

CHECK AGAINST DELIVERY

Centre for Policy Studies

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Deregulating for Growth

Thank you for that kind introduction.

There can be few more appropriate places to deliver a speech on deregulation than to the CPS. The Conservative Party – and more importantly the country – owes a tremendous debt to Sir Keith Joseph and Margaret Thatcher for founding the CPS in 1974.

For younger Conservatives then, the radical nature of what the CPS set out to do to in reviving the philosophy and principles of a free society was fundamental. The turbulence of those times cannot be understated. Ideas that are now the mainstream – such as sound money and lower taxes - were painted as extreme and had to be fought.

And in making his case to reconnect the Tory Party to economic liberalism, Keith Joseph focused his fire on both Labour and Conservative economic policy in his famous speech in Upminster that attacked “*thirty years of Socialistic fashion... thirty years of interventions; thirty years of good intentions; thirty years of disappointment.*”

But his aim wasn't simply to remind Conservatives of the economic theory they had lost sight of in government. It also addressed a wider freedom. Widening the space between what is compulsory and what is forbidden isn't self-centredness: it's a mistake to equate liberalism with selfishness. On the contrary, I believe that maximising freedom gives all of us the ability and the opportunity to do more for our families and for our communities; it enables our institutions, local and voluntary as well as national, to flourish.

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A freer society, by definition, means limiting the role of the State. As Margaret Thatcher argued, “What marks out our Conservative vision is the insight that the State — government — only underpins the conditions for a prosperous and fulfilling life. It does not generate them.”

It is from that insight that our attitude to economic freedom flows. Free markets depend, of course, on some regulation to function: markets since ancient and medieval times have involved controls to varying degrees. Core components are free and fair exchange, the rights to property, to enforcement of contract and to redress.

But these are individual rights, exercised beyond the fiat of government; they involve trusting the people. And political creeds that want to exercise power by command and control don't like that. Notice how our opponents always preface their description of markets as “free” or “unfettered”.

Having lost the argument for a bigger State and ever higher taxes as privatisation, wider share ownership and individual property rights travelled the world, when Labour returned to power in 1997, they lighted upon regulation as an alternative means of control. Over the next 13 years they passed over 500 hundred primary Acts of Parliament; they introduced 6 new regulations every working day; they imposed £90 billion of additional costs on business; Tolley's tax guide doubled in size to over 11,000 pages.

Companies large and small were loaded with social and environmental obligations by ministers choosing not to make the case for funding them out of increased taxes. The result was a decline in the competitiveness of our economy, a weakening in incentives for enterprise and entrepreneurship, an erosion of Britain's reputation as a good place to invest, start or grow a business.

As Tacitus warned us nearly two thousand years ago, *corruptissima republica, plurimae leges – the more laws, the worse the state*. A decade into that Labour government, two of its biggest scandals illustrate this point.

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First, there was Gordon Brown's disastrous decision to strip the Bank of England of its supervision of the banking system and to establish instead an entirely new regulatory bureaucracy, the Financial Services Authority. Despite employing 2,600 people and an annual budget of £300 million, it failed to spot the risks the banks were taking and to restrict excessive leverage. Despite thousands of pages of guidance, it ended up losing five of the ten big banks entrusted to its supervision.

The subsequent fallout imposed massive costs - on UK taxpayers and on our economy. It left our generation with a legacy of debt, public and private; it almost fatally weakened and unbalanced our economy. And all this in the name of regulation.

A few weeks ago we had the Francis Report into the appalling suffering at the Mid Staffordshire hospital over exactly the same period. This was a "serious failure" on the part of the trust board, and "an insidious negative culture involving a tolerance of poor standards and a disengagement from managerial and leadership responsibilities." But here too was a failure of regulation: the NHS wasn't short of rules and regulations, inspectors and quangos of all kinds. Yet Monitor, responsible for Trusts, and the Healthcare Commission, responsible for standards of care, failed to act.

Both these huge failures, whatever their other causes, were failures of regulation. Hundreds of bureaucrats, regulators and inspectors failed to spot that banks were collapsing and that patients were dying.

And we are already hearing that some of the contributory causes of the horsemeat scandal may have been the perverse effect of new regulations on the composition of mincemeat and on the movement and slaughter of horses.

