

The Rt. Hon. David Lidington MP

A Blueprint for a European Growth Agenda: The View from the United Kingdom

The Lisbon Council, Europe 2020 Summit

Brussels, 27 February 2012

Word count: 2100 (approx. 17 minutes)

Introduction and thanks

1. I am delighted to have the opportunity to address this distinguished summit. At a time of crisis, it is important for think tanks to have the prescience to focus on the future. Looking ahead to 2020 and beyond is vital for preventing more crises. No wonder that in the UK the Lisbon Council has the reputation for big thinking on the big picture - looking at Europe in the context of world developments.
2. While the Lisbon Agenda expired nearly two years ago, I believe that the name of this council remains extremely apposite. I associate Lisbon with exploration, with trade and with courage. It was from Lisbon that Vasco da Gama departed on the first European voyage to India. It was from Lisbon that Afonso de Albuquerque began a journey that would discover what is now Indonesia, Thailand, and China. It was to Lisbon that Pedro Álvarez Cabral returned having discovered Brazil.

3. This is the European heritage. Europeans have always been intrepid peoples; not afraid of the world beyond our shores. Now is the time to recapture this spirit. It is a spirit which happens to be embodied by work of the Lisbon Council and I greatly appreciate the opportunity to discuss the European growth agenda in this context.

The challenges

4. There is no doubt that Europe faces a major crisis. At present, it is dominating our government discussions, our front pages, and the worries of our citizens. It is an existential crisis that threatens the second most held currency in the World – a currency in which Eurozone and non-Eurozone countries, like my own, are deeply invested.
5. It is a crisis that is having a chilling effect on our economies. Across the EU, unemployment is rising, the costs of borrowing are rising, and government debts remain stubbornly high. This challenge is huge and it must be addressed.
6. But rumbling beneath the surface of this crisis is a bigger and more important challenge to Europe. A fundamental shift in the global balance of economic power is underway – from West to East and from North to South. This is not just about relative growth rates with which we are depressingly familiar. It is about competitiveness. Other countries are making what we make – but cheaper and better. Other countries are innovating ideas for things which we don't make – but could. Other countries are attracting the investment that we need in order to develop.

7. Don't just take my word for it – the Commission's excellent 2012 Annual Growth Survey made the point that "long before the current crisis, overall EU performance has been weaker than key competitors". The productivity gap between the EU and its competitors is, it noted, widening.
8. This is the reality that faces us. It can sound threatening but don't get me wrong: prosperity is not a zero sum game. Yes; if we do not adapt, we may lose out. But if we do adapt, we can take advantage of the opportunity that the Emerging Markets present. The world is changing. And we must change with it – individually and collectively.

The Solution: Europe-driven growth

9. The UK Government wholeheartedly believes our national interest is best served by being a willing and active member of the EU. Europe cannot isolate itself from the changes happening in the world. Nor can the UK isolate itself. We are members of the EU by choice, not by default.

10. My government, like all European governments at the moment, is asking itself the big question: ‘how do we create growth?’ My Prime Minister David Cameron, Mario Monti of Italy, Mariano Rajoy of Spain, Mark Rutte of the Netherlands, Donald Tusk of Poland and six other leaders wrote last week to Herman van Rompuy and Jose Manuel Barroso to give a joint answer to that question. And in so doing, Mr Cameron was demonstrating that Europe is central to Great Britain’s answer.
11. In a period of such doom and gloom, it is easy to forget our strengths. Europe is the world’s largest single market – we have more people and a bigger economy than the USA. It is brimming with well educated people with a flair for innovation. And it benefits from being open to trade. Through our history and geography we have links around the world and a willingness to look beyond our borders.
12. But we must not take these strengths for granted. Others can, and already are, developing them. We must therefore continue to build on what we already have.

Single Market

13. The Single Market is Europe’s greatest economic achievement. It provides European businesses with access to more than half a billion customers.

14. Just think of the life of one of my own constituents in Aylesbury. This morning he will have brushed his teeth with a German-manufactured Braun electric toothbrush, which had charged overnight on electricity provided by EDF, a French firm. He will have rinsed his mouth out with water provided by Thames Water – owned by the German company, RWE. He will have withdrawn money from his local branch of Santander, the Spanish bank with whom he has an account, before driving his Italian-manufactured Fiat 500 to catch the train to London – operated by Chiltern Railways, owned by Deutsche Bahn. Had he wished to attend this summit, he would have flown to Brussels from Heathrow, the world’s busiest airport – of which Ferrovial, the Spanish company, holds the largest stake.

15. Sadly not everyone around Europe benefits in the way my constituents do from the UK’s openness. The Single Market isn’t complete. Since it was created, the world has changed and continues to do so. Our economies have shifted towards services; technology has changed. The Single Market must adapt to reflect this.

16. It is unbelievable that EU citizens can use Spotify in only 9 member states. Over 40% of Europeans buy goods online but less than 1 in 10 of us have bought something online from a trader in another EU country. The Commission’s Digital Single Market Roadmap is an important and welcome step on the road to addressing this problem. We should hurry much more quickly down that road.

