



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Lord Haskel  
House of Lords  
SW1A 0PW

16 June 2010

Dear Lord Haskel,

Thank you for your insightful contributions in last week's debate on the Government's approach to ensuring the UK maintains its competitiveness. You raised a number of points concerning monetary policy, investment in technology, tax policy and managing relations with Europe. I thought it might be helpful for me to write to set out the Government's position of these matters.

With regard to maintaining a competitive exchange rate, the Government's macroeconomic framework includes a monetary policy framework that seeks to deliver low and stable inflation through a symmetric inflation target, not an exchange rate target. Under this regime the exchange rate is allowed to adjust flexibly.

You asked whether the Government would accept the recommendations of the Hauser report. The Programme for Government stated that the Government would consider implementation of the Dyson Review. Amongst its recommendations was the establishment of new university/industry institutes (similar to those in Germany and Japan) to promote collaboration in technology development with a focus on centres capable of becoming world leaders in their field. We will carefully consider the Hauser review and the report from the Council for Science and Technology in the context of the Government's implementation of the Dyson review.

Regarding tax policy, the Coalition Agreement identified improving the UK's competitive position as a priority for this Government. "Our aim is to create the most competitive corporate tax regime in the G20, while protecting manufacturing industries".

In order to provide a sustainable income stream to support the provision of public services, it is important that tax revenue is raised from a number of sources and from an appropriate mix of taxes, including both direct and indirect tax. However, the Government recognises that the tax system also



needs to be reformed to make it fairer and is carefully considering the various options for taxing non-business capital gains at rates closer to those applied to income, whilst ensuring that there are generous exemptions for entrepreneurial business activities.

You also asked how the Coalition would manage the partnership with Europe to strengthen UK competitiveness. A strong and competitive European economy is in the UK's interests. Around half of our exports go to the EU, so a faster growing EU economy provides greater opportunities for exporters in the UK to sell their goods across Europe. Furthermore, Europe accounts for over half of all Foreign Direct Investment (FDI) in the UK, which totaled around £25 billion in 2008. These investments help to raise the productivity and competitiveness of UK firms. And at the same time net earnings from FDI by UK companies in Europe totaled over £34 billion in 2008.

The European Commission has also proposed a Europe 2020 strategy designed to generate smart, sustainable and inclusive growth. The UK is engaged in these negotiations to ensure that Europe 2020 focuses on policies that are genuinely able to drive growth, reduce regulatory burdens to allow enterprise to drive the recovery, and improve competitiveness across the region.

I hope you find this response helpful. I am copying this letter to all peers who spoke in the debate and I will place a copy of this letter in the Library of the House.

*Yours sincerely*

*James Sassoon*

**LORD SASSOON**