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That was the past. Let me now turn to this government's approach. As the subject of deregulation is so vast, I shall focus tonight on the effect of regulation on our economy; its impact on growth, innovation and competition; our progress to date; and finally how we need to go further and faster.

This government wants the UK to be the best place to start, grow and finance a business. That's because, if we don't focus on enterprise and champion the people who risk their own money to create jobs for others, then we are not going to be able to compete globally.

Fundamentally, regulation acts to divert the scarce resources of business away from their productive uses towards unproductive compliance activities. Not only does this impose costs on business and chip away at their competitiveness, but since economic growth is driven by improvements in productivity, we will all suffer.

So promoting deregulation is a core component of our strategy for growth. Our approach is to consider regulation as a last resort rather than the first option. And where regulation is absolutely needed, we must ensure application of regulation in a more business-friendly way.

Over-bearing regulation is tiresome for our larger established companies. But they have the resources to cope. Too often business regulation ends up by unwittingly protecting their interests. We want to encourage more challenger businesses – the dynamic upstarts that will drive innovation, exploit new technologies, and bring more competition into established markets. If we look to the US there are a range of factors that help create companies such as Google – it is a combination of a risk taking culture, readily available finance, links to universities, a plethora of garages... – but also a regulatory environment that promotes innovation and incentives to invest.

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So while regulation impacts all businesses, compliance costs pose a barrier to growth or even market entry especially for small and mid-sized firms. These are the backbone of the economy generating nearly half of private sector output; studies show that over three years fewer than 10 per cent of high growth firms generated more than 50 per cent of new UK jobs.

There is a strong body of evidence pointing to the impact that regulation has in creating entry barriers in markets. These barriers make it harder for entrepreneurs to start new businesses; restricting competition and maintaining the position of inefficient incumbents. Protected from competition, incumbents lack the incentive to innovate themselves.

A 2012 report by Frontier Economics highlighted that the difference in administrative entry costs between the USA and Germany could account for a third of the productivity difference between the two countries. Djankov et al. (2006) finds that improving from one of the worst (first) to one the best (fourth) quartile of business regulations (as measured by the World Bank Doing Business indicators) is likely to achieve an annual increase in growth by over 2 percent.

I am optimistic about enterprise. There is a huge appetite, particularly among younger people, to take the risk of starting their own business: in the last year 450,000 new businesses were created – more than any other year on record.

This is why we have focused our efforts on micro businesses, employing fewer than 10 people, and introduced a Moratorium - under which no new regulations will be imposed on the smallest businesses and startups until 2014 and I hope we can continue it after that.

While the UK is very much open for business we cannot be complacent. My task, set out by the Prime Minister, is to foster enterprise and growth in all the ways that we try to make this country more competitive, to go further, and to go faster.

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Let me tell you what we have achieved so far.

At home in tackling domestic regulation our strategy has been to:

- Stem the flow of new regulation through the introduction of One-In, One-Out and now the more punishing One-In, Two-Out rule;
- Tackle the existing stock through the Red Tape Challenge; and
- Improve how regulation is enforced through the Focus on Enforcement reviews.

This is helping us to deliver on the Prime Minister's ambition of being the first Government in modern history to complete its term of office having reduced the overall burden of regulation, rather than increased it.

Action at home includes the introduction of the ground-breaking **One-In, One-Out rule**, under which any increase in the cost of regulation must be at least matched by reduction elsewhere. That will have saved businesses around £1bn in regulatory costs by this summer.

From 1 January this year, I've tightened the screw with an even more challenging One-In, Two-Out rule under which Departments must find two pounds of saving for every pound of extra cost imposed. Even more importantly, this will embed a culture change that puts business needs at the heart of the Whitehall machine. It is now much more difficult for Ministers to regulate.

Other countries are following our lead. Canada has recently announced a system along the lines of One-In, One-Out. France, yes France, announced last month that they were preparing guidance on applying the Une norme créée pour une norme supprimée [one-in, one-out] principle. Poland has introduced a 'purer' rule whereby a regulation has to be removed before a new regulation can be introduced. My officials have given evidence to US Senator Warner on our approach; the US Administration wants to talk to us further.

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Through our **Red Tape Challenge** – which invites businesses to tell us where action on red tape is most urgently required - we have committed to scrap or improve at least 3,000 regulations that affect business, and we have already identified 1,400 to repeal or substantially overhaul. Measures already implemented are saving businesses over £155m per year.

