

A Speech by David Cameron at the London School of Economics and Political Science, Tuesday 9 December

Fiscal responsibility and the recession

Today I want to talk about the clear choice that is emerging in British politics today. It is about how we deal with the great economic problems that confront this generation - the recession and the record level of Government debt.

Labour's response is to address the first and ignore the second. They argue that this recession is so exceptional that it is right to try and stimulate the economy with borrowed money we haven't got, adding another discretionary £20 billion to Government borrowing and the level of debt.

Labour argue that the level of debt is not a problem and can be dealt with by unspecified people at some unspecified time in the future. The main thing is to find the money for short-term giveaways today, to deal with the recession.

By contrast, the Conservative response to the twin problems of recession and record debt is to address both together, understanding the important connection between the two – a connection that Labour ignores. We argue that we cannot go on as we are: that when you're already borrowing so much it is quite wrong to deliberately borrow even more.

Of course the so called "automatic stabilisers" – spending which rises in a recession as benefits are paid to those out of work and tax receipts fall as companies make lower profits – must be allowed to operate.

But we argue that extra, discretionary borrowing now, over and above the effect of the automatic stabilisers, will not help with the recession – it may even make the recession longer and deeper.

So instead we believe we need to act now to set our economy and our public finances on a sustainable path - because doing so will help make the recession shorter and shallower.

This is a very big and profound choice. And the reason I want to make this speech today is to clarify the nature of that choice.

Because in the past few months, as the economic arguments have raged, the connection between recession and record debt has not always been clear. It's almost as if they have been put into two separate boxes, marked long-term and short-term: the recession as today's short-term crisis; the record debt as tomorrow's long-term problem.

What I want to demonstrate today is that this separation will make both problems worse – and it is exactly what Labour are doing. I think everyone now accepts that the argument we have been making about fiscal responsibility – dealing with debt and getting our public finances on a sustainable path is right for our economy tomorrow – that it is right once the recovery has started.

My argument this morning is that this is also right for today – that it is a vital element of ending the recession and getting the recovery started. So I want to explain why I believe that taking action to control public spending is an urgent priority right now.

Why that is not about trumped-up short-term efficiency savings or thoughtless crisis cuts - but is about long-term change, long-term change that involves reducing the demands on the state by fixing our broken society and long term change that means increasing the productivity of the state by reforming our public services.

RESPONSIBILITY FOR RECOVERY

So let's start with this argument about the short-term and the recession.

Surely it's right that exceptional times call for exceptional measures?

That the long-term can look after itself and that all that matters is doing everything we can to fight the recession?

Yes, I do believe that exceptional times call for exceptional measures – but they have to be the right exceptional measures, not the wrong ones. The right exceptional measures are those which would actually deal with the causes of this recession.

Everyone knows that the recession started with the credit crunch. The recession we face has at its core a severe contraction in credit - so we need exceptional policies to get credit moving again.

The bank recapitalisation was intended to help do that, which is why we called for it and supported it. But now it is clear that the bank recapitalisation, while it may have saved the banks from collapse, has failed to save the wider economy.

Good businesses are still not able to get the credit they need to keep going. So we need further exceptional policies – principally monetary policies - to get businesses the money they need to get through the recession.

That's why we have proposed a new National Loan Guarantee Scheme to get lending going. What we do not need is exceptional action that is wrong. That is what we have seen from Labour in fiscal policy.

Labour are using this crisis to suspend all reasonable fiscal principles. Their argument is that the exceptional crisis we face today excuses the most extreme, reckless action – and tomorrow can take care of itself. That dealing with their recession comes before dealing with their record debt. This is the justification for the VAT cut and the massive tax rises that will be needed to compensate for it in years to come.

But this is the kind of short-term economics that helped get us into this mess in the first place. Spending money we haven't got, and adding to the already record debt levels, will not only leave an unfair burden on our children for the long-term.

It will actually make things worse. It will hamper the recovery with higher taxes just as the economy gets going again. And it will delay the recovery by undermining people's confidence in the future.

