Mervyn King: How international cooperation can raise Britain's economic performance

Opening remarks by Mr Mervyn King, Governor of the Bank of England, at the Panel on EU/US cooperation at the Advancing Enterprise Conference, London, 26 January 2004.

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Chancellor, Ladies and Gentlemen,

In this session we shall examine how international cooperation can raise Britain's economic performance. Before introducing our speakers this afternoon, I would like to present a few facts about productivity in this country, and then pose three questions. You might ask why a central bank governor is chairing a panel on enterprise. Well, some believe in prudence for a purpose; we believe in stability as a spring-board, a springboard for enterprise.

Since the start of the Railway Age in the 1830s, output per person has increased ten-fold in Britain; it has increased twenty-fold in the United States. That is because over that period output per person rose on average by 1 ½% a year in the UK and by 2% in the US. The result is that the level of output per person is now around 25% lower in Britain than the US. In part this reflects shorter working hours, but it also reflects a lower level of productivity.

From around 1980, however, the productivity gap between Britain and United States started to close, and for the following 15 years or so labour productivity actually rose significantly faster in the UK than the US, at an annual rate of 2.1% compared with 1.4%. But since 1995, the gap has started to widen again as ICT investment has boosted productivity growth in the United States.

The empirical evidence suggests that one of the most successful ways to speed up convergence in productivity is to promote international trade and investment, and openness more generally. Within manufacturing, the rate at which the productivity gap between Britain and the US closed during the 1980s and early 1990s was greater in the more open than the less open sectors.

Against that background, let me suggest three areas for questions:

First, why is the gap in the level of productivity between the US and the UK so persistent? And what are the obstacles that prevent the gap from narrowing - are they in the fields of trade, technology transfer, or flows of investment? What are the respective roles of business and government in removing them?

Second, can the UK benefit as much as the US from the IT revolution? Is it a question of the speed with which business adapts? Or is it the need to fund our research-based universities on the scale of the best elsewhere in order to exploit our comparative advantage in the English language and regain Britain's place at the frontiers of knowledge? Or is it a matter of raising standards of education in schools to enable the workforce as a whole to use the new technology?

Third, is the existence of overlapping jurisdictions affecting economic performance in the UK and elsewhere - in areas such as tax, competition policy, the regulation of mergers, patents, insolvency law, and recent changes to corporate governance? And can "economic cooperation" overcome some of these problems, and, if so, how?

With those questions in mind, let me now introduce our four speakers this afternoon.

First, Niall Fitzgerald, Chairman and CEO of Unilever, who has been instrumental in the recent re-launch of the Transatlantic Business Dialogue.

Second, Donald Johnston, the Secretary-General of the OECD since 1996, who served in the Canadian Cabinet during the 1990s. The OECD is conducting a study to quantify the potential benefits of closer economic cooperation between the EU and US.

Third, John Snow, the US Treasury Secretary, who will be joining us on a video link later in the session.

Fourth, Gerrit Zalm, the vice Prime Minister of the Netherlands and Finance Minister since 1994.

So, without further ado, let me turn to Niall Fitzgerald.