From this April we'll have removed hundreds of thousands of low risk businesses from unnecessary health & safety inspections, reformed 'no win, no fee' cases and banned referral fees, helping tackle the health & safety and compensation culture.

Our Primary Authority Partnerships - legally binding agreements that give businesses assured regulatory advice, ensure consistency between local authority areas and reduce duplication of inspections and paperwork - have already engaged 640 businesses across 99 local authorities covering nearly 60,000 premises.

Evidence about how regulation is **enforced** has identified many common issues across different sectors. Examples include inconsistency of fees and charges, and the need for regulators to take account of their impact on industry.

Our Focus on Enforcement drive is aimed at improving the way regulations are administered by enforcement agencies. So far we have been reviewing 8 areas of enforcement including volunteer events, pubs, chemicals, coastal and marine and fire safety.

Along with the evidence provided through the Red Tape Challenge, both programmes have shown that it is possible to get a clear picture of the impact on a sector of regulation and its enforcement within a few weeks and identify areas for significant improvement. They particularly highlight the benefit of new challenge in areas which cut across enforcement responsibilities.

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One such example is the plethora of licences and permits potentially required to get a coastal development project off the ground.

Regulators might need to deal with the Marine Management Organisation (MMO) for a marine licence, the Environment Agency for water discharge permits, and Natural England as statutory advisors on the impact on wildlife; in addition to the local planning authority.

During our review which I am publishing today, we identified that businesses often face rival regulators who fail to agree quickly enough - or even at all - who is in the lead.

This causes unnecessary delay during which more attractive options from competition elsewhere in EU and beyond may materialise.

Today I announced the creation of a Marine Concordat, which will set out a process for identifying a lead body to coordinate regulatory approval and give the business a single point of entry. This should mean decisions are taken more quickly.

Another great example is the forest of building codes where the Red Tape Challenge identified local authorities who were creating a different set of requirements and guidance. We are now running a review that aims to introduce a single set.

Through this process of Focus on Enforcement, we are presenting the compelling evidence to regulators so they have to respond. This results in regulators agreeing to faster reforms when compared with conventional consultation approaches, for example.

However, the complexity is also in the navigating of the system. Where enforcement is well targeted, the state can still confuse, delay and downright obstruct by being the opposite of joined up

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For example, we want new infrastructure projects built as rapidly as possible but some have hardly started while others had stalled. Why? This is not an issue about funding, but it is often about:

- the complex interaction of permitting requirements;
- who has the statutory duty to comment, when and in what order;
- who can challenge that, in some cases simply to frustrate the project.

It is this type of issue that holds back growth, both big and small, at different stages of development.

Why is it so hard to get a road connection to a new factory or to build a new roundabout to improve traffic flow? Or even why is it so hard to find out what I would need, as an entrepreneur, to do to move into my first office or site?

In the Autumn Statement we announced that we would be launching a successor programme to Red Tape Challenge.

The next phase will be clearly targeted on growth and focused on fewer improvements which have more significant impacts on business. In short, endless tinkering creates uncertainty, whereas decisive action enables entrepreneurs to adjust to the new climate, and then get on with running their businesses. We will be offering more detailed proposals in the spring.

Growth duty

Where they are necessary, regulators exist primarily to regulate for the protection of the public, the consumer or for broader social or environmental objectives. The Government does not wish to undermine this core purpose.

But the scale of the regulatory state is large. For the first time we have collected and published data on the non-economic regulators, bodies like Natural England and the Highways Agency: there are more than fifty-five of them, with a combined budget of approximately £4 billion and 55,000 staff between them. That is a huge resource which can be brought to bear on our

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wider economic objective of growth. And we can encourage compliant businesses to grow through proportionate regulatory activity without compromising public protection.

The importance of this is underlined by the incredible finding that some companies in the chemicals sector were encouraged by their own trade associations to avoid growing larger enough to trigger requirements to comply with the enforcement regime (the Control of Major Accident Hazards (COMAH)).

So I see a profound need to re-define how regulation works, placing regulators on the side of the majority of law-abiding businesses. This approach is exemplified by my decision to explore how to place a legal duty on all those non-economic regulators to have regard to growth in their decision-making. We will shortly be publishing a consultation on how to frame a duty to achieve both prosperity and protection.

