

David Cameron Speech: Davos - A Confident Future for Europe

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Special Address

By David Cameron, Prime Minister of the United Kingdom

It's been four decades since you first invited European business leaders up this mountain and gave them a stark message...

...modernise and adapt - or fall behind and fail.

Forty years on, here we are again.

No one can deny what a difficult position Europe is in at the moment. Four years of annual growth have been wiped out. Unemployment has risen to the double digits. Yes, recovery has begun. But while economies like India, Brazil and China are steaming ahead.....in Europe, the drag on growth has persisted. Indeed, Europe's share of world output is projected to fall by just under a third in the next two decades. And no one is immune. This week, we had disappointing growth estimates back home.

Yes, they were partly driven by the terrible weather which shut down airports, factories and schools - but let's be frank. They also brought home something we have said for months: given the traumas of recent years, the recovery was always going to be choppy. So as we meet at Davos, the big questions are these: How can we get our economies going? How can we get Europe going? How do we go for growth?

PESSIMISTS' CHARTER

Now, there are some who say that slow-growth status for Europe is inevitable. They are the pessimists - and this is their charter. One - we in Europe are incapable of solving our debt and deficit problems. Two - we're unable to compete with dynamic economies because we'll always be over-burdened with regulation and bureaucracy. Three - we're hardwired to be consumers and not producers.

And four - we're attached to liberal values that are leaving us far behind the juggernaut of authoritarian capitalism.

NEW DIRECTION FOR EUROPE

Today, I want to make the case for optimism - for confidence in our future. We can overcome these problems... ..but we do need a change of direction. Huge deficits don't just fall out of the sky. Complex rules which restrict labour markets are not some naturally occurring phenomenon. Crushing regulation is not some external plague that's been visited on our businesses. All of these result from decisions we have taken - alone or together. In many ways, we in Europe have been our own worst enemy.

But that also means the power is in us to change... ..to make it easier for businesses to start up and prosper... ..to open new markets - within Europe and between Europe and the rest of the world. And with so many of Europe's leaders committed to open markets and reform, I'd argue there has never been a better time to do this. In less than eight weeks we will announce our Budget for growth at home.....and I will also set out a specific plan for growth in Europe.

Today, I want to talk about the new direction Europe needs to take.

DEALING WITH OUR DEBTS

Our first priority is to kill off the spectre of massive sovereign debts.

Those who argue that dealing with our deficit and promoting growth are somehow alternatives are wrong. You cannot put off the first in order to promote the second. Average government debt in the EU is almost eighty per cent of GDP. Some countries are again borrowing five, six or seven per cent of GDP again this year. The figure for the UK is more than ten per cent. This is clearly unsustainable and action cannot be put off. Let's put this in context.

Remember what we started with in the UK: an economy built on the worst deficit, the most leveraged banks, the most indebted households, the biggest housing boom and unsustainable levels of public spending and immigration. And now think of where we need to go: an economy based not on consumption and debt but on savings and investment... ..not on government spending but on entrepreneurial dynamism... ..not on one industry in one corner of the country but on all our businesses in all our regions, with a new emphasis on manufacturing, exports and trade.

To get there isn't easy. We can't just flick on the switch of government spending or pump the bubble back up. Making this transformation – and it is a transformation – requires painstaking work and it takes time. It involves paying down billions of pounds of debt. New plants and factories need to be built. New products designed. New innovations taken to market. New businesses nurtured. It's going to be tough – but we must see it through. The scale of the task is immense, so we need to be bold in order to build this economy of the future.

The British people know these things. They understand there are no short-cuts to a better future. And already we're making progress. Not long ago we were heading towards the danger zone where markets start to question your credibility. Yet in the past eight months we've seen our credit rating – which was on the brink of being downgraded – affirmed at the triple A level. We've seen market interest rates – which were in danger of spiralling – actually fall.

All this has happened not in spite of our plan to cut the deficit, but because of it. That's why we must stick to the course we have set out. Allied to this fiscal discipline has got to be the reform and strengthening of Europe's banks. Last year's round of stress tests didn't go nearly far enough. They said we were three and a half billion euros short – then six months down the line Irish banks alone needed ten times that. This year's tests have got to be tougher:

Stretching over a three-year period.
Covering liquidity as well as capital.
And involving independent bodies like the IMF.

UNLEASHING ENTERPRISE

But above all what we urgently need in Europe is an aggressive, pan-continental drive to unleash enterprise. At home we have cut corporation tax, cut the small business rate, funded a new enterprise allowance and got a grip on regulation. We've sent huge trade delegations to the fastest-growing economies all over the world, sending out the message that Britain is back open for business. And in the essential work of sorting out the deficit, we have made the decision to prioritise growth.

