

Growth must reach the North and low-earners

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We must not return to the unbalanced British economy of the pre-crash years. I spent Wednesday night travelling from Manchester to Birmingham visiting the parts of our economy that Chancellors don't often see: the people who work through the night to mend our roads, bake our bread and stock our supermarkets. I came away even more determined that everything I do as Chancellor will help unsung heroes of our economy such as these. It's these hardworking people and many millions like them who deserve the credit for yesterday's better economic growth data.

Growth of 0.6 per cent in the second quarter of the year confirms that our economy is on the mend. In difficult conditions it has grown by 1.4 per cent in the past 12 months. But the damage done by the financial crisis runs deep and there is still a long way to go.

We've had to take tough decisions to deal with our deficit and get back on track, but we've done it in a way that sticks to my pledge that we are all in this together. The richest have paid the most, but all have made sacrifices. Now we need to make sure that we're still all in this together as the recovery takes hold. We will do that by building an economy that backs aspiration and supports every part of our country.

That certainly wasn't the case before the crisis. Our economy became too unbalanced and too dependent on one sector — financial services — in one corner of the country. The North of England and the Midlands fell farther behind. High earners paid lower tax rates than their cleaners, millions were trapped in poverty by unreformed welfare and education systems and the banks were allowed to take huge one-way bets at great cost to the rest of us.

How do we make sure this time is different? How do we secure a lasting recovery and an economy that works for all? The answer is by sticking to our economic plan. It has three parts.

First, we have to carry on cutting Government spending to get the deficit down and start living within our means. We've already cut the deficit by a third, and the recent spending round continues on that path. We have also shown something very valuable — that you can cut spending while improving

services. What too many on the left don't understand is that the people who suffer most from the destabilising consequences of unaffordable spending are the poorest and most vulnerable.

The second pillar of our plan is monetary activism to support demand. Opponents of our deficit plan argued that slower-than-forecast growth was a direct result of government spending cuts, but now that growth is accelerating what has changed? Not our deficit plan. In fact it is precisely because we stuck to our spending plans that monetary activism has had the space to work. In other European countries a loss of fiscal credibility led to tighter monetary conditions. Here in Britain fiscal credibility allowed us to launch successful schemes such as Funding for Lending. And monetary activism doesn't end there. The second phase of Funding for Lending will target small businesses and our Help to Buy scheme is already backing that most natural of aspirations — to own your own home — by improving the availability of mortgage finance.

In a fortnight the Bank of England will answer my request in this year's Budget to examine the case for guidance on the future path of interest rates. In other words, can more certainty for families and businesses about how long interest rates will stay low help to support the recovery?

The third pillar of our plan is the most important if we want to build a new economy that works for all — structural reform that backs aspiration and equips our economy to succeed in today's global race.

Government policies really can make a difference to who benefits from this recovery. Consider some other official statistics released in recent weeks: inequality is at its lowest for 25 years and disposable incomes grew by 1.4 per cent above inflation last year despite the squeeze, the fastest for three years. Both of these facts are in part a direct result of decisions by this Government, in particular to prioritise record rises in the tax-free personal allowance, increase the value of pensions, and freeze fuel duty and council tax.

In the long term Britain needs more good jobs in the private sector so that people who want to work hard and get on can earn higher incomes without needing ever more support from the Government. That's particularly true in those regions that became too dependent on the public sector.

So we are implementing a full spectrum of the most radical changes for a generation — in schools, welfare, tax, skills, planning and universities. That's why we are investing in science and infrastructure right around the country, with long-term specific investment plans up to 2020. And it's why we want to reform the EU and Britain's relationship with it while promoting free trade around the world.

Our economy is on the mend, but we cannot take recovery for granted. We must avoid the siren voices that would drag us back to the bad old days of a debt-fuelled and unbalanced economy. That argument has been lost. Instead, if we want Britain's 24-hour economy to work for every family and every region of our country then we must hold our nerve and stick to the plan.

George Osborne is Chancellor of the Exchequer