A more competitive Europe

We have taken a bold approach domestically. We also want a rigorous approach at a European level, particularly as it is estimated this is where up to half of UK regulatory cost comes from.

The Prime Minister re-iterated in his recent speech on Europe the need to free businesses from regulation which damages Europe's competitiveness. As Angela Merkel pointed out, Europe has 25 per cent of global GDP but has to finance 50 per cent of global social spending. That is unsustainable. That's why the Prime Minister is making the case for a reformed, outward looking Europe.

There, the UK is not an outlier. Our regulatory reform agenda is already backed by nearly half of member states (12 have now signed last November's letter to the Commission) and our persistence is delivering results:

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- The Commission's Regulatory Fitness Communication published in December met 6 of the key proposals in the UK's 10 Point Plan, including a new programme to reduce regulatory burdens at EU level.
- One third of Commission proposals in 2012 with significant costs for business contained an adaptation designed to help SMEs (18 adaptations in 48 such proposals) - an exemption from certain EU accounting rules should benefit up to 1.4 million UK small businesses.
- One year on from the recommendations of the European Council in December 2011 we have now seen the first two micro exemption proposals: one on copyright and the other on drug licensing charges.

Smart Regulation is an area of UK leadership and expertise, but there are increasing signs that other member states are adopting similarly ambitious approaches domestically:

- The UK has the Regulatory Policy Committee to scrutinise and validate Impact Assessments. At least four other Member States (the Netherlands, the Czech Republic, Germany and Sweden) also have similar independent watchdogs, and others including France and Poland have independent 'in-house' verification of Impact Assessments.
- The Dutch have a target to cut regulatory burdens by €2.5bn.
- The French, like us, have common commencement dates for new domestic legislation.

Firms have long complained about UK government departments adding additional regulations to EU laws - including laws on energy efficient buildings, and health and safety at work – which puts them at a disadvantage compared to their European counterparts.

So in 2011 we introduced tough new rules across Whitehall to put a stop to this 'gold plating'. New figures show that from July 2011 to December 2012,

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that our no-nonsense approach means we have effectively ended 'gold plating.'

Of eighty-eight cases in which we've adopted laws from Europe in that 18 month period - including those covering animal health and welfare, protection of the environment and transport – there was no evidence of gold-plating that placed additional burdens on business.

But we will keep up the pressure on Whitehall so that all EU legislation is implemented in the least injurious way. From now on Ministers will be required to transpose only the minimum necessary to comply with each directive. And I intend to block any new legislative proposals that gold-plate legislation unless it can be proved that adding more would actually benefit business.

Business perceptions:

It is important that perceptions and reality coincide, and the evidence indicates business is noticing the benefits of our reforms.

Headline findings from our (2012) Business Perceptions survey saw a steady decline in the number of businesses perceiving regulation to be a challenge when running a business.

Regulation is considered less of an obstacle than securing customers, access to finance and levels of taxation.

Nearly half of businesses believe the burden of regulation in the coming year will get no worse – up from a third in 2010

These figures demonstrate that the UK is certainly moving in the right direction but there still seems to be a feeling that the burden of regulation remains high, why?

Is it perhaps because 'regulation' means different things to different people?

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You might be sat there thinking, well, it's legislation, others might think a Code of Practice constitutes regulation or it's the dreaded tax word, or form filling,.

Research undertaken by Cumbria University which explored this issue concluded that regulation cannot simply be equated to measureable costs. Other aspects such as anxiety generated by the threat of litigation and the pace of change, should also be recognised.

Given the complexity of the regulatory landscape and what it means to different audiences, whilst we can remove unnecessary and over-regulation, to improve perceptions we still need to work on making the regulatory experience a better one.

Emerging findings from analysis we commissioned has identified one key theme, that business is most exercised by the apparent constant churn in regulations. Even when we reduce regulation the long run benefits can be offset by upfront costs, as businesses have to change their internal systems and processes to take advantage of greater flexibility. Churn can also lead to confusion and heighten the anxiety, thus worsening the perception of the burden.

Getting the rules right therefore, is not enough. We also need to tell everyone exactly what the rules are; how to maximise compliance; and to ensure a fair and inexpensive way of resolving any problems that do arise is in place.

Conservatives have faith in the robust free markets that characterise the Anglo-Saxon model. But after 40 years of EU membership, and half of those under Labour governments, we need to recognise an economic culture that perhaps owes more to the continental approach than we like to admit.