So we're making cuts to the welfare budget – which is hugely difficult... ..so that we can fund big transport projects on our roads and railways. We're not cutting schools – indeed we're boosting the number of apprenticeships – even though cuts elsewhere are deep. And we're striking the right balance between tax and spending, with spending cuts taking three quarters of the strain and tax rises a quarter.

Where we are raising taxes, it's on what people spend – so that we don't have to hike up taxes on jobs. But this is not just about what we do in our domestic economies. We need boldness in Europe too, not least on deregulation. I've had conversations with many European leaders about this – including Prime Ministers Fillon and Rutte –and we're agreed... ..we just cannot afford to load more

costs on to business. And I believe there are clear things we can and should do:

Bring in a one-in, one-out rule for new European regulations.

Set a new and tougher target to actually reduce the total regulatory burden over the life of this Commission.

And give small businesses – engines of job creation – an exemption from big new regulations.

Taking them out of EU accounting rules alone would save them around 2 billion euros.

Now is the time to go for a genuine single market too. Nearly twenty years since Europe agreed to the free movement of people and services... ..we've still got companies employing teams of lawyers just so they can trade across the nearest border. Jacques Delors once said that nobody can fall in love with the single market – and frankly, no one ever will if we carry on like this.

Let's look at how we can put an end to all those restrictive rules – who can hold shares in which companies, where businesses can set up and how many people they can employ... ..and most importantly, let's deliver on this with a tough, transparent approach to enforcing the single market. Fail here and we'll fall behind. Succeed – and we could add up to 180 billion euros to Europe's economy.

INNOVATION

Of course our biggest ambitions have got to be for innovation. I don't believe for one moment we need to be downbeat about this in Europe. It was British scientists who unravelled the genome.....who helped design the i-pod... ..who invented the world wide web. Where is the world's capital for high quality industrial design? Not the US, not Asia – Europe. We've got the raw material of good ideas – let's get better at exploiting them.

Access to finance is crucial. For every euro invested in venture capital in Europe, more than seven times that is invested in the US. We need to do more to incentivise the same kind of risk-taking investment culture over here. Back home we've introduced a patent box offering a ten per cent tax rate on patent income. But action like this will be worth little if we can't break the deadlock on a Europe-wide patent system. Do you know how long we've been discussing this? Almost forty years. The truth is we can talk all we like about making this continent the capital for innovation... ..but while it can cost up to thirty five thousand euros to get patents in just thirteen member states, it's never going to happen.

The possibility of progress is there – we've just got to seize it.

TRADE

So we can develop even more of the goods and services the world wants to buy. And that's precisely why we in Europe shouldn't be cautious about trade – we should be actively, aggressively pushing for it. I know every speaker at events like this talks about concluding Doha as a matter of urgency – and I agree. But we all need to be equally clear about how it's going to happen.....not with more warm words but with more on the table from all sides. A little more on cotton and safeguards in agriculture. A little more on industrial goods, especially from emerging markets. More from all sides on services – where the gains are huge.No more stubbornness. No more hiding offers in back pockets.

2011 is the make or break year. And there are other things we must do at the same time. Last year we signed a Free Trade Agreement with South Korea worth up to thirty three billion euros to EU exporters. We can and we must do the same with India, Canada, Latin America, the Middle East, the ASEAN block. We have the goods the world wants to buy – now let's have the confidence to strike those deals and sell them.

DEFENDING OUR VALUES

There's one final thing we in Europe need to have more confidence about – and that is our values. The value of liberal democracy used to be sacred in the West. Now some people are doubting it. They've seen authoritarian capitalism and the way it works. They see political leaders with the

powers of juggernauts, forcing decisions through... ...and they argue that against this, our liberal democratic values look outdated, ineffective - even an obstacle to success.

I passionately disagree. It's these values that create the climate for innovation. Look at where the big ideas come from - the Facebooks and the Spofifys - and the vast majority are from open societies. That's because good ideas come through freedom - free thinking and the free association of like-minded people. Our values create the right climate for business too. If you're looking to set up a headquarters abroad, are you going to invest where your premises can be taken away from you? Where contracts are routinely dishonoured? Where there's the threat of political upheaval? Or are you going to invest where there are property rights, the rule of law, democratic accountability?

These values aren't some quaint constitutional add-on... ...they are an integral and irreducible part of our success today and tomorrow - and all of us must always remember that.

CONCLUSION

So my message today is one of confidence. We are an open, trading continent. We have a proud record of invention. We've got advanced democratic values. But yes, we've got to recognise that Europe has got to earn its way. The world doesn't owe us a living. So let's make the choice to do things differently, to fight for our prosperity. If we set our sights high.....if we take bold decisions in deregulation, on opening up the single market, on innovation and on trade.....then together we can defy the pessimists... ...and together, recover our dynamism.