

Speech: Davos 2019: Chancellor's speech at the CBI's British business Leaders lunch

Let me start by passing on the PM's apologies – I know she wanted to be here to address you this afternoon, but events have dictated otherwise.

But I am delighted to be back here in Davos...

...and to have the opportunity to address you once again.

Professor Schwab first invited political leaders to what would become the World Economic Forum in January of 1974.

It was a more leisurely affair in those days...

In between skiing, the group of leaders who gathered here in 1974 were grappling with profound economic and political uncertainties:

...the energy crisis...

...sky-high inflation...

...the collapse of the Bretton-Woods consensus.

And here we are, 45 years later...

...grappling with profound economic and political uncertainties!

Plus Ça change!

Closest to home, the terms of Britain's withdrawal from the European Union remain unresolved, as the deadline looms ever larger.

More broadly, the global economy is slowing...

...and the threat of rising protectionism is increasingly affecting patterns of trade.

And the impact of the coming wave of technological change on our societies and our economies is becoming ever more apparent...

...bringing with it both challenges and opportunities.

But I want to argue today that even against this rather inauspicious backdrop, Britain can – and will – prosper in the years ahead.

The fundamentals of our economy are strong.

Its resilience through the turbulence of the Brexit process has been

particularly noteworthy...

...and its growth prospects, according to the latest IMF forecast – providing we approve a deal with the EU – look perfectly respectable alongside our G7 peers.

Our commitment to free and open markets is deep and enduring.

And we are at the front of the pack in preparing our economy for the technology change.

So my message today is this: Britain is a great place to do business.

And we are determined, as we leave the European Union, to make sure that it remains that way.

Let me begin with the subject that is uppermost in everybody's mind – Brexit.

It's clear from our soundings last week that while Parliament has voted against the PM's deal...

...it has not yet formed a clear view of what it is in favour of.

Next week, we will see various interventions by backbenchers.

Some of which will attempt to create a mechanism for Parliament to express its view of the way forward.

And in the meantime the government will continue to pursue a negotiated settlement that is likely to be acceptable to Parliament.

And believe me, I understand the perplexity with which many of you, as business leaders, view the politics of Brexit.

And I feel your frustration at the process and I have to say I share much of it!

But politics doesn't work like business.

And while I am pretty clear what all my business interlocutors are seeking is an economic fix...

...I want to explain to you this afternoon why we need to get the politics, as well as the economics, of this process right.

Because even from the narrowest interpretation of business interest, it would be a Pyrrhic victory indeed to deliver a Brexit that appeared to meet the needs of the economy...

...but which shattered the broad consensus behind our country's political and economic system.

In the 2016 referendum a promise was made to the majority who voted for Brexit – that they were voting for a more prosperous future.

Not leaving would be seen as a betrayal of that referendum decision.

But leaving without a deal would undermine our future prosperity, and would equally represent a betrayal of the promises that were made.

And that is why I, having campaigned vigorously to remain, in the referendum have come to believe that the only credible and sustainable solution is for us to leave the European Union.

To honour the referendum decision but to do so in a way that protects our economy in order to allow us to deliver that future prosperity that those voters were promised when they voted to leave the EU.

The only sustainable solution is a negotiated settlement with the EU:

A deal that supports the economy, protects jobs and allows us to continue a close trading partnership with our European neighbours.

Now to do that right now, we need to find a way around the impasse over the backstop.

And if we are to do so, it will take ingenuity and flexibility on the part of the EU.

As well as a spirit of compromise on the part of some of my colleagues.

It is surely in our national interest, all of us, to preserve faith in the political system and the democratic process...

...as well as protecting our economy as we leave this process...

...Surely in our interest to move forward to agree a negotiated Brexit that is a compromise that can begin to heal the nation and heal both political parties.

Failure to do so could lead to instability, populism (political content removed).

I know that for many business leaders...

...right up there alongside the question of access to European markets...

...is the question of access to labour.

Openness to global talent is a fundamental feature of the UK economy.

Migrants have made a huge contribution to our country over our history – and they will continue to do so in the future.

But at the same time, one of the messages that almost all politicians divine from the Referendum result...

...is a concern about our ability to control European Union migration: less, I personally think, about absolute numbers and more about a sense we have lost

control of our own borders.

And so we have to be clear that as we leave the European Union, free movement will end...

...although I can assure you that short-term mobility for both business and leisure will continue.

And the immigration white paper, published in December, offers a pragmatic way forward.

First, while it constructs a universal framework for future migration control, it does not rule out the possibility that future trade deals – including with the EU – might make provision in this area.

Second, it proposes a skills-based immigration system – where it is workers' skills that matter, not which country they come from.

And third, we have announced an extensive consultation into where the threshold for the highly skilled tier should be set...

...and how we should deal with the challenge presented by the economies need for intermediate-skilled workers:

The technicians; the carers; the chefs, the construction workers and the myriad others whose skills we badly need – but who often earn less than £30,000.

Business should be hugely reassured by this commitment to engagement.

And particularly to a twelve-month consultation period.

So, while free movement is ending, the detail of what will replace it remains to be decided.

And business has a real opportunity to help shape the policy.

But if I may say so, it will only do so if it engages effectively and presents a clear consensus from the business community.

So I urge you, collectively, to seize the opportunity to engage with this consultation...

...and to bring forward constructive, consistent and evidence-based proposals.

Let's work together to design a system that responds to public concerns about immigration...

...but also protects our economy and our businesses...

...and becomes a part of the UK's competitive advantage for the future.

While negotiating Brexit it must of course be the immediate priority, we must also deliver a message to the British people and to our trading and

investment partners, about Britain's future, beyond Brexit.