When borrowing is already rising to dangerous and unsustainable levels, temporary short-term giveaways now, paid for by permanent tax rises and even higher borrowing later is a big economic mistake, because it misunderstands how people actually behave.

When people make big economic decisions like buying a house or a car, or investing in a business, the kind of decisions that will collectively determine how long and deep this recession is when people make those decisions, they don't just act in the present: they look ahead to the future.

Their expectations of the future really matter. If the future looks bleak and uncertain, people are likely to be more cautious – especially with their money. If people know that they will be hit with massive tax rises in a couple of years, they're less inclined to spend more now. If businesses know that Government borrowing is rising to unsustainable levels they know that will destabilise our economy and so they're going to be wary about playing a more active role in that economy.

When you're making a decision about buying a house, employing extra staff or investing in a business you want to know that your investment will pay off. You want to be confident about the future.

Labour's 'spend now, forget the future' response to this crisis is exactly the opposite of what we need.

Instead of helping the economy out of this recession by giving people confidence that the Government has a plan to put the economy back on a stable, sustainable and responsible path, Labour's short-term giveaways actually undermine confidence and hope. Labour don't seem to understand that you can't buy confidence.

For these reasons, fiscal responsibility is the right economic strategy for the short-term as well as the long-term. It is right for today, as well as tomorrow. Dealing with Labour's recession and dealing with Labour's record debt are not separate priorities – one urgent, the other to be put on the back burner. They are intimately connected priorities and they are both urgent priorities.

It is for these reasons, I believe, that the recent Pre-Budget Report received such a negative response. It wasn't just because the cut in VAT was such a misguided way of stimulating demand when prices in the shops were already falling. It wasn't just that the new top rate of tax and the new fondness for state economic intervention shows the death of New Labour and a return to the failed Labour policies of the 1970s.

It's because at the heart of the Pre Budget Report were deficit figures that were truly shocking. Labour were forced to admit the true scale of the crisis they have caused in the public finances. And then instead of showing us how they planned to make it better, unbelievably, they told us that they planned to make it worse. It was at that moment, I believe, that we saw the staggering economic incompetence of this Labour Government revealed.

To have spent so much, to have borrowed so much, to have achieved so little.

To have stored up so many problems for the future.

To have taken such a risk - more discretionary borrowing when the public finances are already so out of control.

To have nothing to say - no apology, no contrition - for the past.

And to have such useless ideas for the present - no serious plan either for the recession or for their record debt, just the same old spin about a "new strategic state" and the same old short-term political games to try and wrong-foot their opponents.

These Labour politicians have been found out and just as before they will be punished for a generation for their economic crimes.

THE WORLD HAS CHANGED

So I want us to be clear about our alternative.

Fiscal responsibility not just because it is right for the long-term, to deal with Labour's record debt, but because it is right for the short-term, to deal with Labour's recession by giving people and businesses the confidence to invest again and get the recovery going. And fiscal responsibility is right, now, for another vital reason.

The world has changed. You only need to read the figures in the Pre-Budget Report to realise just how much. Our country will have to borrow nearly £120 billion next year. Our national debt is set to double to over one trillion pounds. Britain will be in the red until at least 2016 – and that's an assumption made on very optimistic forecasts.

So let us tell the truth that Labour cannot admit.

There is no money left. Labour have spent it. Labour have blown it.

As before, they have made a monumental mess of our public finances, and once again, a Conservative government will have to clear it up.

Reducing our borrowing.

Reducing our debt.

Setting a framework for getting our public finances under control.

And putting forward a credible plan for doing it – for ensuring that just as families across the country will have to learn once again to live within their means after Labour's decade of debt so too will the government have to live within its means.

SPENDING PLANS

The first step is to set realistic targets for public spending.

It's simple. Borrowing is now going beyond acceptable limits. Taxes are already too high – and Labour's plans for even more taxes will act as a drag anchor on recovery. They'll put people off from investing here and help to destroy jobs not create them.

So the choice is clear, and it's a tough one – we need to restrain public spending. But I think that if we're straight with people about the mess Labour have made, people will understand the tough decisions we'll have to take to clear it up.

