

Cameron: Fiscal Responsibility with a Social Conscience

In a speech in London today, David Cameron explained how the Conservative Party intends to address Labour's debt crisis and argued that fiscal responsibility needs a social conscience, or it is not responsible at all.

David Cameron said:

(Check against delivery)

“Last week I argued that we have to leave behind the failed economic consensus of recent years, break from the past, and develop a plan to address the fundamental weaknesses in our economy.

Addressing these long-term economic weaknesses will not only benefit our economy in the long-term the action we take to bring down debt, improve financial regulation, tackle welfare dependency and rebalance our economy will also provide us with a routemap for recovery in the short term.

Today I want to explain how we intend to address Labour's debt crisis through the control of public spending. And how we will do that in a way that is consistent with the aims and values of the modern, progressive Conservative Party. But first we need to be clear about the scale of Labour's debt crisis, and its implications for Britain's economic health.

THE SCALE OF LABOUR'S DEBT CRISIS

We are not dealing with some average deficit, on a par with our peers. Just this morning, we saw the worst set of public finance figures in our peacetime history. According to some forecasters

we are set to have the largest budget deficit of any G20 country this year. It could be more than ten percent of our GDP. That is easily the biggest deficit since the Second World War – far larger even than when Denis Healey had to go to the IMF in the 1970s.

We can't put this problem off until sometime in the future. Not just because I think we have a moral obligation to stop running up bills that will have to be paid by future generations. But because unless we take concrete steps to start reducing this massive debt, the recession will get worse and the recovery will be delayed.

PAYING DOWN DEBT TO AID RECOVERY

Why? It's a question of confidence. When confidence in the economy is low, people and businesses stop spending. Restoring confidence is the most important step in economic recovery, because that is ultimately what will unleash the financial firepower of hundreds of billions of pounds of spending by consumers and businesses a cash injection that dwarfs any fiscal stimulus the government could provide.

The current conventional wisdom says that you can boost overall spending in a recession by some combination of tax cuts and public spending increases. That's fine if you're a country with a fiscal surplus, or even if you have a manageable deficit. It's made easier if yours is a reserve currency, like the U.S.

But, in Britain's case, when you have the worst fiscal position in the developed world, the conventional wisdom is turned on its head. Further borrowing for temporary tax cuts or increases in public spending won't increase confidence, and thereby stimulate the economy. It will have the opposite effect, as people lose confidence in the state of the national finances.

Ask yourself what the VAT cut really achieved? A recent poll made this point. Questioned about their economic worries, people listed as some of their biggest anxieties the following: “the prospect of higher taxes to pay for the measures being taken to address the downturn” and the “rise in government borrowing and national debt”.

And it’s not just consumer confidence that is vital for recovery. We need investor confidence too. Our unsustainable public finances have already helped to undermine confidence in Britain and the pound. Now they threaten even worse risks for the future. If we cannot show a clear path for the reduction of the deficit – or even worse, take action that will increase it then, at some point in the future, we could see a sharp rise in the cost of borrowing. And higher long-term interest rates for homebuyers and companies would undermine our recovery at exactly the wrong time. I’ve been criticised in the past for drawing attention to this, but it’s vital we realise the potential risks we are running. This isn’t something we can put to one side and worry about later. It is essential for recovery that the British government has a credible strategy for bringing the public finances back under control.

Today I want to explain the outline of the Conservative plan for controlling public spending. This is not about Shadow Budgets – I don’t believe it makes sense to try and do that in opposition, without first seeing the books. This is about the fiscal strategy of the next Conservative government.

SHARING THE PROCEEDS

The starting point is to be clear about our overriding objective. Three years ago we announced our policy: that government should grow at a slower rate than the economy over the course of an economic cycle. Sharing the proceeds of growth was always

about making sure that, over time, there was money for both public spending increases on the one hand and tax cuts and debt reduction on the other.

But let's be clear about what will now have to happen over the next few years. I am a Conservative who believes in lower taxes. But in today's fiscal circumstances, the priority must go to debt reduction. Put simply, our overriding objective will need to change from sharing the proceeds of growth, to paying down our debt. To achieve this, we need clear plans for controlling public spending, in both the long term and the short term.

LONG-TERM CONTROL OF PUBLIC SPENDING

In the long term, we will control spending by reducing the demands that the broken society makes on the state. Family breakdown, welfare dependency, educational failure, addiction and crime all cost taxpayers untold billions a year. If we do not confront the root causes of these problems, if we continue to accept the high cost of social failure as an immutable part of public spending – that bill is only going to rise.

