI Annual Dinner 20 May 2008
Speech by CBI President, Martin Broughton.

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Grosvenor House, Park Lane

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Address by Martin Broughton, President of the CBI

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Chancellor, my Lords, Ladies and Gentlemen.

May I extend a warm welcome to all our guests and, in particular, the Chinese Ambassador. Madame Fu, may I say how impressed the world has been by the response of the Chinese Government and people to the terrible earthquake tragedy and extend the thoughts of everyone here tonight to the people of China.

We are for a second year in succession honoured by the presence of the Chancellor of the Exchequer.

He will I hope be encouraged by the knowledge that his predecessor had, within weeks of addressing this event last year, become Prime Minister.

Whether these two events were linked, I cannot say.

But, looking back over the twelve months which have elapsed since then, it is a little easier to see why Gordon Brown might have been interested in a change of job.

Alistair Darling arrived at Number 11 just as the sub-prime crisis in the United States marked the beginning of an economic downturn.

Since then, he has had to nationalise one bank, and throw a £50 billion lifeline to the others.

He has had to scrap with non-doms, and with his own backbenchers, on income tax.

He has battled with almost everybody over capital gains tax.

The man who only three years ago was voted the most boring politician in Britain for a second year in a row is now one of the infamous McBottle Brothers in the pages of *The Sun*.

Made Secretary of State for Transport in 2002 precisely because he could be relied upon, as the phrase of the time had it, to "take the department out of the headlines," Alistair Darling has clearly been working to a different agenda at Her Majesty's Treasury.

I am sure that he will be hoping that his first budget in March this year – judged by one newspaper to be the "most boring budget in history" – marks a resumption of normal service.

Speaking as an accountant, I would like to put in a good word for being boring.

The value of being boring is often under-estimated – particularly by investment bankers.

For us accountants, on the other hand, being voted the most boring person in the profession for two years in succession would represent the very pinnacle of professional success.

Chancellor, I hope that I have made you feel at home tonight.

If you are still finding it all too exciting, we have some actuaries present who are eager to discuss with you the net present value of public sector pension liabilities.

But even an actuary, I think, would agree that it is preferable to be bored than to be depressed.

As you yourself have said, Chancellor, our present difficulties are potentially the greatest shock the economic system has faced since the Great Depression.

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The question everyone is asking is: `What does the credit crunch mean, for me, for my family, for my business, for my country, and indeed for the world?'

Certainly, there is no shortage of reasons to be anxious.

The ability to borrow is being rationed.

The ability to pay is being scrutinised.

Where they are not falling, houses prices are stalling.

While the price of food and of fuel is rising.

Taxes have risen, are rising, and are set to rise still further.

The prospects for employment are darkening, especially in the City of London.

Our economy is poised somewhere between the twin evils of inflation and deflation.

So if we wanted to talk ourselves into a recession, it would not be hard to start the conversation.

My concern is that it would quickly become impossible to stop it.

So let us talk not about what might go wrong.

Let us not even talk about what has gone wrong already.

This is not a time for finding scapegoats.

Above all, this is not a time for doing nothing – though there are many who think that it is.

Batten down the hatches, they say, and let us ride out the storm.

No, if I might craft a meteorological metaphor of my own from my day job, this is not a time for the Captain to turn on the seatbelt sign.

This is not a time for us to return to our seats and fasten our seatbelts till the turbulence is passed.

This is not a time for being afraid.

For, as Edmund Burke pointed out, `No passion so effectually robs the mind of all its powers of acting and reasoning as fear.'

*

Let us talk instead about the many things that are right with our economy, and why the things that are right will see us through this crisis, as they have seen us through others before it.

Nobody can deny that the financial markets have their share of problems.

But the real economy remains robust.

In fact, the further I travel from the City of London, the less worried I am.

British business has enjoyed a remarkable period of sustained growth – and though it may be slowing it does not look like stopping.

True, our members in the retail, hospitality and entertainment sectors are starting to feel the impact of a slowing economy.

And, of course, anyone in the housing sector is having a torrid time.

But industrial and commercial Britain as a whole is in sound financial shape.

Revenues are up.

Profitability is high.

Borrowings are low.

Balance sheets are strong.

Nine out of every ten pounds being invested is coming not from banks but from retained profits.

That alone insulates most of our members from the worst effects of the credit crunch.

*

And whatever our troubles at home, abroad British business is thriving as never before.

Export orders continue to come in.