And it is a future based on a fundamentally strong economy.

One that has grown continuously for the past eight years...

...with employment breaking records again just this week...

...and wages now thankfully rising significantly faster than inflation.

The world's fifth largest economy, ranked the 8th most competitive by the WEF...

...which between 2015 and 2018, attracted more Foreign Direct Investment than any other EU nation, and more than France and Germany combined.

These achievements are not an accident.

They are the result of a deliberate economic strategy by this government:

...to deal with the deficit so that debt is now falling...

...to cut taxes on the wages people earn...

...and on the businesses that employ them...

...and deliver an Industrial Strategy, that is tackling the productivity challenge head on to sustainably improve our competitiveness, and hence the living standards of our people.

We are driving investment through initiatives like the National Productivity Investment Fund...

...the biggest sustained programme of public sector investment since the 1970s...

...and our commitment to 2.4% of GDP as R&D spending.

I am not, for one moment, complacent about our economic performance...

...especially as we see increased risks in the global economy, and lower forecasts for global growth...

...and I certainly recognise that continued Brexit uncertainty is taking a toll.

But that should not obscure the strong foundations we have built for the future...

...foundations that will ensure our economy grows and prospers, whatever the future has in store for us.

That prosperity will be sustained by a deep and enduring commitment to free and open markets, to intelligent and appropriate regulation, and to a globally competitive tax system.

We know that the free market is the only way to deliver the high-wage, high-skill economy of the future.

And that Free Trade is the way to spread prosperity globally.

(And by the way, the quickest way to boost global growth right now would be to liberalise trade in services).

But we also know that to maintain public trust in the free market, we must make sure that the rules of the game evolve to keep pace with the changing nature of the economy...

...especially when there are populists waiting in the wings to propose radical – and dangerous – so called “solutions” in response to every perceived failure.

For example, it is clearly not sustainable or fair that global digital platform companies can generate substantial value in the UK, without paying UK tax on their earnings.

That’s why the UK has been leading attempts to deliver international corporate tax reform for the digital age.

But pending that global agreement, we have introduced a UK Digital Services Tax...

...to make sure that global tech giants, with profitable businesses in the UK, pay their fair share towards supporting our public services.

And now the French have followed us – with a tax broader in scope and with higher rates.

We are also conducting an external Review of competition policy in the digital economy...

...to examine the impacts of the emergence of a small number of dominant players in digital markets...

...and how we can ensure that competition plays its proper role in driving business innovation and expanding consumer choice...

...so that the economy as a whole benefits from new technologies.

These initiatives show our determination to remain at the cutting-edge of these policy debates – and of regulatory solutions.

Demonstrating in deeds, not just words, our commitment to build a digital economy that works for everyone.

I spoke to you last year about the opportunities of the fourth industrial revolution:

About how technological advances will lead to a revolution in the way we live and work...

...with Artificial Intelligence transforming everything from factories to hospitals...

...and in turn boosting our productivity and our living standards.

But I also spoke about the challenges that this revolution represents...

...and how they link to some of the concerns that drove the Brexit vote.

About the need to address fears that automation and new technology may bring, not higher wages, but mass unemployment...

...and that as new technology drives greater productivity improvements, the returns may flow to capital, rather than labour.

In Britain, we are taking these concerns seriously.

We are providing investment of course to build on the UK's position as a world-leader in innovation and new technology:

We have announced £1.6 billion funding in science and innovation and £950 million in our Artificial Intelligence sector deal...

...and £50 million for the new Turing Artificial Intelligence Fellowships, which will attract and retain the best researchers from around the world.

But we can and must go further.

Artificial intelligence could add \$15.7 trillion to the global economy by 2030.

But only countries with the most advanced digital skills will fully realise these benefits. And we intend that Britain will be at the front of that cohort.

So I can announce today that in addition to the Turing AI fellowships...

...we will commit £100 million to establish 1,000 new PhD places in centres across the UK...

...to create the next generation of AI innovators and build on the established research excellence of Britain's universities.

The potential prizes of the 4th industrial revolution are great, but we can only seize them if we can take our public with us.

So we are also taking action to manage the impact of technological change on Britain's society and economy...

...by investing in programmes like the National Retraining Scheme – which we are delivering in partnership with the CBI and the TUC – to provide employers with the skills they need as the economy evolves...

...and to reassure workers that they won't be abandoned when the technological

revolution reaches their job.

And the new 'T Levels', which will also – admittedly decades too late – import into the UK's technical education system important lessons from Germany, Scandinavia and the US.

And Britain is also leading the debate on the ethical challenges of the Fourth Industrial Revolution.

With the establishment of the Centre for Data Ethics and Innovation...

...and through the Regulators' Pioneer Fund, we are leveraging Britain's track record of regulatory innovation to deliver a competitive advantage for our future economy.

So in conclusion the future of Britain's economy clearly depends on making a success of Brexit.

But that is a necessary, not a sufficient condition for a prosperous future.

If we look up for a moment from the immediate challenge of Brexit, we can see profound change ahead – and enormous opportunity.

And Britain is leading the way into this future.

Investing in new technologies...

...promoting, not abandoning our commitment to free and open markets...

...taking action to manage the impact of profound technological change...

... building on our strong economic foundations.

And, when the economic history of the first half of the 21st century comes to be written, it will not be about Brexit.

It will be about a technological revolution of a speed and impact the like of which the world had never seen before...

...a revolution that touched every aspect of our society, our economy, and our politics...

...and if we get it right, it will be the story of how we in the UK leveraged our historic strengths to manage this change...

...and to place Britain at the forefront of it...

...as a nation ready for the future...

... a great place to do business.

Thank you.