

DAVID CAMERON'S DAVOS SPEECH

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“It’s great to be back in Davos. Because Davos is about dialogue. For years people have come together here to debate the great challenges of the day - from climate change, to protectionism, to poverty in Africa. And for years we have come at these things from different perspectives, with some very different opinions.

But underpinning it all was a fundamental agreement about the kind of global economy we need. You could call it the old economic orthodoxy. The consensus that controlling inflation is the main purpose of monetary policy. The understanding that in fiscal policy, it is responsibility that matters most – that large budget deficits are always a bad thing. And the shared belief that the capitalist system of open markets and free enterprise is an unalloyed good.

Well that was last year. This year we face a totally different economic landscape. If I had told you twelve months ago that we’d be talking about nationalising major banks, about some countries’ borrowing approaching ten per cent of their GDP – and even printing money – you’d have thought I was mad. But as the full scale of this crisis has emerged, some of our long-held economic assumptions have simply fallen away. So now we are forced to re-consider the old economic orthodoxy. To question its assumptions about monetary policy; its rules on fiscal policy, and its faith in the virtue of free-market capitalism. And the key question we should be asking is this. Which of the old rules should we keep, and which – in these extraordinary times – should we discard?

The stakes are high. The fate of our global economy for the next few decades rests on the decisions of this generation. Those countries that cling to the old rules, the old way of doing things – they will fail. Those countries that rush to change, to discard the wisdom and experience of centuries – they too will fail. Success will go to those that navigate a sound path – between the bold action we need to pull us out of this slump, and the prudent sense to stick with what works. And tonight I want to tell you where I stand – where I think we should depart from the old economic orthodoxy, where we should strengthen it, and how we should update it.

MONETARY ACTIVISM

Let's start with monetary policy. In one sense, this crisis is all about monetary policy. Because at the core of the crisis is, as we all know, a credit crunch. We're seeing the most severe contraction of credit for decades. Britain's boom, for example, was part-financed by more than £700 billion of foreign money. Now, in the bust, that money has disappeared. Billions have been sucked out of the British economy and the cogs of commerce are grinding to a halt.

The impact on the real economy is devastating. Whether it's the most efficient car plant in Europe or the store at the end of the street, they're all suffering the same thing: they're all starved of credit. The policy priority is clear – we've got to get credit moving again.

So when it comes to monetary policy, yes I do believe the old rules should be torn up. Radical monetary activism is what the economy needs. We've got to take all the necessary steps to restore confidence in our banking system and get credit flowing again. That's why my party supported a recapitalisation of British banks. It's why we proposed a National Loan Guarantee Scheme to underwrite bank lending to business. It's why we support the principle of insuring banks' losses for a fee - though the devil is in the details. And it's why, as a last resort, we might have to consider quantitative easing too. Because our exceptional monetary problems demand exceptional monetary solutions.

FISCAL RESPONSIBILITY

So if it's right to discard the old orthodoxy on monetary policy, should we also abandon the old orthodoxy on fiscal policy? Should we give up the idea of fiscal responsibility, and suspend all the old rules about borrowing and deficits?

Some have argued that to fight the recession we should spend like there's no

tomorrow, junk fiscal responsibility and let the long-term look after itself. Now, I've got nothing against the idea of a fiscal stimulus. I think it's a good idea – if your country can afford it. But as the OECD, the IMF, and the ECB have all said, if your country can't afford it, a fiscal stimulus is a very bad idea. Not just in the long-term, as future generations are burdened with a mountain of debt. But in the short term too, because if people know that in just a couple of years they'll be hit with higher taxes to pay for the stimulus they're not going to invest, and spend and do the things that will pull us through this slump. So an unaffordable, irresponsible fiscal stimulus will actually damage confidence and delay the recovery.

So no, I do not believe we should just abandon fiscal responsibility. Instead, each country should use fiscal policy to do whatever it responsibly can to stimulate its economy. Sadly, thanks to a decade of fiscal irresponsibility, the current British government can't afford to do very much.

BROKEN CAPITALISM

So in this crisis we have seen challenges to the old orthodoxy on monetary policy, challenges which I believe are right. And we have seen challenges to the old orthodoxy on fiscal policy challenges which I believe are profoundly wrong. But perhaps the biggest challenge we have seen is to the capitalist system itself.