In the Pre Budget Report, the Chancellor revised down his spending plans, but only from 2011 onwards, for 2010 all he is promising is £5bn of unspecified "efficiencies".

We have spent the past fortnight analysing those plans, and the consequences are now clear. To pay for Labour's spending would mean substantial tax rises over and above those that the Chancellor actually told us about. As Robert Chote, Director of the IFS said: "it certainly does look as though, erring on one side or the other, it looks quite optimistic." He is echoed by Professor Colin Talbot of the University of Manchester : "in normal circumstances you wouldn't expect tax receipts to return that quickly during a recession, so that's a fairly strong assumption."

If we are to avoid substantial tax rises in the future, tax rises that will hamper the recovery, we must slow the growth of Government spending.

So I can announce today that in order to keep spending at a responsible level and to ensure the quickest possible end to the recession and the strongest possible recovery, we will not match Labour's new spending plans for 2010 and beyond.

Only by taking this step can we ensure that the Government lives within its means and only by ensuring that Government lives within its means can we build the low tax, low debt economy that will be able to compete in the world and help create jobs wealth and opportunity for our people in the future.

PUBLIC SPENDING PLAN

This is how we can create the confidence in our economic future that is vital for a strong recovery. But setting tough targets for public spending is only the first step.

The next step is showing how we will meet those targets and that requires a credible long-term plan. A credible long-term plan for controlling public spending has three components.

First, reducing the demands on the state by fixing our broken society.

Second, increasing the productivity of the state by reforming our public services.

And third cutting Government waste.

I want to start, as I would in Government, with long-term change. Because I understand that to achieve lasting change in government, you've got to drive through radical reform from day one.

LONG TERM PLAN

It is radical social reform that will help us deliver long-term savings in public spending by reducing the demands on the state. I have said that the central mission of the next Conservative government will be to fix our broken society.

That mission is not made irrelevant by the economic crisis. It is made more urgent. The social costs of family breakdown, welfare dependency, educational failure, crime, anti-social behaviour, drug and alcohol addiction are impossible to calculate. But the economic costs are clear and huge.

These social failures rack up enormous bills for the taxpayer.

Now, we know that Labour cannot fix our broken society.

They refuse to acknowledge that there is social breakdown in our country, and their policies at best deal with the symptoms of the problem and at worst help cause them in the first place. The truth is that we're going to have to take some pretty tough decisions to reverse the social breakdown this country has suffered, and Labour just aren't prepared to take those decisions. They will never break the state's monopoly in school provision – and so they will never tackle educational failure.

They will never allow local voluntary organisations to take over welfare provision – and so they will never tackle welfare dependency. And they will never admit the importance of marriage in giving children a strong, stable start in life – so they will never tackle family breakdown.

Because we recognise the scale of social breakdown in our country, because we are prepared to take the tough decisions required to tackle our social problems and because we have a clear and coherent plan for social reform, ready to go on day one of a new Conservative government, I know that we can succeed in our central mission to fix our broken society and I know in turn what a vital contribution that will make to our economic future, by reducing long-term demands on the state.

MEDIUM-TERM PLAN

But as well as reducing demands on the state, we can and will increase the productivity of the state - through proper public service reform. This will be absolutely vital to maintain and improve the services people receive during years which will be characterised by tight public sector budgets.

We can no longer afford to pump money into unreformed public services, as Labour have done for eleven years. After eleven years of failure, we can see that Labour are simply incapable of proper public service reform. Their expertise lies in talking about public service reform, not delivering it.

What the country needs instead is a clear and coherent plan for public service reform. Our plan will work by harnessing the power of the individual and the power of choice and competition. It's what we mean when we talk about a new, post-bureaucratic age. Where services are individually consumed we will transfer power over those services to individual people, giving them a choice between competing providers. Where services are collectively consumed, we will transfer power over those services to the lowest practical tier of government, opening up provision to social enterprises, private companies and community organisations.