Some might think that our plans for social reform, made in an economic upswing, will have to be abandoned now. Quite the reverse. In this recession, the long-term repair work becomes even more important. We cannot hope to compete in the post-recession world with our schools tumbling down the international rankings. Our battered economy cannot continue to shoulder the burden of massive welfare dependency, with millions draining money from the state when they could be creating wealth. And we cannot go on ignoring the problem of family breakdown when it causes so much misery and costs the state billions of pounds every year. Social reform is not a boom-time luxury – it is an all-the-time necessity, more important now than ever.

So I want to make it clear today that we are as committed to our plans for school reform, welfare reform and strengthening families as we have ever been. Some have argued that these plans cannot now be afforded. But that is to misunderstand how they work.

We can afford school reform because the Government is already planning to spend billions of pounds rebuilding failing schools – and we will spend some of that money on new good schools, particularly in deprived areas. We can afford welfare reform because – as David Freud has shown – getting someone back into work or keeping them out of long-term unemployment actually saves money, whether you're in a recession or a recovery. And we can afford to support families, because as our welfare reforms help us to cut the bills of social failure, we can use some of those savings to stop paying couples to live apart.

These social reform plans are right for the long-term, because they help us reduce demands on the state. And they're right for the short-term too, because they do not add to public spending and will play a vital role in helping our recovery.

SHORT-TERM CONTROL OF PUBLIC SPENDING

But we should not pretend that the big social changes that will result from school reform, welfare reform and strengthening families will produce public expenditure savings in the short term. So we need a plan to control public spending now.

If we take the keys to the Treasury after the next election we will find there the most red-inked, ruined public accounts in modern British history. The work to restore fiscal sanity will have to start on day one, in order to build the confidence of consumers and the international markets. But I want everyone to understand that

our strategy for controlling public spending is going to be consistent with the overall political approach we have developed over these past three years or so.

We are not going to behave like flint faced turbo-charged accountants, slashing spending without regard to the social consequences. We are going to behave like progressive Conservatives, pursuing our aims of a fairer society, an opportunity society, a safer society and a greener society in all that we do. But we will pursue these progressive aims through Conservative means - including proper control of public spending.

So let me spell it out very clearly. Yes I believe in fiscal responsibility, yes I believe we will have to take some tough decisions to tackle Labour's debt crisis but I also believe that fiscal responsibility needs a social conscience or it is not responsible at all.

ATTITUDE TO THE PUBLIC SECTOR

So the progressive Conservative approach to controlling public spending will be different. First, because we have a different attitude to the public sector.

There are some who see a clear dividing line through our economy, with the wealth creators of the private sector on one side who pay for the wealth consumers of the public sector on the other. This analysis is much too simplistic.

Many public sector employees contribute directly to wealth creation. Teachers are wealth creators because they nurture the human capital that fuels enterprise. Nurses are wealth creators because they keep the nation healthy and working. Police officers are wealth creators because by keeping our streets safe they

allow businesses to operate freely.

The real divide is not between the wealth creators and the wealth consumers. The real divide that matters when economic times are tough is between the efficient and the inefficient. Whether in the private sector or the public sector, inefficiency is now unaffordable.

Whether in the private sector or the public sector, the absolute priority is to make sure that we get maximum out from what is put in – that we get more for less. So we see the public sector as a productive ally in economic recovery, not some kind of economic parasite draining our hard-earned resources away. But we also expect the public sector to play its part - by helping deliver more for less.

FAIRNESS

The second difference in how a progressive Conservative government will approach public spending control is to insist that it is both fair, and seen to be fair. So let's be clear what that means: the richest in our society must bear a fair share of the burden.

As I've said many times before: we're all in this together. That means we must solve Labour's Debt Crisis together. We will reduce this deficit together. The poorest in our society should not pay an unfair price for mistakes made by some of the richest. Paying down our debt must not mean pushing down the poor.

ATTITUDE TO EFFICIENCY SAVINGS

The third important difference in our approach is that we're not going to rest our whole strategy for living within our means on a

simplistic list of efficiency savings. Of course there will be efficiency saving we can and will make. Everyone knows that this government has wasted taxpayers' money on an obscene scale, and I am totally confident that once in government, efficiency savings will not be hard to find.

But it's not just about efficiency savings. We have also been thinking deeply about real public spending reform, so that we don't just cut back waste only for it to grow back somewhere else. Instead, we have a serious plan for controlling public spending for good.

LABOUR SPENDING GROWTH AND WASTE

This Government has increased public spending by fifty per cent in real terms. But is this a country that feels fifty per cent better to live in than it did twelve years ago?