All of us here are agreed on something. Open markets and free enterprise are the best way to increase human wealth, health and happiness. We're not blind to the system's flaws but we know that at its best, capitalism extends ownership, spreads opportunity, and works arm in arm with political freedom.

More than twenty years ago I travelled through the Soviet Union and the Eastern Bloc. I'll never forget the greyness of life under Communism, the lack of choice, the lack of freedom, the lack of expression. When the Berlin Wall came down, a wave of colour and life broke over Eastern Europe. Democracy delivered people from half a century of despair, and capitalism – its economic agent – offered hope for a better future. People could rise up, grab opportunities with both hands and

make a better life for themselves. It was one of those high points of popular capitalism, like the age of plenty in post-war America, or the ownership revolution led by Margaret Thatcher. These were times when people believed in the best of the capitalist system. They felt they could play a part in its success.

But today that widespread belief – that optimism – has faded away. A lot of people are angry with capitalism. Instead of representing hope for a better future, they think capitalism threatens it. This matters because in the future, social, economic and environmental progress will only come from the drive, energy and enterprise of individuals. So if we want capitalism to be a success again, we need to make capitalism popular again.

POPULAR CAPITALISM

That means updating the old free market orthodoxy, and understanding the reasons why capitalism has become so unpopular. Reasons like the apparent absence of a moral framework because people might not follow the minutiae of over-leveraging or short-selling, but they know that the roots of our current crisis lie in recklessness and greed.

Reasons like the disconnection between capitalism and people's lives because someone working in the local branch of a global corporation can feel like little more than flotsam in some vast international sea of business their destiny decided by someone else, somewhere else as globalisation can turn into monopolisation, sweeping aside the small, personal, local competition in our neighbourhoods.

And that links to a third – and even more important - reason why capitalism has become unpopular: the incredible inequality of the modern world. Too often, the winners have taken it all. Today, the poorest half of the world's population own less than one per cent of the world's wealth. We've got a lot of capital but not many capitalists, and people rightly think that isn't fair.

So this is what too many people see when they look at capitalism today. Markets

without morality. Globalisation without competition. And wealth without fairness. It all adds up to capitalism without a conscience and we've got to put it right.

CAPITALISM WITH A CONSCIENCE

So I think it's time to update the free market orthodoxy that has dominated the past few decades. It's time to assert a fundamental truth: that markets are a means to an end, not an end in themselves. Markets are there to serve our society, not to suck the joy out of it or trample over its values. So we must shape capitalism to suit the needs of society; not shape society to suit the needs of capitalism.

That is what I mean by responsible business. Business helping to create a society that is greener, safer, fairer - and where opportunity is more equal. Business helping to create a society that is more family-friendly, where responsibility and power are decentralised, and where we value and build up the institutions of the public realm and civic society.

So if markets, and capitalism, and the activities of individual businesses conflict with our vision of the good society and a better life if damage is being done to our environment, or if family life is being undermined we must not sit there and take it, going along with the old orthodoxy that nothing should be allowed to impede the pursuit of profit. We must speak out.

Yes, as I've said many times, we must stand up for business, because it's businesses, not governments or politicians, that create jobs, wealth and opportunity, it's businesses that drive innovation, and choice, and help families achieve a higher standard of living for a lower cost. But we must also stand up to business when the things that people value are at risk. So it's time to place the market within a moral framework - even if that means standing up to companies who make life harder for parents and families.

It's time to help create vibrant, local economies - even if that means standing in the way of the global corporate juggernauts. And it's time to decentralise

economic power, to spread opportunity and wealth and ownership more equally through society and that will mean, as some have put it, recapitalising the poor rather than just the banks.

The best chapters in our economic history are those that embrace the many, not the few. In America in the 1950s there was a sense that everyone could have a slice of the pie. In the 1980s Margaret Thatcher led an ownership revolution that gave millions a new stake in our economy. That was truly popular capitalism, and we've never needed it more than we do today.

All of us – politicians, campaigners, economists, business leaders – need to help lead the change. Our financial system boasts people so bright they've created financial instruments beyond even their own understanding. Now they need to use those talents to help the poorest build assets. To go into our most deprived communities, giving them the tools to make the most of the market, to help them with banking and saving and owning.

CONCLUSION

So here is the outline of a new, updated economic orthodoxy. A new monetary activism. Traditional fiscal responsibility. And a new, more popular capitalist system – capitalism with a conscience. That is the way to meet the great challenges of this moment. And that is the way that this generation can build a legacy for our children we can all be proud of.