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Bill Jamieson: Enterprise must be key for growing economy

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HINT hint, nudge nudge: few budgets have had their general purpose and direction of travel more clearly signposted in advance. Indeed, there is a risk that David Cameron and George Osborne have cranked up expectations to such a level that anything short of dramatic change will be a disappointment.

Gordon Brown's budgets often bristled with "measures to boost enterprise", but you would have needed a Hubble telescope and magnifying glass to read the print. Grand rhetoric was followed by wee footling changes to allowances and yet further complication in the labyrinth of reliefs, thresholds, tax breaks, grants and "eligibility criteria". Yards of form-filling never make for an enterprise economy.

So what can we expect when Chancellor George Osborne unveils his enterprise budget a week on Wednesday? Of the need to boost economic growth there is no doubt - especially so after a 0.6 per cent decline in GDP in the fourth quarter of last year. For the UK to meet the growth forecasts set out by the Office For Budget Responsibility, the private sector would need to grow by around 5-6 per cent a year for the next four years: possible, but extremely demanding given the headwinds that we face.

Bank lending to businesses collapsed in 2008 and has barely recovered since. Even though the availability of credit has steadily recovered, any improvement in demand, says Ruth Lea, economic advisor to the Arbuthnot Banking Group, "has been extraordinarily patchy".

Of the need to improve competitiveness - the means by which a country can achieve sustained levels of GDP per head - there is also little doubt. The World Economic Forum's Global Competitiveness Report for 2010-11 showed the UK in 12th position.

Business organisations such as the CBI, Chambers of Commerce and the Institute of Directors have sent in their wish-lists for a growth-boosting Budget, with many good ideas to help the small and medium-sized business sector. And Osborne has already flagged up an intention to create ten new Enterprise Zones for England. What else can be looked for?

As important as any new measures announced is a clear statement of where the government wishes to go - in this and in future years. In a publication due out tomorrow from the Centre for Policy Studies, the tax law specialist Charlie Elphicke MP has set out ten practical and well-argued points for growth. Some are already on business lobby wish-lists - expanding specific reliefs for entrepreneurs and small business investors; lowering the capital gains tax rate for business assets and an extension of the new Enterprise Allowance.

There is a plea for less stringent employment law, including restrictions on unfair dismissal claims and measures to curb vexatious claims (a disincentive for small firms to take on new staff).

But there are three proposals in particular which are of merit and which will be of specific interest to Scottish business. The first is for a more aggressive approach to reducing the main rate of corporation tax. A WEF report cited tax rates and tax regulations as among the most problematic factors for doing business in the UK. The UK's corporation tax rate is the 12th highest out of 31 OECD countries. And the effective tax rate on new investment for business is 27.9 per cent, the

11th highest of 83 countries in a Cato Institute study and well above the OECD average of just 18.6 per cent. The coalition has pledged to reduce the main rate of corporation tax by 1 per cent each year to 24 per cent by the end of the current parliament. Elphicke would like to see a much lower target - 18-19 per cent - to provide an effective come-on for overseas inward investment.

Another proposal is a change in the tax rules to make the UK more attractive as a corporate headquarters. While Elphicke argues the benefits of corporate headquarters in bringing financial management, human resources and "top end" management functions on a UK basis, it is of particular relevance to Scotland where so many Scottish company quoted plc and head office functions have been lost in recent years. What is needed here, he argues, is a tax rule that says foreign profits or interest payments brought into the UK by a subsidiary business will not be taxed in the UK, nor will they be deemed to be brought into the UK and taxed if held overseas.

"Further development of this idea", by the coalition he says, "has rich potential".

A third area he would like to see covered in the Budget is more effective support to help smaller businesses expand overseas. Currently less than a quarter of smaller businesses export overseas, and those that do are mainly exporting to the US, Canada or Europe. Less than 15 per cent sell to China, India, Brazil or Russia. This weakness is particularly marked in Scotland.

Elphicke questions the effectiveness of trade promotion bodies such as UK Trade and Investments and the Exports Credit Guarantee Department where public awareness is very low. These bodies are not succeeding in their missions and fundamental reform is needed. A much bigger push is also required to help SME awareness of the availability of finance and the help and support available for exporters. These bodies need to be brought together under one roof, their operations merged to avoid overlap and extra staff brought in to boost the number of trade missions and help target business support more effectively.

Making better use of what we have, de-cluttering and widening access to existing reliefs and benefits should form an important part of any Budget for Enterprise.

New tricks are always good. But the gains from performing older ones more effectively can be just as efficacious.