We are benefiting also from the opening up of the global labour market.

Talents and skills of every kind are flooding into Britain, helping our economy to raise its long term rate of growth.

We have even benefited - dare I say it, at a time such as this - from the open marketplace in capital.

Cheaper money has lowered the cost of financing trade.

It has cut the cost of investment.

Twenty years and more of free trade – in goods, in services, in labour and, yes, in capital too - have helped to make us prosperous.

Open markets have proved a great shock absorber for British business.

And now they are helping us absorb the shock of the credit crunch too.

*

So what of the credit crunch?

I know there are those who say that it is a necessary purgative.

A punishment for past excesses.

Of course there were excesses.

Of course money was wasted.

Of course investments will have to be written off.

But let us face it.

Most of us, and most of the companies we work for, have had a fantastic run of success over the last ten years.

This is not a catastrophe.

It is a reality check.

The major banks of the United Kingdom are not out for the count.

Between them, the sums written off by the entire UK banking sector so far amount to just one tenth of one per cent of total assets of nearly £7 trillion.

Indeed, as they are proving right now, UK banks are still able to raise substantial sums in fresh equity capital from investors.

It is obvious that the challenge posed by the credit crunch is not one of capital.

It is not even one of credit.

It is one of confidence.

Confidence matters.

If we are to prevent the credit crunch reverberating through the real economy, first in the form of unpaid bills, and then in the form of unfinanced investments, the restoration of confidence in the financial markets is not a nice-to-have: it is a necessity.

Which is why we have welcomed wholeheartedly the boldness of the plans announced by the Treasury and the Bank of England to get the financial markets moving again.

The plan gets to the heart of the matter: it gives the banks the means to fund themselves again.

The means of funding is the source of confidence - the confidence to start lending again.

Now I call upon the banks to use the facilities wisely.

I don't mean by that to become risk averse as a response to taking the excessive risks of the recent past.

Indeed it is vital to the lifeblood of the economy that good business opportunities are backed and not starved of the funds they deserve.

Don't make the parody come true and ask for the umbrellas back now it's raining – start handing the umbrellas out instead.

*

The credit crunch has caused anxiety.

But it's not just anxiety, there is resentment in the air now as well.

These are times in which voters are angry.

And politicians seeking re-election will want to assuage that anger.

As they cast around for ways to do that, they face a strong temptation.

The temptation to treat business as the fall guy.

The fall guy for the credit crunch.

The fall guy for job losses.

Above all, as the fall guy for an electorally painless increase in the burden of taxation.

Over the next four years, the government plans to spend £2.6 trillion.

It intends to borrow £140 billion – £41 billion more than it planned to borrow just a year and a half ago.

Our members know what that means.

They know the temptation will be strong to see successful businesses as the ideal source of extra revenue to help the Government out of the fiscal hole it has dug for itself.

Do we want to be the fiscal fall guy?

I do not think so.

So, how do we stop that?

Well, just as we look to Government for leadership, these are times in which we, the leaders of business in this country, must show leadership.

*

What, you might ask, does leadership mean for us?

It means not paying ourselves more than we deserve.

It means continuing to take seriously in the difficult times the issues we took seriously in the good times.

Climate change is no less important now than it was when the going was good.

Training is no less important now than it was when the living was easy.

Education matters just as much now as it did then.

Open markets remain as important as ever.

We should not argue that the value of the pound is too high.

If we want lower taxes, we cannot ask for higher spending.

*

But there is something for which we are entitled to ask.

And that is a sensible, long term approach to the taxation of business.

Not just Corporation tax.

On top of that, business is paying payroll taxes; value added tax, business rates, environmental taxes, stamp duty and withholding taxes – to say nothing of the mounting burden of regulation, which is tax by another name.

Our rates of business taxation are higher than those of other countries.

And more complicated.

The UK tax code is now the longest in the world.

It is also the most susceptible to change.

Changes to the treatment of capital gains, non-doms and foreign profits – particularly the taxation of intellectual property - were only the ones we read about.

There were 107 new technical tax proposals in the last Budget alone.

What business wants from the system of corporate taxation in Britain is Clarity, Certainty and Competitiveness.

What we are getting is Cost, Complexity, and Capriciousness.

Chancellor, in all candour, it cannot go on like this.

In a world of mobile capital, and increasingly mobile labour, companies and individuals now have a choice.

Not just about where to work.

Or where to invest.

But about where to pay tax.