The truth is that we are not feeling the positive impact of that spending because a lot of it has been arbitrary, ineffective and wasteful. We all know about the egregious excess that is the hallmark of this Labour government. The sky-high advertising budgets. The constant reorganisations. The multi-million pound departmental refurbishments. The massive over-use of external consultants.

A Conservative government will clamp down on the lot – but it won't be enough. To really get to grips with spending we've got to get under the skin of that cavalier culture and change it from being reckless to responsible with our money. We're going to start by restoring the Treasury to its traditional role of driving financial discipline across government. We will introduce a fiduciary responsibility to taxpayers into the employment contracts of senior civil servants, making our expectations on them explicit and binding.

And across government we will embed a culture of fiscal discipline by offering strong incentives to those who get more value for less money by introducing new ways to investigate wasteful spending and reward efficiency and by making spending budgets transparent – that’s all budgets and all spending over £25,000. For people who think we won’t do this, the Conservative Mayor of London has already started. That is how we can root out inefficiency and help the public sector fulfil its role in wealth creation.

But Labour’s spending growth goes a lot further than what we can easily classify as waste and inefficiency. It has included extensions of the state that shouldn’t have happened at all. If government spending is not contributing to our progressive objectives – if it is not taking us towards a society that is fair, where opportunity is more equal, which is greener and safer – then it should not be going ahead. So let me give you some examples of how we’ll address some of the deeper causes of public spending growth, beyond waste and inefficiency.

SALARIES

Spending on public sector salaries has ballooned under Labour. Where this has gone to nurses, doctors, teachers, police and people who operate our frontline services professionally and efficiently, that is money well spent. We value people who serve the public for the fantastic work they do and believe they should be properly rewarded for it.

Where money hasn’t been so well spent is on the wage bill for those who work behind the front line particularly in the vast quangocracy that has mushroomed under Labour. The people in its plum jobs earn frankly astonishing salaries.

In 2001 the Chairman of the Independent Television Commission earned £77,590 a year. The Chief Executive of the ITC's replacement, OFCOM, earned £417,581 last year – more than a five-fold increase. In fact, fourteen OFCOM executives are now paid more than the old ITC Chairman was.

At a time when private sector employees are accepting pay freezes to keep their jobs, how can this be right? It's time for all those who work behind the front line in public administration to show serious pay restraint. So make no mistake – the progressive Conservative approach means calling time on the culture of quango fat cats.

STATE EXTENSION

Labour have also presided over a huge – and very expensive – extension of the state. As progressive Conservatives we believe in a big society, not a big state.

When we see a problem that needs fixing, our first instinct isn't to reach for the levers of government it is to ask what people can do, what local communities can do, what the voluntary sector can do, what technology can do to help increase personal and social responsibility. That's what we mean by the post-bureaucratic age.

But we also know that increasing the reach of the state is not always a bad thing. The early years before children start school are crucially important to their life chances. That's why I have pledged to improve early years intervention – so we can help fight disadvantage and inequality in an effective way.

But there are expensive programmes that extend the work of the state in a profoundly unhelpful and un-progressive way like the ID card scheme, or the database that contains the details of

every child in the country. Both of these would be scrapped by a Conservative Government.

So right now, the Shadow Treasury team and the Shadow Cabinet are taking a systematic look at every single extension of the state and asking the same tough questions is it essential to our progressive objectives, and is it delivering results? If the answer is “no” then these programmes will go. We must also be disciplined in understanding and addressing the long-term demographic pressure on public spending.

TRANSFERS

Finally, another significant area of public spending growth under Labour has been financial transfers – principally the tax credits system. Of course progressive Conservatives believe in helping the working poor. In fact, contrary to common perception, tax credits were a Conservative idea.

But the original purpose of this mechanism has been confused – to the point where tax credits can now reach people earning over fifty thousand a year. Can we honestly say this is right – or affordable? In the context of fair public spending for all it is clearly an issue that we will need to examine.

CONCLUSION

So the modern, progressive Conservative fiscal strategy addresses the debt crisis presses ahead with our social reform plans so that we reduce the long-term demands on the state and will deliver the control of public spending we need in the short term as well.

There will be tough decisions to make, and there will be people

to disappoint. I would never claim that controlling public spending can be a pain-free process. But it is an entirely different exercise when it is underpinned by a clear and compassionate philosophy. That, for my Party, is progressive Conservatism. Its objective is a society that is fairer, safer, greener and where opportunity is more equal.

If we are in government these objectives will be at the forefront of our minds every single day, leading each and every spending decision we make. Because today, my Party understands something crucially important. Fiscal responsibility needs a social conscience, or it is not responsible at all.”

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