This is all the more urgent because as well as the huge legacy of public and private debt the UK economy has been recovering more slowly that we hoped and sustaining a large trade deficit. In the five years since the financial crisis we have not been better than 15th out of the G20 in balance of trade.

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So supply side reforms are therefore more, not less urgent to improve UK competitiveness and rebalance the economy. The outgoing Bank of England Governor made similar points recently.

I see at least three areas where deregulation can play a part in freeing up markets:

First, employment regulation. Businesses regularly tell me that this is the biggest burden for them, even though it is even worse for some of their European competitors. But I see an important part of my role to ensure that perceptions and reality coincide. Both by reducing over-regulation and in ensuring that businesses know what the rules actually are.

Over-regulated labour markets restrict the opportunity to create jobs. We have introduced a series of reforms as part of our Employment Law Review – many based on Adrian Beecroft's report - to create greater flexibility for businesses. These reforms build on those of the 1980s and reverse some of the re-regulation of subsequent years. It's harder already to take cases to an employment tribunal and it will become harder still when fees are payable later this year.

But the youth unemployment rate is 21 per cent. In Germany, thanks to vigorous supply side reforms, it is 8 per cent. So there is a case for ensuring that where government intervenes, for example in setting the youth rate of the minimum wage or the level and indexation of job seekers allowance, the regulatory floors are not set at levels that price young people out of jobs.

Second, one of the main barriers to growth that I hear constantly from small business is access to finance. We have put in place a package of measure to improve the supply of affordable credit to SMEs, such as Funding for Lending and the £1.2 billion Business Finance Partnership to stimulate alternatives to bank finance.

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Yet the banks can reasonably complain that the levels of capital that they are now required to hold frustrates their ability to increase the lending that companies need to grow. Banking regulators too need to consider the impact of their decision-making on the wider needs of the economy.

It can't be right that 85 per cent of SME lending lies in the hands of just four big banks. That isn't Anglo-Saxon competition: it's an unhealthy concentration reinforced by protective regulation, especially in restricting access of new banks to the payments systems. Given the measures we have already put in place to protect depositors and to ensure rapid resolution of failing banks, there is surely a case for exemption for smaller and newer banks from over-restrictive capital requirements.

Or take planning. An efficient, well-understood and stable planning system is vital for a strong economy and investment. But the last government passed 15 planning Acts; six years after their main planning Act of 2004, fewer than 60 out of 335 planning authorities actually had the core strategies they were supposed to have; and after 13 years of top-down housing targets, they ended up with the lowest number of new homes built in any peacetime year since the 1920s.

This government has simplified the planning regime to encourage sustainable development but we need to press ahead. Measures in the Growth and Infrastructure Bill will unlock developments which have stalled due to local social housing agreements made at the top of the housing boom, and which could not otherwise be re-opened. The Prime Minister is surely right to call for fewer sequential consultations and a more restricted right to judicial review.

And today the government is inviting applications from Enterprise Zones for £59 million to turn shovel ready sites into job ready sites. This is an ambitious model that removes barriers to private sector growth with lower tax levels for business, a simplified planning regime and a lighter regulatory burden.

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Conclusion

The UK faces an unprecedented challenge to compete in the global race. It is no coincidence that the fastest growing economies favour deregulation and lack our social costs. Our approach to regulation needs to be redefined and reformed to fit that context.

By the end of this Parliament we will have lower corporation tax than the growth markets of Brazil, China, Indonesia and India. We need to be as ambitious with regulatory reform to ensure the UK's long term competitiveness. Only by taking a robust approach will we have companies that drive innovation, exploit new technologies and meet the challenge of emerging economies.

This is all about changing our culture towards enterprise.

Be in no doubt about the government's commitment: we have made good progress but I agree with the business community that more radical action is required. So we're upping the pace - we must de-regulate further and faster, both at home and in Europe, to remove barriers to growth.

I have set out how stemming the flow of regulation and putting regulators on the side of compliant businesses will cut the costs on business and end overlapping enforcement. By cracking down further on gold-plating and using alliances in Europe we can start turning the regulatory tide there too.

My thoughts tonight for freeing up youth employment and access to finance show that there is an appetite in government to deliver more de-regulation.

This country can compete and will deliver. I'm determined to help business do just that.

Thank you.