By liberating the supply side, unlocking the potential of both the private and voluntary sectors, and providing people with meaningful, accessible information about public services, we will give people real choice, and thereby improve quality and productivity.

Conservative reform will not mean endless re-organisations and technocratic tinkering. It will mean unleashing competition. Making providers accountable for their actions. Paying people by results. Devolving power to the people who pay for and use public services.

That is how you ensure better services for less money – helping improve people's quality of life at the same time as helping strengthen our economy by keeping public spending down.

SHORT-TERM PLAN

And of course, in addition to our plans to reduce the long-term demands on the state by fixing our broken society and to improve the productivity of the state by reforming public services we want to save money straight away by cutting out government waste and outdated programmes.

This Government has created a public sector culture that is just shockingly casual about public money and how it's spent.

£20 billion wasted on an NHS computer that still isn't working properly.

£2.3 billion spent refurbishing the offices of MOD civil servants.

Nearly £2 billion of tax credits lost due to fraud and error in the past year alone.

Monopoly money gets more respect. Even the Chief Secretary to the Treasury admits the Government has room to be “cutting back further on waste” – that now the chips are down they “can achieve higher levels of efficiency savings than originally planned.”

Of course they say they're on an efficiency drive now. But a few months ago they called any potential savings “cuts”. Now they think they can save over £30 billion worth.

They cite the Gershon review as evidence of their efficiency but the truth is that its first round delivered more spin than savings. According to the National Audit Office only a quarter of the claimed savings were fairly represented while the second efficiency programme launched just last year is “cutting services to claim efficiencies” – and has “acute” measurement problems. That's according to the Government's own Treasury committee. Even Sir Peter Gershon is concerned about the latest Government “waste” initiative, questioning whether it has “got the priority, the pace and the urgency needed.”

We can and must do better than this. I have asked every shadow minister to go through their budget line by line, to root out wasteful spending, and to abolish programmes that have served their purposes and are no longer necessary. We are calling on the best private sector expertise to find ways to save taxpayers' money and improve service delivery.

We are developing a systematic programme to improve the way the Government spends its money and we will ensure that we are held to account. Last year, we introduced a Bill in Parliament to force the Government to list on a public, easily searchable website, every item of public spending over £25,000.

Be in no doubt: the next Conservative government will usher in greater transparency and accountability. There will be nowhere to hide the foreign trips or office re-decorations at the taxpayers expense, no secret books to store those salary perks and expensive unnecessary training.

After a decade of reckless spending under Labour, Britain will get good housekeeping from the Conservatives and an understanding right through the public sector, from those in central government to those on the front-line, that we need to start living within our means.

CONCLUSION

Reducing waste, reforming public services, reducing demands on the state.

This is a credible plan to control public spending, reduce debt and put our public finances on a sustainable path. It is essential not just for the long-term, but for the short-term too, because dealing with Labour's recession and dealing with Labour's record debt are two sides of the same coin. They are both massive economic problems and they must be addressed together. So fiscal responsibility has never been as desperately necessary as it is today.

The Prime Minister's strategy of temporary giveaways with tax hikes down the line has grievous, urgent implications. This Government is intoxicated with profligacy – and the bill for their binges adds up by the minute. The Chancellor has even hinted at another fiscal stimulus, throwing good money after bad. They haven't learned their lessons, and they haven't learned the international lessons either.

In the 90s Japan tried to borrow its way out of debt but was buried by the strategy. They call it the lost decade. I worry we'll have a lost generation, people leaving university with no hope of a good job, saddled with debt, playing no active part in our economy.

Every week this Government is in power the mortgaging of the future gets greater. Every week the debt gets larger. Every week the burdens on our children mount up higher.

We urgently need a change of direction, not more of the same.

Today I'm calling on the Prime Minister to put the choice in the hands of the people. Let him call an election so that Britain can decide what we want for our economy, more reckless borrowing and spending, or fiscal responsibility, more inefficiency and waste under Labour, or good housekeeping under the Conservatives, an economy built on debt, or a low-tax, low-debt economy that's built to last.