17. The services market is also incomplete. There are still restrictive practices that are hindering consumers and restricting growth in this vital sector which makes up four fifths of Europe's economy.
18. The answer to these challenges will sometimes lie in passing new laws. Often it will not. I am delighted to share the platform with Enzo Moavero today. He, and his Prime Minister Mario Monti, are leading the thinking in Europe and have some very good ideas on how we should ensure proper enforcement of existing regulations. I hope he will be able to say something on this.
19. This applies to financial services too. The UK wants to see a robust, dynamic and competitive financial services sector. A properly functioning financial services sector is vital to the economy. It helps people save for their retirement, businesses to insure against risks and borrow to invest. A well run finance service industry is vital to creating jobs and growth.
20. We are taking many steps domestically to bring in the necessary regulation. Importantly, we will implement the recommendations of the Vickers Commission to ring fence retail banks from riskier activities. We will place higher capital requirements on our systemically important banks. And we have introduced the Bank Levy. We are not averse to radical ideas to properly regulate Europe's banks.

21. Our approach to financial services is no different to our approach to the rest of the Single Market. We want to see a proper Single Market in financial services across Europe which creates a level-playing field for competition.

Regulation

22. Just as the financial services sector needs to be regulated we also need regulation elsewhere. Good regulation is vital to a functioning economy. It is one of the fundamental roles of government. And a Single Market requires a single set of rules.

23. But it is possible to have too much of a good thing. Too much regulation, or the wrong sort, burdens business. For example, the average cost of starting a business is higher in the EU than in our major competitors. It costs nearly four times as much to set up a business in the EU as it does in the US.

24. The EU needs to be smarter with its regulation. We should think about the outcomes we want to achieve. Where smaller firms pose less of a risk to, for example, fair competition or the environment, it is right that they have lighter regulations. This is why I am so pleased to see the Commission's actions to exempt micro-enterprises from regulations where we can.

25. The UK thinks that it would be crazy to implement regulatory measures that harmed growth and jobs. So we want all EU actions to undergo a Growth Test. Measures that undermine growth can go straight in the bin.

Innovation

26. In the eighteenth century Europeans invented and improved the telegraph, the steam engine, the electrical capacitor and no end of machinery which drove industrial revolution. Crucially those technological innovators turned their ideas into commercial success. Europe is still capable of technological leadership – both the web and the computer were invented in Europe. But we're not making the most of turning our ideas into commercial success.
27. The big internet firms – Google, Microsoft, Facebook – are American. They grow through their ready access to a single market. We should have that in Europe, but for digital goods we don't yet. It's also much easier for American firms to access finance – eight out of ten EU citizens say it is hard to start a business due to a lack of finance. This is why we urgently need an EU Venture Capital regime which allows venture capital funds to operate on a truly European scale.
28. And there are plenty of markets crying out for greater innovation. For example, the low-carbon economy requires new inventions, new ways of reducing our emissions. The global industry in low carbon and environmental goods and services is already worth up nearly €4 trillion a year. Investing in this ever-growing sector is good for innovation, it's good for growth and it can help to generate significant jobs and commercial opportunities in major emerging markets.

Trade

29. For hundreds of years intrepid Europeans have travelled the globe, looking for new trade opportunities – not just those that set sail from Lisbon. Europe produced Marco Polo, Magellan, and Christopher Columbus. Foreign trade is part of our wiring. They did not look out from Europe to the rest of the world and see threats and dangers. They saw opportunities. As the world changes around us today we should do the same. We should not look at the rise of China, India and the rest as a threat to our way of life. It is the chance to increase our trade with them for our own benefit.

30. It can be tempting to follow protectionist policies in our trade relations. We must not be naive. We have to take the long-view and think about where such protectionism leads. If we restrict access to our markets others will surely do the same. Europe, more than anywhere else in the world, has learnt the hard lesson of how tit-for-tat protectionism quickly escalates. Indeed, preventing those beggar-thy-neighbour economic policies is one of the central purposes of the EU. We uphold this principle within Europe. We should have the confidence to carry it into the world.

31. We should conclude free trade agreements with India, Canada, the countries of our Eastern neighbourhood and our ASEAN partners. We should also launch negotiations with Japan as soon as possible. All of the deals currently on the table could add €90 billion to the EU's wealth. We should be bold and ambitious in pursuing these potential gains.

Conclusion

32. So, this is an extremely challenging time for Europe. The Eurozone crisis is dominating our attention. But when the history of the 21st Century is written I predict that it will not justify its own chapter. It will be referenced as a development that occurred at the same time as the Arab Spring. On the other hand, the fundamental changes that are occurring in the world economy will go down as a defining period in the start of the new millennium – akin to the industrial revolution or the collapse of communism.
33. We must not be afraid of change. We should embrace it – for the world, for Europe, for each of our countries. Economic development is a positive sum game. But in order to take advantage of it, we have to compete. We have to focus on growth, developing our strengths and addressing our weaknesses. The UK sees its membership of Europe as one of its essential strengths. And by developing it to cope with the realities of the 21st Century, we believe that it can deliver for us and our neighbourhood sustained prosperity.