This is a reality that the Government cannot afford to ignore.

Which is why we welcome, Chancellor, your decision to establish a tax forum charged with ensuring that the corporate tax regime of the United Kingdom becomes competitive.

Our own Tax Task Force has reported already.

It has recommended a series of measures to restore the reputation of the United Kingdom as a simple and predictable tax location for international business, including the introduction within eight years of a headline rate of corporation tax of 18%.

We earnestly hope, Chancellor, that you will be listening and open-minded

For the simple truth is that we now have a tax system which makes it harder for both British and foreign firms to justify investing in Britain.

Business today is genuinely global.

*

Indeed, nothing could illustrate more vividly the global nature of the market which British business now inhabits than the credit crunch itself.

It began not in our own back yard, but in the back yards of American householders who could no longer afford their mortgage payments.

That it led to the drying-up of the London money markets, and a run on a British retail bank, is a measure of the irrelevance of national frontiers when it comes to the operation of the international financial marketplace.

How we manage the aftermath of these developments provides a crucial test.

And ill-considered regulation is certain to conform to the law of unintended consequences, as American regulators discovered after Sarbanes-Oxley was rushed through Congress in the wake of the Enron scandal.

So it would be prudent (I cannot think where I got that word from) to take time to absorb the lessons of this particular credit crunch before making any sudden adjustments to the current system of regulation of financial markets.

Certainly, it would be extremely foolish, at a time such as this, to make it harder for banks to lend.

It behoves us all to recall that regulation can create a crisis as well as fix one.

If banks were hoarding assets and liabilities off their balance sheets, and re-packaging loans as securities, and trading counterparty credit risk with fund managers via complex derivative structures, can we honestly say that regulation played no part in that?

It is not as if we are short of regulators.

Four years ago, long before this credit crunch began, the chairman of HSBC pointed out that his bank alone dealt with 370 separate regulators around the world.

Before we add to their number, or to their powers, we should pause – and use that pause to improve our understanding of what caused our present difficulties.

*

The importance to international trade of the ready availability of finance is one reason why ill-considered regulation of financial markets would be a perverse response to our present difficulties.

But there is an even greater threat to international trade.

And that is a premature end to twenty years of steady progress in reducing the barriers to trade in both the developed and the developing world.

Which is why we at the CBI fervently hope and believe it is not yet too late to bring the Doha round of trade liberalisation measures to a successful conclusion.

If Doha is unsuccessful, the protectionists will almost certainly triumph.

In the United States, it is depressing to see Presidential candidates toying with the idea of import controls.

In 1930, the Smoot-Hawley tariff helped to turn a credit crunch into a full-blown global depression.

Although Doha covers world trade we should not forget the significance of Transatlantic trade.

We look to both the US and Europe to deliver the Barrier Free Transatlantic Market agreed a year ago by Presidents Bush and Barrosso and Chancellor Merkel and introduce many more examples of mutual regulatory recognition along the lines agreed on Accounting Standards.

I am not going to argue that the interests of business are synonymous with the interests of the country.

But I will say this.

All of our ambitions - for ourselves, our families, our companies, and our country - depend on our ability to generate the wealth to pay for them.

Likewise, our ability to lift out of poverty the poorest and most desperate parts of our planet today depends on the creation of wealth.

That wealth is created by business and, in particular, international trade.

Everybody benefits from trade.

Trade is so much a part of our daily lives that we are apt to forget what is miraculous about it.

We take it for granted that we have wines from Italy and California on our tables tonight, that our children are playing at home with toys imported from China, and that the shelves of our supermarkets groan with the produce of Africa and Australia, Andalusia and Argentina.

Once it was only objects of the highest value – gold, silk and spices – that could bear the costs of travel across the Continents.

Today, even the humble Granny Smith can make a journey of 11,000 miles, and still turn a profit.

Such are the daily miracles of international trade.

Chancellor, these are times of grievous uncertainty in the financial markets.

And we support the steps which you are taking to address the causes of that uncertainty.

But these are times also of stupendous opportunity in the international markets for goods and services.

We believe it is in your interests, as well as ours, that you and your colleagues in government now do all that is within your power to keep markets open and free.

Free of excessive taxation.

Free of clumsy regulation.

Free of tariffs and quotas and subsidies, and of all of the other paraphernalia of the protectionist delusion.

If markets stay open – and, better still, become more open yet – there is little wrong with the world that the daily miracles of British business cannot fix.